

**City of Fraser
Macomb County, Michigan**

FINANCIAL STATEMENTS

June 30, 2017

City of Fraser

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WITH *GOVERNMENT AUDITING STANDARDS*

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan (the City), as of and for the year ended June 30, 2017, 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, each major fund, and the aggregate remaining fund information of the City of Fraser, Michigan, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note Q to the financial statements, the City implemented GASB Statement No. 77, *Tax Abatement Disclosures*, during the year. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements, individual nonmajor special revenue fund budgetary comparison schedules, and combining 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, individual nonmajor special revenue fund budgetary comparison schedules, and 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, individual nonmajor special revenue fund budgetary comparison schedules, and 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 22, 2017, 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 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 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.

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

December 22, 2017

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

As management of the City of Fraser, Michigan (the City), we offer readers of the financial statements a narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017.

Financial Highlights

- The liabilities of the City of Fraser exceeded its assets at the close of the recent fiscal year by \$15,794,429. The City had a deficit in unrestricted net position of \$47,888,260 at the end of the fiscal year.
- As of the close of the current fiscal year, the City of Fraser's governmental funds reported combined ending fund balances of \$5,519,276, a decrease of \$1,922,227 in comparison with the prior year.
- The City of Fraser's total long-term obligations increased by \$885,045 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Fraser's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

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

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

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

The Government-wide Financial Statements can be found on pages 1-2 of this report.

Fund Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Governmental Funds

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

The focus of governmental funds is narrower than that of the Government-wide Financial Statements. It is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for the general fund and street construction fund. These funds are considered to be major. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of Combining Statements elsewhere in this report.

A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the annual appropriated budget.

Proprietary Funds

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

Fiduciary Funds

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

Other Information

The notes provide additional information that is essential to fully understand the data provided in the Government-wide and Fund Financial Statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the changes in the City's net pension liability and schedule of employer contributions. This information can be found on pages 39-40.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Fraser, liabilities exceeded assets by \$15,794,429 at the close of the recent fiscal year.

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

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

TABLE 1 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current Assets	\$ 6,201	\$ 5,171	\$ 5,273	\$ 4,855	\$ 11,474	\$ 10,026
Capital Assets, net	20,801	21,012	31,406	28,717	52,207	49,729
Total Assets	27,002	26,183	36,679	33,572	63,681	59,755
Deferred Outflows of Resources	5,747	6,977	430	574	6,177	7,551
Liabilities						
Current Liabilities	2,531	2,359	1,999	1,777	4,530	4,136
Non-current Liabilities	59,096	55,568	22,026	19,712	81,122	75,280
Total Liabilities	61,627	57,927	24,025	21,489	85,652	79,416
Net Position						
Net investment in capital assets	15,280	14,477	13,283	12,552	28,563	27,029
Restricted	3,445	1,448	86	86	3,531	1,534
Unrestricted (Deficit)	(47,603)	(40,692)	(285)	19	(47,888)	(40,673)
Total net position	<u>\$ (28,878)</u>	<u>\$ (24,767)</u>	<u>\$ 13,084</u>	<u>\$ 12,657</u>	<u>\$ (15,794)</u>	<u>\$ (12,110)</u>

Governmental Activities' net position decreased by \$4,111,191 compared to the prior fiscal year's restated balance. As the City complies with recent changes to the accounting standards, recognition of the net pension liability has found its way to our statement of net position.

Reviewing the financial data within the Business-Type Activities, the City continues to make significant progress in improving net position over the past few years. The total net position has increased by \$426,992, while the unrestricted portion of net position has decreased by approximately \$119,109. Within the Water and Sewer Fund, the City is constantly reviewing its rate structure to ensure the system is covering current expenses and as well as preparing for future projects.

City of Fraser

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

TABLE 2 (in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenue						
Program Revenue:						
Charges for Service	\$ 3,543	\$ 3,402	\$ 8,777	\$ 8,186	\$ 12,320	\$ 11,588
Operating Grants and Contribution	1,970	1,509	-	-	1,970	1,509
Capital Grants and Contributions	-	-	175	151	175	151
General Revenue:						
Property Taxes	11,158	10,844	-	-	11,158	10,844
State Shared Revenue	1,373	1,300	-	-	1,373	1,300
Unrestricted Investment Earnings	17	20	88	2	105	22
Transfers and Other Revenue	71	51	59	-	130	51
Total Revenue	18,132	17,126	9,099	8,339	27,231	25,465
Program Expenses						
General Government	3,705	3,123	-	-	3,705	3,123
Public Safety	12,348	9,817	-	-	12,348	9,817
Public Works	4,097	4,384	-	-	4,097	4,384
Health and Welfare	816	968	-	-	816	968
Recreation and Culture	1,222	1,824	-	-	1,222	1,824
Community and Economic Development	40	37	-	-	40	37
Interest on Long-term Debt	15	133	-	-	15	133
Water and Sewer	-	-	8,279	7,792	8,279	7,792
Senior Housing	-	-	393	375	393	375
Total Program Expenses	22,243	21,371	8,672	8,167	30,915	28,453
Change in Net Position	\$ (4,111)	\$ (4,245)	\$ 427	\$ 172	\$ (3,684)	\$ (2,988)

Business-type Activities

Capital assets for business-type activities increased by \$2,689,524 compared to the prior year. The major change relates to continued work completed by the Macomb Interceptor Drainage District, which includes the repair of the 15 Mile Road sinkhole offset by depreciation expense and change in estimates related to construction.

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

Financial Analysis of the City of Fraser's Funds

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

Governmental funds

As of the end of the current fiscal year, the City of Fraser's governmental funds reported combined ending fund balances of \$5,519,276. The unassigned general fund balance is \$1,915,449. The Government Finance Officers Association recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2017

Proprietary funds

The City of Fraser's proprietary funds provide the same type of information found in the Government-wide Financial Statements, but in more detail. Total net position of the Water and Sewer Fund as of June 30, 2017, amount to \$10,712,212, while the unrestricted portion of the net position at the end of the year amounted to a deficit of \$305,811. Last year's unrestricted portion within the fund was a deficit of \$354,525. The senior citizen housing complex ended with unrestricted net position totaling \$27,717, down from \$108,177 in the prior year.

General Fund Budgetary Highlights

City Council, City Administration, and Department Heads continue to work hard to operate within the budget and 2017 proved to be an overwhelmingly challenging year to accomplish that. Even as budgetary expenditures have increased over the past two years, the same level of service continues to be provided by the City. For 2017, the City's original budget was adopted as a balanced budgeted (revenues equal to expenditures); however, revenues experienced nearly a \$275,000 shortfall and expenditures experienced \$134,000 in excess of budget. The most significant revenue variances were noted for personal property small taxpayer exemption loss revenue, building permits revenue, and cable fee revenue. The most significant expenditure variance noted was retiree health insurance costs.

Capital Assets

The City of Fraser's net investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounts to \$51,029,851 (net of accumulated depreciation). The net investment in capital assets includes land, buildings and system improvements, vehicles, equipment, park facilities, intangible assets, and streets. A majority of the capital asset activity is associated with county initiated drainage district improvement projects. Further details regarding capital assets may be found in Note E.

Long-Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$22,382,162, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$4,995,000) and business-type activities (\$17,387,162) at year end. In addition, the City has entered into various installment purchase agreements for equipment and has accrued liabilities for compensated absences. Further details regarding long-term debt may be found in Note F.

Economic Factors and Next Year's Budgets

The economy continues to be a prominent factor in the City of Fraser's financial condition and upcoming budgets. Property values sharply declined over the past few years, and the City's revenue garnered by property taxes has grown considerably smaller. The good news is that property values are starting to stabilize. The City is still projecting a slight increase in property values for the upcoming 2018-2019 budget cycle. Proposal A limits this increase to 2.1 percent in 2018, and with cost of goods and services increasing 1 to 2 percent, this dynamic presents a continuous challenge in the future.

Requests for Information

This financial report is intended to provide the City's citizens, taxpayers, customers, and investor with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the administration offices at city hall.

BASIC FINANCIAL STATEMENTS

City of Fraser

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,799,081	\$ 3,407,481	\$ 8,206,562
Restricted cash and cash equivalents	8,097	86,363	94,460
Receivables	419,811	1,746,299	2,166,110
Due from other governmental units	536,803	90,596	627,399
Internal balances	57,907	(57,907)	-0-
Prepays	379,197	-	379,197
	<u>6,200,896</u>	<u>5,272,832</u>	<u>11,473,728</u>
Total current assets			
Noncurrent assets			
Restricted cash and cash equivalents	1,177,969	-	1,177,969
Capital assets not being depreciated	7,390,626	3,366,772	10,757,398
Capital assets being depreciated, net	12,232,815	28,039,638	40,272,453
	<u>20,801,410</u>	<u>31,406,410</u>	<u>52,207,820</u>
Total noncurrent assets			
TOTAL ASSETS			
	<u>27,002,306</u>	<u>36,679,242</u>	<u>63,681,548</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	5,746,761	430,117	6,176,878
LIABILITIES			
Current liabilities			
Accounts payable	532,152	585,228	1,117,380
Accrued liabilities	288,823	25,933	314,756
Due to other governmental units	2,233	-	2,233
Unearned revenue	59,136	19,260	78,396
Accrued interest payable	29,872	112,354	142,226
Current portion of compensated absences	144,731	13,324	158,055
Current portion of long-term debt	1,474,399	1,243,497	2,717,896
	<u>2,531,346</u>	<u>1,999,596</u>	<u>4,530,942</u>
Total current liabilities			
Noncurrent liabilities			
Net pension liability	26,863,743	2,144,643	29,008,386
Net other post-employment benefits obligation	27,420,965	2,976,084	30,397,049
Noncurrent portion of compensated absences	764,149	25,288	789,437
Noncurrent portion of long-term debt	4,047,093	16,879,948	20,927,041
	<u>59,095,950</u>	<u>22,025,963</u>	<u>81,121,913</u>
Total noncurrent liabilities			
TOTAL LIABILITIES			
	<u>61,627,296</u>	<u>24,025,559</u>	<u>85,652,855</u>
NET POSITION			
Net investment in capital assets	15,279,918	13,282,965	28,562,883
Restricted			
Streets and highways	1,569,629	-	1,569,629
Health and welfare	514,090	-	514,090
Public safety	1,034,460	-	1,034,460
Recreation and culture	113,440	-	113,440
Debt service	212,966	-	212,966
Capital replacement	-	86,363	86,363
Unrestricted	(47,602,732)	(285,528)	(47,888,260)
	<u>\$ (28,878,229)</u>	<u>\$ 13,083,800</u>	<u>\$ (15,794,429)</u>
TOTAL NET POSITION			

See accompanying notes to financial statements.

City of Fraser

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 3,704,673	\$ 1,709,818	\$ 134,756	\$ -	\$ (1,860,099)	\$ -	\$ (1,860,099)
Public safety	12,347,523	888,987	23,985	-	(11,434,551)	-	(11,434,551)
Public works	4,097,278	484,485	1,797,901	-	(1,814,892)	-	(1,814,892)
Health and welfare	816,002	352,429	-	-	(463,573)	-	(463,573)
Community and economic development	39,714	-	13,460	-	(26,254)	-	(26,254)
Recreation and culture	1,221,902	106,838	-	-	(1,115,064)	-	(1,115,064)
Interest on long-term debt	15,419	-	-	-	(15,419)	-	(15,419)
Total governmental activities	22,242,511	3,542,557	1,970,102	-0-	(16,729,852)	-0-	(16,729,852)
Business-type activities							
Water and Sewer	8,278,825	8,271,706	-	175,148	-	168,029	168,029
Senior Citizen Housing Complex	393,500	505,083	-	-	-	111,583	111,583
Total business-type activities	8,672,325	8,776,789	-0-	175,148	-0-	279,612	279,612
Total primary government	<u>\$ 30,914,836</u>	<u>\$ 12,319,346</u>	<u>\$ 1,970,102</u>	<u>\$ 175,148</u>	(16,729,852)	279,612	(16,450,240)
General revenues							
Property taxes					11,157,530	-	11,157,530
State shared revenues					1,373,085	-	1,373,085
Investment earnings					16,641	88,317	104,958
Miscellaneous					71,405	59,063	130,468
Total general revenues					12,618,661	147,380	12,766,041
Change in net position					(4,111,191)	426,992	(3,684,199)
Restated net position, beginning of the year					(24,767,038)	12,656,808	(12,110,230)
Net position, end of the year					<u>\$(28,878,229)</u>	<u>\$ 13,083,800</u>	<u>\$(15,794,429)</u>

See accompanying notes to financial statements.

City of Fraser

Governmental Funds

BALANCE SHEET

June 30, 2017

	General Fund	Street Construction Fund	Nonmajor Governmental Funds	Total
ASSETS				
Cash and cash equivalents	\$ 1,860,845	\$ -	\$ 2,355,819	\$ 4,216,664
Restricted cash and cash equivalents	8,097	1,177,969	-	1,186,066
Receivables				
Accounts, net of allowance	82,310	-	-	82,310
Taxes	199,680	-	-	199,680
Special assessments	4,477	-	-	4,477
Due from other governmental units	327,261	-	209,542	536,803
Due from other funds	143,607	-	40,322	183,929
Prepays	100,312	-	-	100,312
TOTAL ASSETS	\$ 2,726,589	\$ 1,177,969	\$ 2,605,683	\$ 6,510,241
LIABILITIES				
Accounts payable	\$ 251,222	\$ 234,436	\$ 12,816	\$ 498,474
Accrued liabilities	255,233	2,467	28,185	285,885
Due to other funds	40,322	-	-	40,322
Due to other governmental units	-	-	2,233	2,233
Unearned revenue	59,136	-	-	59,136
TOTAL LIABILITIES	605,913	236,903	43,234	886,050
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	104,915	-	-	104,915
FUND BALANCES				
Nonspendable				
Prepays	100,312	-	-	100,312
Restricted				
Streets and highways	-	941,066	628,563	1,569,629
Health and welfare	-	-	514,090	514,090
Public safety	-	-	1,034,460	1,034,460
Recreation and culture	-	-	113,440	113,440
Debt service	-	-	242,838	242,838
Assigned				
Debt service	-	-	29,058	29,058
Unassigned	1,915,449	-	-	1,915,449
TOTAL FUND BALANCES	2,015,761	941,066	2,562,449	5,519,276
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 2,726,589	\$ 1,177,969	\$ 2,605,683	\$ 6,510,241

See accompanying notes to financial statements.

City of Fraser

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

June 30, 2017

Total fund balances - governmental funds \$ 5,519,276

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

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

The cost of capital assets is	\$ 95,164,308
Accumulated depreciation is	<u>(75,868,383)</u>

Capital assets, net	19,295,925
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Long-term receivables are not available to pay for current period expenditures and therefore are reported as unavailable revenue in the funds.	104,915
--	---------

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the government-wide statement of net position.	1,093,855
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	5,746,761
--	-----------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities at year-end consist of:

Compensated absences	(907,093)
Accrued interest payable	(29,872)
Long-term obligations	(5,417,288)
Net pension liability	(26,863,743)
Net other post-employment benefits obligation	<u>(27,420,965)</u>

(60,638,961)

Net position of governmental activities \$(28,878,229)

City of Fraser

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2017

	General Fund	Street Construction Fund	Nonmajor Governmental Funds	Total
REVENUES				
Taxes	\$ 9,753,472	\$ -	\$ 2,523,126	\$ 12,276,598
Licenses and permits	485,544	-	-	485,544
Intergovernmental				
Federal	40,458	-	84,014	124,472
State	1,434,133	-	985,590	2,419,723
District Court and Violations Bureau	716,280	-	-	716,280
Charges for services	365,021	-	336,392	701,413
Fines and forfeitures	73,819	-	538,552	612,371
Interest and rents	165,539	-	5,315	170,854
Other	649,314	-	6,191	655,505
TOTAL REVENUES	13,683,580	-0-	4,479,180	18,162,760
EXPENDITURES				
Current				
General government	2,821,227	21,741	-	2,842,968
Public safety	7,083,018	-	577,800	7,660,818
Public works	1,710,296	-	636,335	2,346,631
Health and welfare	-	-	610,002	610,002
Community and economic development	29,688	-	-	29,688
Recreation and culture	476,168	-	364,946	841,114
Other	1,963,615	-	-	1,963,615
Capital outlay	348,688	2,215,633	78,655	2,642,976
Debt service	-	-	1,495,863	1,495,863
TOTAL EXPENDITURES	14,432,700	2,237,374	3,763,601	20,433,675
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(749,120)	(2,237,374)	715,579	(2,270,915)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	93,475	93,475
Transfers out	-	-	(93,475)	(93,475)
Lease and installment purchases	348,688	-	-	348,688
TOTAL OTHER FINANCING SOURCES (USES)	348,688	-0-	-0-	348,688
NET CHANGE IN FUND BALANCES	(400,432)	(2,237,374)	715,579	(1,922,227)
Fund balances, beginning of year	2,416,193	3,178,440	1,846,870	7,441,503
Fund balances, end of year	<u>\$ 2,015,761</u>	<u>\$ 941,066</u>	<u>\$ 2,562,449</u>	<u>\$ 5,519,276</u>

See accompanying notes to financial statements.

City of Fraser

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

Year Ended June 30, 2017

Net change in fund balances - total governmental funds **\$ (1,922,227)**

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

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

Capital outlay	\$ 2,787,207	
Depreciation expense	<u>(954,612)</u>	
Excess of capital outlay over depreciation expense		1,832,595

An internal service fund is used by management to charge the costs of certain activities to individual funds. The net position of the internal service fund increased in the current period. 528,841

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the current period, these amounts are:

Change in unavailable revenue	(31,441)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Debt principal retirement	1,466,463	
Lease and installment purchases	<u>(348,688)</u>	
		1,117,775

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

(Increase) in net pension liability	(2,530,085)	
Decrease in accrued interest payable	13,981	
Decrease in compensated absences	45,684	
(Increase) in other post-employment benefits obligation	(2,676,070)	
(Decrease) in deferred outflows of resources related to pensions	<u>(490,244)</u>	
		<u>(5,636,734)</u>

Change in net position of governmental activities **\$ (4,111,191)**

City of Fraser

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2017

	Business-type Activities			Governmental
	Nonmajor			Activities
	Water and Sewer Fund	Senior Citizen Housing Complex Fund	Total Enterprise Funds	Internal Service Funds
ASSETS				
Current assets				
Cash and cash equivalents	\$ 3,268,834	\$ 138,647	\$ 3,407,481	\$ 582,417
Restricted cash and cash equivalents	86,363	-	86,363	-
Accounts receivable	-	575	575	133,344
Customer receivables	1,745,724	-	1,745,724	-
Due from other governmental units	90,596	-	90,596	-
Prepaid expenses	-	-	-	278,885
Total current assets	5,191,517	139,222	5,330,739	994,646
Noncurrent assets				
Capital assets not being depreciated	2,541,772	825,000	3,366,772	-
Capital assets being depreciated, net	26,075,696	1,963,942	28,039,638	327,516
Total noncurrent assets	28,617,468	2,788,942	31,406,410	327,516
TOTAL ASSETS	33,808,985	2,928,164	36,737,149	1,322,162
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	430,117	-	430,117	-
LIABILITIES				
Current liabilities				
Accounts payable	496,597	88,631	585,228	33,678
Accrued liabilities	24,753	1,180	25,933	2,938
Due to other funds	57,907	-	57,907	85,700
Unearned revenue	-	19,260	19,260	-
Accrued interest payable	111,405	949	112,354	-
Current portion of compensated absences	13,324	-	13,324	1,787
Current portion of long-term debt	978,497	265,000	1,243,497	14,621
Total current liabilities	1,682,483	375,020	2,057,503	138,724
Noncurrent liabilities				
Net pension liability	2,144,643	-	2,144,643	-
Net other post-employment benefits obligation	2,976,084	-	2,976,084	-
Noncurrent portion of compensated absences	23,803	1,485	25,288	-
Noncurrent portion of long-term debt	16,619,948	260,000	16,879,948	89,583
Total noncurrent liabilities	21,764,478	261,485	22,025,963	89,583
TOTAL LIABILITIES	23,446,961	636,505	24,083,466	228,307
NET POSITION				
Net investment in capital assets	10,932,660	2,263,942	13,196,602	223,312
Restricted for capital replacement	86,363	-	86,363	-
Unrestricted	(226,882)	27,717	(199,165)	870,543
TOTAL NET POSITION	\$ 10,792,141	\$ 2,291,659	\$ 13,083,800	\$ 1,093,855

See accompanying notes to financial statements.

City of Fraser

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Business-type Activities			Governmental
	Water and Sewer Fund	Nonmajor	Total Enterprise Funds	Internal Service Funds
		Senior Citizen Housing Complex Fund		
OPERATING REVENUES				
Charges for services	\$ 8,143,674	\$ -	\$ 8,143,674	\$ 605,863
Interest and penalties	118,095	-	118,095	-
Rentals	-	505,083	505,083	918,133
Other	9,937	-	9,937	10,688
TOTAL OPERATING REVENUES	8,271,706	505,083	8,776,789	1,534,684
OPERATING EXPENSES				
Salaries	600,789	38,100	638,889	84,272
Fringe benefits	1,078,604	-	1,078,604	25,952
Administrative charges	320,000	50,000	370,000	-
Materials and supplies	139,029	9,922	148,951	-
Equipment rental	280,000	-	280,000	-
Repairs and maintenance	89,382	121,418	210,800	542,240
Cost of water	1,257,614	-	1,257,614	-
Cost of sewage disposal	2,622,145	-	2,622,145	-
Utilities	5,700	37,150	42,850	-
Postage	34,744	-	34,744	-
Claims paid	-	-	-0-	307,569
Miscellaneous	54,231	39,410	93,641	10,439
Depreciation	1,364,174	88,853	1,453,027	95,919
TOTAL OPERATING EXPENSES	7,846,412	384,853	8,231,265	1,066,391
OPERATING INCOME	425,294	120,230	545,524	468,293
NONOPERATING REVENUES (EXPENSES)				
Tap-in fees	27,430	-	27,430	-
Intergovernmental - State	147,718	-	147,718	-
Interest and other revenue	88,116	201	88,317	17,433
Rebates and refunds	-	-	-0-	43,115
Interest expense	(432,413)	(8,647)	(441,060)	-
Insurance recoveries	-	59,063	59,063	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(169,149)	50,617	(118,532)	60,548
CHANGE IN NET POSITION	256,145	170,847	426,992	528,841
Restated net position, beginning of year	10,535,996	2,120,812	12,656,808	565,014
Net position, end of year	\$ 10,792,141	\$ 2,291,659	\$ 13,083,800	\$ 1,093,855

See accompanying notes to financial statements.

City of Fraser

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	Business-type Activities			Governmental
	Nonmajor		Total Enterprise Funds	Internal Service Funds
	Water and Sewer Fund	Senior Citizen Housing Complex Fund		
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	\$ 8,003,895	\$ 524,323	\$ 8,528,218	\$ 1,399,730
Cash paid to suppliers	(5,192,516)	(217,466)	(5,409,982)	(1,092,536)
Cash paid to employees	(590,114)	(37,980)	(628,094)	(80,137)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,221,265	268,877	2,490,142	227,057
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Rebates and refunds	-	-	-0-	43,115
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital acquisitions	(1,775,386)	(90,160)	(1,865,546)	(45,013)
Capital grant	147,718	-	147,718	-
Tap-in fees	27,430	-	27,430	-
Payments on long-term borrowing	(927,628)	(250,000)	(1,177,628)	-
Proceeds from debt issuance	858,864	-	858,864	-
Interest and fees paid	(428,136)	(9,571)	(437,707)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,097,138)	(349,731)	(2,446,869)	(45,013)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	88,116	201	88,317	17,433
Insurance recoveries	-	59,063	59,063	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	88,116	59,264	147,380	17,433
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	212,243	(21,590)	190,653	242,592
Cash and cash equivalents, beginning of year	3,142,954	160,237	3,303,191	339,825
Cash and cash equivalents, end of year	\$ 3,355,197	\$ 138,647	\$ 3,493,844	\$ 582,417

See accompanying notes to financial statements.

City of Fraser

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2017

	Business-type Activities			Governmental
	Water and Sewer Fund	Nonmajor	Total Enterprise Funds	Internal Service Funds
		Senior Citizen Housing Complex Fund		
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 425,294	\$ 120,230	\$ 545,524	\$ 468,293
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation	1,364,174	88,853	1,453,027	95,919
Decrease (increase) in:				
Receivables	(182,344)	(20)	(182,364)	(126,219)
Due from other governmental units	(85,467)	-	(85,467)	-
Prepays	1,788	116	1,904	(278,675)
Deferred outflows related to pensions	64,263	-	64,263	-
Increase (decrease) in:				
Accounts payable	79,380	40,318	119,698	4,589
Accrued liabilities	24,753	1,180	25,933	2,938
Due to other funds	38,624	-	38,624	59,015
Unearned revenue	-	19,260	19,260	-
Compensated absences	(14,078)	(1,060)	(15,138)	1,197
Net pension liability	77,539	-	77,539	-
Other post-employment benefits obligation	427,339	-	427,339	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,221,265	\$ 268,877	\$ 2,490,142	\$ 227,057

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2017, in the Water and Sewer Fund, various new and ongoing drainage district improvement projects were constructed and contributed to the City totaling \$2,277,005, which was funded through assigned debt. The Oakland Macomb Interceptor Drainage District activity totaled \$189,5279. The Macomb Interceptor Drainage District activity totaled \$2,087,726, which includes the refunding of the 2010A MID in the amount of \$3,038,328. In the Internal Service Funds, assets were purchased via capital lease totaling \$104,204.

City of Fraser

Fiduciary Funds

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2017

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,177,466
Due from other governmental units	<u>1,798</u>
TOTAL ASSETS	<u><u>\$ 1,179,264</u></u>
LIABILITIES	
Due to individuals and agencies	<u><u>\$ 1,179,264</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

The City of Fraser, Michigan, (the City) is located in Macomb County, Michigan, and has a population of approximately 14,602. 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 financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below:

1. Reporting Entity

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

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

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

2. Blended Component Units

The City of Fraser Building Authority is governed by a board that is appointed by the City's governing body. Although it is legally separate from the City, it is reported as part of the Senior Citizen Housing Complex Fund because its primary purpose is to finance and construct the City's senior citizen housing.

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

3. Basis of Presentation - continued

GOVERNMENT-WIDE FINANCIAL STATEMENTS - CONTINUED

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

FUND FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Street Construction Fund is used to account for the capital projects financed by the 2015 General Obligation Unlimited Tax Bonds.

The City reports the following major enterprise fund:

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

Additionally, the City reports two internal service funds: one to account for the management of motor pool services provided to other departments on a cost-reimbursement basis and one to account for health care costs and the payment of approved claims.

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

4. Measurement Focus

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

5. Basis of Accounting

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

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

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

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

6. Budgets and Budgetary Accounting

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

6. Budgets and Budgetary Accounting - continued

- 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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, ambulance services, city hall debt repayment, streets, and library services. For the year ended June 30, 2017, the City levied 18.4679 mills per \$1,000 of assessed valuation for general governmental services, 1.3783 mills for refuse services, 0.9818 mills for ambulance services, 2.1500 for streets, 1.3000 mills for city hall debt repayment, and 1.0000 mills for library services. The total taxable value for the 2016 levy for property within the City was \$441,691,156.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

12. Prepays

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

13. Unearned Revenue

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

14. Compensated Absences

Certain City employees are granted vacation and sick leave in varying amounts and are permitted to accumulate these benefits. In the event of termination, an employee is paid for accumulated vacation and sick time. All employees with accumulated unused vacation and sick time pay at June 30, 2017, along with related payroll taxes, are recorded in the government-wide and proprietary fund financial statements.

15. Interfund Transactions

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

16. 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.

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

17. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of net position and balance sheet will, when applicable, report a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will be recognized as an outflow of resources (expenditure/expense) until that time. Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports deferred outflows of resources on the statement of net position related to the City's net pension liability and represent changes in assumptions, differences between expected and actual experience, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow of resources in the period to which they apply.

The City also reports deferred inflows of resources on the governmental funds balance sheet related to revenue that is unavailable to finance expenditures of the current period.

18. Long-term Liabilities

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

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

19. Restrictions of Net Position

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

20. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those expected.

21. Comparative Data

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

NOTE B: DEPOSITS

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B: DEPOSITS - CONTINUED

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

As of June 30, 2017, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 9,476,441	\$ 10,520,812
FIDUCIARY FUNDS		
Checking and savings	<u>1,177,466</u>	<u>1,179,136</u>
TOTAL REPORTING ENTITY	<u>\$ 10,653,907</u>	<u>\$ 11,699,948</u>

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

Deposits

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2017, the City accounts were insured by the FDIC for \$1,598,964 and the amount of \$10,100,984 was uninsured and uncollateralized.

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

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2017, the City had no investments.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE B: DEPOSITS - CONTINUED

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 diversity 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.

Custodial Credit Risk

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

Requiring that deposits and investments held by a third-party custodian be evidenced by a safekeeping receipt.

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2017:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 8,206,562	\$ 1,177,466	\$ 9,384,028
Restricted cash and cash equivalents	<u>1,272,429</u>	<u>-</u>	<u>1,272,429</u>
	<u>\$ 9,478,991</u>	<u>\$ 1,177,466</u>	<u>\$ 10,656,457</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2017, are as follows:

Due to General Fund from:	
Internal service fund	\$ 85,700
Water and Sewer Fund	<u>57,907</u>
	<u>\$ 143,607</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 40,322</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

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

NOTE D: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated. Transfers between the nonmajor governmental funds were to fund current year street and debt service activities.

Transfers to nonmajor governmental funds from:	
Nonmajor governmental funds	<u><u>\$ 93,475</u></u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

Primary Government

	<u>Balance July 1, 2016</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2017</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 4,938,136	\$ -	\$ -	\$ 4,938,136
Construction in progress	<u>814,780</u>	<u>2,452,490</u>	<u>(814,780)</u>	<u>2,452,490</u>
Capital assets not being depreciated	5,752,916	2,452,490	(814,780)	7,390,626
Capital assets being depreciated				
Land improvements	832,618	-	-	832,618
Roads and sidewalks	75,007,792	814,780	-	75,822,572
County road improvements	553,414	-	-	553,414
Buildings and improvements	6,612,685	138,631	-	6,751,316
Vehicles	4,068,537	52,636	(9,580)	4,111,593
Machinery and equipment	1,575,654	260,603	-	1,836,257
Library collection	297,005	32,064	-	329,069
Furniture and fixtures	<u>263,665</u>	<u>-</u>	<u>-</u>	<u>263,665</u>
Subtotal	89,211,370	1,298,714	(9,580)	90,500,504

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Governmental Activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (152,608)	\$ (36,257)	\$ -	\$ (188,865)
Roads and sidewalks	(69,477,049)	(515,017)	-	(69,992,066)
County road improvements	(232,790)	(18,447)	-	(251,237)
Buildings and improvements	(2,544,002)	(151,876)	-	(2,695,878)
Vehicles	(3,120,179)	(164,718)	9,580	(3,275,317)
Machinery and equipment	(1,234,697)	(131,461)	-	(1,366,158)
Library collection	(201,748)	(32,755)	-	(234,503)
Furniture and fixtures	(263,665)	-	-	(263,665)
Subtotal	<u>(77,226,738)</u>	<u>(1,050,531)</u>	<u>9,580</u>	<u>(78,267,689)</u>
Net capital assets being depreciated	<u>11,984,632</u>	<u>248,183</u>	<u>-0-</u>	<u>12,232,815</u>
Capital assets, net	<u>\$ 17,737,548</u>	<u>\$ 2,700,673</u>	<u>\$ (814,780)</u>	<u>\$ 19,623,441</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 306,145
Public safety	171,646
Public works	377,275
Recreation and culture	99,546
Internal service fund	95,919
	<u>\$ 1,050,531</u>

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Business-type Activities				
Capital assets not being depreciated				
Land	\$ 837,043	\$ -	\$ -	\$ 837,043
Construction in progress	292,374	2,529,729	(292,374)	2,529,729
Capital assets not being depreciated	1,129,417	2,529,729	(292,374)	3,366,772
Capital assets being depreciated				
Water and sewer distribution systems	40,208,759	2,241,610	(426,574)	42,023,795
Machinery & equipment	103,362	-	-	103,362
Buildings and building improvements	3,911,052	90,160	-	4,001,212
Subtotal	44,223,173	2,331,770	(426,574)	46,128,369

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE E: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2016	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2017
Business-type Activities - continued				
Less accumulated depreciation for:				
Water and sewer distribution systems	\$(14,681,993)	\$ (1,358,878)	\$ -	\$(16,040,871)
Machinery & equipment	(5,295)	(5,295)	-	(10,590)
Buildings and building improvements	(1,948,416)	(88,854)	-	(2,037,270)
Subtotal	(16,635,704)	(1,453,027)	-0-	(18,088,731)
Net capital assets being depreciated	27,587,469	878,743	(426,574)	28,039,638
Capital assets, net	<u>\$ 28,716,886</u>	<u>\$ 3,408,472</u>	<u>\$ (718,948)</u>	<u>\$ 31,406,410</u>

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

Water and Sewer	\$ 1,364,174
Senior Citizen Housing Complex	88,853
	<u>\$ 1,453,027</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due in One Year
Governmental Activities					
2010 Refunding Bonds	\$ 2,030,000	\$ -	\$ (500,000)	\$ 1,530,000	\$ 490,000
2015 General Obligation Unlimited Tax Bonds	4,305,000	-	(840,000)	3,465,000	845,000
2015 Bond premium	117,137	-	(23,427)	93,710	23,427
Lease purchase agreement - Aerial Platform Fire Truck	62,999	-	(62,999)	-0-	-
Installment purchase agreement - E911 phones	19,927	-	(17,034)	2,893	2,893
Lease purchase agreement - Office equipment - copiers	-	47,072	(5,845)	41,227	9,008
Installment purchase agreement - Office equipment - plotter	-	18,620	(1,729)	16,891	3,544
Installment purchase agreement - Telephone system	-	46,139	(2,638)	43,501	8,261
Installment purchase agreement - Toro Groundmaster 5900 Mower	-	104,204	-	104,204	14,621
Installment purchase agreement - E911 phones	-	236,857	(12,791)	224,066	77,645
Compensated absences	953,367	251,072	(295,559)	908,880	144,731
	7,488,430	703,964	(1,762,022)	6,430,372	1,619,130

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due in One Year
Business-type Activities					
2012A Refunding Bonds	\$ 1,000,000	\$ -	\$ (135,000)	\$ 865,000	\$ 135,000
2012B Refunding Bonds	775,000	-	(250,000)	525,000	265,000
2010B OMID Drainage District	123,285	-	(6,275)	117,010	6,507
2010A MID Drainage District	3,164,572	-	(3,164,572)	-0-	-
2010 North Gratiot Drainage District	29,372	-	(1,165)	28,207	1,197
2010A OMID Drainage District	481,638	-	(26,843)	454,795	27,423
2009 Clean Water Revolving Loan Fund	5,550,000	-	(335,000)	5,215,000	345,000
2011 OMID Drainage District	670,644	-	(29,959)	640,685	30,672
2011 MID Drainage District	1,198,069	-	(49,637)	1,148,432	54,150
2013A OMID Drainage District	1,524,118	-	(66,738)	1,457,380	68,080
2014A OMID Drainage District	223,411	-	(9,155)	214,256	9,316
2015 Public OMID Drainage District	275,602	189,279	(18,070)	446,811	18,617
2015 North Gratiot Interceptor Refunding	291,330	-	(12,003)	279,327	12,089
2015A MID CWRP Project	16,772	110,815	(6,431)	121,156	6,431
2016 Clean Water Revolving Fund Loan	-	732,620	-	732,620	-
2017A MID Drainage District Refunding	-	2,611,754	-	2,611,754	110,489
2017A MID Drainage District Sinkhole	-	2,529,729	-	2,529,729	46,917
Installment purchase agreement - Sewer vacuum equipment	225,000	-	(35,000)	190,000	35,000
Installment purchase agreement - Backhoe	36,000	-	(12,000)	24,000	12,000
Installment purchase agreement - Water meters	580,391	-	(58,108)	522,283	59,609
Compensated absences	53,750	11,528	(26,666)	38,612	13,324
	<u>16,218,954</u>	<u>6,185,725</u>	<u>(4,242,622)</u>	<u>18,162,057</u>	<u>1,256,821</u>
	<u>\$ 23,707,384</u>	<u>\$ 6,889,689</u>	<u>\$ (6,004,644)</u>	<u>\$ 24,592,429</u>	<u>\$ 2,875,951</u>

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.

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

Governmental Activities

General Obligation Bonds

\$3,960,000 2010 General Obligation Unlimited Tax Refunding Bonds dated August 25, 2010, due in annual installments ranging from \$490,000 to \$530,000 through October 1, 2019, with interest ranging from 2.75 to 4.00 percent. \$ 1,530,000

\$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. 3,465,000

\$ 4,995,000

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

Installment Loan and Lease Purchase Agreements

\$129,049 Installment Purchase Agreement for Emergency 911 Telephone System dated September 20, 2012, due in monthly installments of \$1,453, including interest of 3.287 percent through August 20, 2017.	\$ 2,893
\$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.	41,227
\$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.	16,891
\$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.	43,501
\$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.	104,204
\$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.	224,066
	<u>\$ 432,782</u>

Business-type Activities

General Obligation Bonds

\$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.	\$ 865,000
\$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.	525,000
	<u>\$ 1,390,000</u>

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.	\$ 117,010
\$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.	28,207

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

Business-type Activities - Continued

Macomb County Water Disposal District - continued

\$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.	\$ 454,795
\$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.	640,685
\$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.	1,148,432
\$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.	1,457,380
\$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.	214,256
\$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.	446,811
\$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.	279,327
\$127,587 2015A MID CWRP 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.	121,156
\$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.	2,611,754
\$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.	2,529,729
	<u>\$ 10,049,542</u>

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

Business-type Activities - Continued

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. \$ 5,215,000

\$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. 732,620

\$ 5,947,620

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. \$ 190,000

\$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. 24,000

\$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. 522,283

\$ 736,283

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 \$947,492 at June 30, 2017.

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	Principal	Interest
2018	\$ 1,450,972	\$ 125,748	\$ 1,243,497	\$ 545,550
2019	1,489,531	86,020	1,379,376	544,575
2020	1,514,074	45,878	1,155,685	509,466
2021	913,460	14,543	1,184,185	475,172
2022	27,601	2,034	1,217,948	439,722
2023-2027	32,144	1,868	5,166,852	1,688,377
2028-2032	-	-	4,244,085	890,298
2033-2037	-	-	1,771,468	336,095
2038-2042	-	-	760,349	117,755
	<u>\$ 5,427,782</u>	<u>\$ 276,091</u>	<u>\$ 18,123,445</u>	<u>\$ 5,547,010</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE F: LONG-TERM DEBT - CONTINUED

Water and Sewer Obligations

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

Advance Refunding - Current

In April 2017, the Macomb Interceptor Drainage District issued Drain Refunding Bonds, Series 2017, in the amount of \$66,305,000, of which \$2,611,754 was allocated to the City. The debt refunded amounted to \$77,135,000 of Macomb Interceptor Drainage District Drain Bonds, Series 2010A, maturing in years 2018 through 2035. The City's allocated share of the refunded bonds amounted to \$3,038,328. The refunding was undertaken to reduce debt service payments over the next 18 years with net savings of \$5,924,012 and to obtain an economic (present value) gain of \$4,727,646. The City's allocated net savings is \$233,346 and the City's economic gain resulting from the refunding is \$186,222.

NOTE G: DEFINED BENEFIT PENSION PLAN

Plan Description

The City 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's Legislature under Public Act 135 of 1945 and administered by a nine (9) member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing MERS website at www.mersofmich.com.

Summary of Significant Accounting Policies

For the 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 of Michigan (MERS) 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.

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Benefits Provided

Benefits provided by the City's pension plan vary by division, as summarized in the following table:

	Police Deferred and Retired	Supervisor/ Management	Clerical/ Court	POLC	POAM	Dispatch	DPW
Open or closed to new hires	Closed	Open	Open	Open	Open	Open	Open
Benefit multiplier	Service x (1.00% times FAC<\$4,200, plus 1.50% times FAC>\$4,200)	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)	2.50% Multiplier (80% max)	2.50% Multiplier (75% max)	2.50% Multiplier (no max)	2.75% Multiplier (80% max)
Normal retirement age	60	60	60	55	55	60	60
Vesting	10 years	6 years	6 years	10 years	10 years	6 years	6 years
Early retirement (unreduced)	-	Age 50/25 years of service; Age 55/10 years of service	Age 50/25 years of service; Age 55/15 years of service	Age 50/25 years of service	Age 50/25 years of service	Age 50/25 years of service; Age 55/10 years of service	Age 50/25 years of service; Age 55/10 years of service
Early retirement (reduced)	Age 50/25 years of service; Age 55/15 years of service	-	-	-	-	-	-
Final average compensation	5 years	5 years	5 years	3 years	3 years	5 years	5 years
COLA for future retirees	-	-	-	-	2% (non- compound)	-	-
Employee contributions	3% under \$4,200; 5% over \$4,200	7%	7%	7%	7%	7%	7%

At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries receiving benefits	105
Inactive employees entitled to but not yet receiving benefits	19
Active employees	<u>66</u>
Total employees covered by MERS	<u><u>190</u></u>

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. 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 cost of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer has also established contribution rates to be paid by its covered employees. Such contribution rates vary by division.

Net Pension Liability

The net pension liability reported at June 30, 2017, was determined using a measure of the total pension liability and the pension net position as of December 31, 2016. The total pension liability was determined by an annual actuarial valuation as of that date.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUEDNet Pension Liability - continued

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

<u>Changes in Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u> <u>(a)</u>	<u>Plan Fiduciary Net Position</u> <u>(b)</u>	<u>Net Pension Liability</u> <u>(a)-(b)</u>
Balances at December 31, 2015	\$ 53,366,998	\$ 26,966,236	\$ 26,400,762
Service cost	894,748	-	894,748
Interest on total pension liability	4,163,698	-	4,163,698
Changes in benefits	488,772	-	488,772
Difference between expected and actual experience	2,371,775	-	2,371,775
Employer contributions	-	2,039,477	(2,039,477)
Employee contributions	-	349,173	(349,173)
Net investment income	-	2,981,535	(2,981,535)
Benefit payments, including employee refunds	(3,536,304)	(3,536,304)	-0-
Administrative expense	-	(58,817)	58,817
Other changes	(2)	(1)	(1)
Net changes	<u>4,382,687</u>	<u>1,775,063</u>	<u>2,607,624</u>
Balances at December 31, 2016	<u>\$ 57,749,685</u>	<u>\$ 28,741,299</u>	<u>\$ 29,008,386</u>

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

For the year ended June 30, 2016, the City recognized pension expense of \$5,301,846. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,326,346	\$ -
Changes in assumptions	1,092,048	-
Net difference between projected and actual earnings on pension plan investments	1,668,794	-
Contributions subsequent to the measurement date*	<u>1,089,690</u>	<u>-</u>
Total	<u>\$ 6,176,878</u>	<u>\$ -0-</u>

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - continued

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

<u>Year Ending June 30,</u>	<u>Pension Expense</u>
2018	\$ 2,154,026
2019	2,154,025
2020	953,636
2021	(174,499)

Actuarial Assumptions

The total pension liability in the December 31, 2016 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term.

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

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.50%.

Mortality rates used were based on a blend of the RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105%; RP-2014 Employee Mortality Tables; RP-2014 Juvenile Mortality Tables all with a 50% male and 50% female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table with a 50% male and 50% female blend is used to reflect the higher expected the mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study covering the period from January 1, 2009 through December 31, 2013.

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.

Projected Cash Flows

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Projected Cash Flows - continued

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%

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 rates of 8.00%, as well as what the City's net pension liability would be using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Net pension liability of the City	\$ 35,444,862	\$ 29,008,386	\$ 23,559,616

NOTE H: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

During the year ended June 30, 2017, 151 participants (which includes active employees, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits) were eligible to receive benefits. Expenditures for post-employment benefits are recognized when claims are paid.

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

Funding Policy

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Funding Progress

For the year ended June 30, 2017, the City has determined an estimated cost of providing post-employment benefits through an actuarial valuation as of June 30, 2015. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

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

Annual required contribution (ARC)	\$ 3,592,003
Interest on net OPEB obligation	<u>1,228,214</u>
Annual OPEB cost (expense)	4,820,217
Amounts contributed:	
Payments of current premiums	<u>(1,716,808)</u>
Increase in net OPEB obligation	3,103,409
OPEB obligation - beginning of year	<u>27,293,640</u>
OPEB obligation - end of year	<u><u>\$ 30,397,049</u></u>

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

Year Ended June 30,	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 6,012,168	27.9%	\$ 22,508,273
2016	6,141,816	22.1%	27,293,640
2017	4,820,217	35.6%	30,397,049

The funding progress of the plan as is as follows:

	Year Ended June 30,		
	2009	2012	2015
Actuarial value of assets	\$ 677,886	\$ 416,750	\$ -
Actuarial accrued liability (AAL) (entry age)	58,822,957	68,263,560	39,098,867
Unfunded AAL (UAAL)	58,145,071	67,846,810	39,098,867
Funded ratio	1.2%	0.6%	0.0%
Annual covered payroll	\$ 5,966,282	\$ 4,955,687	\$ 3,592,003
UAAL as a percentage of covered payroll	974.6%	1369.1%	1088.5%

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE H: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

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

In the June 30, 2015 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions include a 4.50 percent per year rate of investment return (net of administrative expenses), which is the expected long-term investment returns on plan assets, and an annual healthcare cost trend rate of 9.0 percent initially, reduced by decrements to an ultimate 4.0 percent after ten (10) years. Both rates include a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level dollar on a closed basis. The remaining amortization period at June 30, 2017, was twenty-one (21) years.

NOTE I: RISK MANAGEMENT

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

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

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five (5) classifications of fund balance under this standard.

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE J: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED

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

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

Fund Balance Classification Policies and Procedures

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

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

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

NOTE K: CONSTRUCTION CODE ACTIVITY

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

As required under provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. The following is a summary of the activity for the year ended June 30, 2017:

Permits	\$ 297,241
EXPENDITURES	
Salaries and fringe benefits	292,656
Supplies and other	<u>34,992</u>
TOTAL EXPENDITURES	<u>327,648</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(30,407)
PRIOR CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>(747,914)</u>
CUMULATIVE EXCESS OF REVENUES (UNDER) EXPENDITURES	<u><u>\$ (778,321)</u></u>

NOTE L: CONTINGENT LIABILITIES

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

City of Fraser

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE L: CONTINGENT LIABILITIES - CONTINUED

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

NOTE M: TAX ABATEMENTS

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) (IFT) PA 198 of 1974, as amended. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at 50% of the property tax bill for new property. For rehabilitation properties, the taxable values can be frozen.

There are no known provisions to recapture taxes, however the abatement may be eliminated if taxes are not paid timely. There have been no significant abatements made by other governmental units that reduce the City's tax revenues.

For the year ended June 30, 2017, the City's property tax revenues were reduced under these programs as follows:

	<u>IFT</u>
General Operating	\$ 183,697
City Hall Debt	12,931
ALS	9,766
City Hall Street	21,386
Refuse	13,710
Library	9,947
	<u>\$ 251,437</u>

NOTE N: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position has been restated for governmental activities, business-type activities, and the Water and Sewer Fund due to the correction of an accounting error and change in allocation of net pension liability and deferred outflows of resources related to pensions.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Water and Sewer Fund</u>
Beginning net position	\$(23,682,145)	\$ 12,391,697	\$ 10,270,885
Restatement for allocation of Deferred Outflows of Resources	161,930	(161,930)	(161,930)
Restatement for allocation of Net Pension Liability	(506,970)	506,970	506,970
Restatement for overstated Deferred Outflows of Resources in prior year	<u>(739,853)</u>	<u>(79,929)</u>	<u>(79,929)</u>
Restated beginning net position	<u>\$ (24,767,038)</u>	<u>\$ 12,656,808</u>	<u>\$ 10,535,996</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE O: NONCANCELABLE OPERATING LEASES

The City leases certain vehicles under noncancelable operating leases. Total costs for such leases for the year ended June 30, 2017, was \$98,281.

The future minimum lease payments as of June 30, 2017, are as follows:

Year Ending June 30,	
2018	\$ 94,333
2019	91,236
2020	68,374
2021	58,182
2022	2,810
	<u>\$ 314,935</u>

NOTE P: SUBSEQUENT EVENT

In July 2017, the City entered into an agreement to replace water mains in the amount of \$985,947. Previously issued bond proceeds are anticipated to cover the costs of this project.

NOTE Q: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 77, *Tax Abatement Disclosures*, was implemented during the year. This statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present.

NOTE R: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligations as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement improves financial reporting by establishing specific criteria for identifying activities that should be reported as fiduciary activities and will clarify whether and how business-type activities should report their fiduciary activities. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2019-2020 fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE R: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In June 2017, the GASB issued Statement No. 87, *Leases*. This statement will increase the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2020-2021 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Fraser

General Fund

BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS)

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 9,237,061	\$ 9,055,932	\$ 9,103,658	\$ 47,726
Licenses and permits				
Franchise fees	140,000	140,000	164,197	24,197
Other	190,000	190,000	321,347	131,347
Total license and permits	330,000	330,000	485,544	155,544
Intergovernmental				
Federal	157,050	148,350	40,458	(107,892)
State	1,422,285	1,422,285	1,434,133	11,848
District court and violations bureau	761,000	761,000	716,280	(44,720)
Total intergovernmental	2,340,335	2,331,635	2,190,871	(140,764)
Charges for services	393,300	393,300	255,536	(137,764)
Fines and forfeitures	96,000	81,000	73,819	(7,181)
Interest and rents	139,200	139,200	165,539	26,339
Other				
Library	11,500	-	-	-0-
Miscellaneous	656,060	653,060	649,314	(3,746)
Total other	667,560	653,060	649,314	(3,746)
TOTAL REVENUES	13,203,456	12,984,127	12,924,281	(59,846)
EXPENDITURES				
Current				
General government				
City council	90,108	128,408	135,504	(7,096)
City administration	193,161	288,878	292,912	(4,034)
City clerk	149,596	216,391	197,891	18,500
District court	698,451	655,311	579,703	75,608
Finance	499,538	574,878	525,762	49,116
Assessor	107,400	107,400	109,237	(1,837)
Information technology	268,836	358,986	331,042	27,944
Legal	96,000	96,000	99,265	(3,265)
Building and grounds	581,949	599,049	549,911	49,138
Total general government	2,685,039	3,025,301	2,821,227	204,074
Public safety	6,797,265	7,013,265	7,083,018	(69,753)

City of Fraser

General Fund

BUDGETARY COMPARISON SCHEDULE (NON-GAAP BASIS) - CONTINUED

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Public works				
Building inspections	\$ 269,124	\$ 358,086	\$ 328,815	\$ 29,271
Other	663,285	596,668	631,106	(34,438)
Total public works	932,409	954,754	959,921	(5,167)
Community and economic development				
Planning committee	25,841	25,841	29,688	(3,847)
Recreation and culture				
City parks and recreation	708,542	685,626	474,147	211,479
Historical commission	2,100	2,100	2,021	79
Library	385,760	-	-	-0-
Total recreation and culture	1,096,402	687,726	476,168	211,558
Other				
Insurance	220,000	220,000	210,103	9,897
Retiree health insurance contributions	1,300,000	1,300,000	1,695,436	(395,436)
Refunds and reimbursements	146,500	146,500	58,076	88,424
Total other	1,666,500	1,666,500	1,963,615	(297,115)
Capital outlay	-	-	348,688	(348,688)
TOTAL EXPENDITURES	13,203,456	13,373,387	13,682,325	(308,938)
EXCESS OF REVENUES (UNDER) EXPENDITURES	-0-	(389,260)	(758,044)	(368,784)
OTHER FINANCING SOURCES				
Lease and installment purchases	-	-	348,688	348,688
Net change in fund balance (budgetary basis)	\$ -0-	\$ (389,260)	(409,356)	\$ (20,096)
Budgetary perspective differences			8,924	
Net change in fund balance (GAAP basis)			\$ (400,432)	

City of Fraser

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

Last Four Measurement Dates (Amounts determined as of 12/31 of each fiscal year)

(Ultimately ten measurement dates will be displayed)

	2016	2015	2014	2013
Total Pension Liability				
Service cost	\$ 894,748	\$ 859,087	\$ 896,348	\$ 931,721
Interest	4,163,698	3,768,012	3,636,330	4,169,985
Changes of benefit terms	488,772	(852)	-	-
Difference between expected and actual experience	2,371,775	1,095,026	-	-
Changes of assumptions	-	2,184,098	-	-
Benefit payments, including refunds of member contributions	(3,536,304)	(3,869,714)	(1,961,048)	(2,845,047)
Other	(2)	2,150,605	-	-
Net change in total pension liability	4,382,687	6,186,262	2,571,630	2,256,659
Total Pension Liability, beginning	53,366,998	47,180,736	44,609,106	53,081,473
Total Pension Liability, ending	<u>\$ 57,749,685</u>	<u>\$ 53,366,998</u>	<u>\$ 47,180,736</u>	<u>\$ 55,338,132</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 2,039,477	\$ 3,407,010	\$ 878,683	\$ 1,261,394
Contributions - employee	349,173	744,496	149,899	211,899
Net investment income (loss)	2,981,535	(425,297)	348,982	2,281,019
Benefit payments, including employee refunds	(3,536,304)	(3,869,714)	(1,961,048)	(2,845,047)
Administrative expenses	(58,817)	(60,463)	(19,181)	(49,193)
Other	(1)	-	-	1,633,520
Net change in plan fiduciary net position	1,775,063	(203,968)	(602,665)	2,493,592
Plan Fiduciary Net Position, beginning	26,966,236	27,170,204	27,772,869	24,741,607
Plan Fiduciary Net Position, ending	<u>\$ 28,741,299</u>	<u>\$ 26,966,236</u>	<u>\$ 27,170,204</u>	<u>\$ 27,235,199</u>
City's Net Pension Liability	<u>\$ 29,008,386</u>	<u>\$ 26,400,762</u>	<u>\$ 20,010,532</u>	<u>\$ 28,102,933</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	50%	51%	58%	49%
Covered Employee Payroll	\$ 5,053,190	\$ 4,824,059	\$ 5,019,636	\$ 5,092,610
City's Net Pension Liability as a percentage of Covered Employee Payroll	574%	547%	399%	552%

Note: The City transitioned the pension plan from a single employer plan to an agent multiple-employer plan during the fiscal year ended June 30, 2015. As a part of that transition, the beginning total pension liability, plan fiduciary net position, and net pension liability were remeasured and restated.

City of Fraser

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Four Fiscal Years (Amounts determined as of 6/30 of each fiscal year)

(Ultimately ten fiscal years will be displayed)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contributions	\$ 2,140,225	\$ 2,010,203	\$ 2,383,976	\$ 1,923,228
Contributions in relation to the actuarially determined contribution	<u>2,486,713</u>	<u>2,414,393</u>	<u>1,633,298</u>	<u>1,531,586</u>
Contribution deficiency (excess)	<u>\$ (346,488)</u>	<u>\$ (404,190)</u>	<u>\$ 750,678</u>	<u>\$ 391,642</u>
Covered Employee Payroll	\$ 5,478,174	\$ 4,952,333	\$ 5,019,636	\$ 5,092,610
Contributions as a percentage of covered employee payroll	45%	49%	33%	30%

City of Fraser

Other Post-Employment Benefits

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
2009	\$ 677,886	\$ 58,822,957	\$ 58,145,071	1.2%	\$ 5,966,282	974.6%
2012	416,750	68,263,560	67,846,810	0.6%	4,955,687	1369.1%
2015	-	39,098,867	39,098,867	0.0%	3,592,003	1088.5%

Schedule of Employer Contributions

Year Ended June 30,	Annual OPEB Cost	Annual Actual Contribution	Percent Contributed
2015	\$ 6,012,168	\$ 1,679,764	27.9%
2016	6,141,816	1,356,449	22.1%
2017	4,820,217	1,716,808	35.6%

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

Valuation date	June 30, 2015
Actuarial cost method	Individual Entry Age
Amortization method	Level Dollar, Closed
Remaining amortization period	21
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	4.50%
Projected salary increases	4.00%
Medical care cost trend rate	9.00% year 1 graded to 4.00% year 10

City of Fraser

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

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

During the year ended June 30, 2017, the City incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
City council	\$ 128,408	\$ 135,504	\$ 7,096
City administration	288,878	292,912	4,034
Assessor	107,400	109,237	1,837
Legal	96,000	99,265	3,265
Public safety	7,013,265	7,083,018	69,753
Public works			
Other	596,668	631,106	34,438
Community and economic development			
Planning committee	25,841	29,688	3,847
Other			
Retiree health insurance contributions	1,300,000	1,695,436	395,436
Capital outlay	-	348,688	348,688

NOTE B: BUDGET RECONCILIATION

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

Net change in General Fund fund balance (budgetary basis)	\$ (409,356)
Garbage Collection Fund	
Property taxes	649,814
Charges for services	109,485
Public works expenditures	<u>(750,375)</u>
Net change in General Fund fund balance (GAAP basis)	<u>\$ (400,432)</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

Year Ended June 30, 2017

NOTE C: EMPLOYEE RETIREMENT PLAN

Changes of benefits terms: There were no changes in assumptions during fiscal year 2016.

Changes in assumptions: There were no changes in assumptions during fiscal year 2016.

OTHER SUPPLEMENTARY INFORMATION

City of Fraser

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2017

	Special			
	Major Streets Fund	Local Streets Fund	Ambulance Fund	Library Fund
ASSETS				
Cash and cash equivalents	\$ 253,833	\$ 162,441	\$ 527,868	\$ 113,475
Due from other governmental units	128,606	55,864	-	11,637
Due from other funds	20,161	20,161	-	-
TOTAL ASSETS	\$ 402,600	\$ 238,466	\$ 527,868	\$ 125,112
LIABILITIES				
Accounts payable	\$ 5,210	\$ -	\$ 3,687	\$ 1,796
Accrued liabilities	7,293	-	10,091	9,876
Due to other governmental units	-	-	-	-
TOTAL LIABILITIES	12,503	-0-	13,778	11,672
FUND BALANCES				
Restricted				
Streets and highways	390,097	238,466	-	-
Health and welfare	-	-	514,090	-
Public safety	-	-	-	-
Recreation and culture	-	-	-	113,440
Debt service	-	-	-	-
Assigned				
Debt service	-	-	-	-
TOTAL FUND BALANCES	390,097	238,466	514,090	113,440
TOTAL LIABILITIES AND FUND BALANCES	\$ 402,600	\$ 238,466	\$ 527,868	\$ 125,112

Revenue		Debt Service Funds			Total
Gambling Forfeiture Fund	Drug Forfeiture Fund	General Obligation Fund	Special Assessment Fund	2015 General Obligation Fund	
\$ 897,469	\$ 126,604	\$ 151,944	\$ 31,291	\$ 90,894	\$ 2,355,819
3,999	9,436	-	-	-	209,542
-	-	-	-	-	40,322
<u>\$ 901,468</u>	<u>\$ 136,040</u>	<u>\$ 151,944</u>	<u>\$ 31,291</u>	<u>\$ 90,894</u>	<u>\$ 2,605,683</u>
\$ -	\$ 2,123	\$ -	\$ -	\$ -	\$ 12,816
-	925	-	-	-	28,185
-	-	-	2,233	-	2,233
-0-	3,048	-0-	2,233	-0-	43,234
-	-	-	-	-	628,563
-	-	-	-	-	514,090
901,468	132,992	-	-	-	1,034,460
-	-	-	-	-	113,440
-	-	151,944	-	90,894	242,838
-	-	-	29,058	-	29,058
<u>901,468</u>	<u>132,992</u>	<u>151,944</u>	<u>29,058</u>	<u>90,894</u>	<u>2,562,449</u>
<u>\$ 901,468</u>	<u>\$ 136,040</u>	<u>\$ 151,944</u>	<u>\$ 31,291</u>	<u>\$ 90,894</u>	<u>\$ 2,605,683</u>

City of Fraser

Nonmajor Governmental Funds

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

Year Ended June 30, 2017

	Special			
	Major Streets Fund	Local Streets Fund	Ambulance Fund	Library Fund
REVENUES				
Taxes	\$ -	\$ -	\$ 464,194	\$ 428,848
Intergovernmental				
Federal	-	-	-	-
State	664,838	286,688	-	34,064
Charges for services	-	-	334,399	1,993
Fines and forfeitures	-	-	-	6,265
Interest	-	-	-	1,025
Other	-	-	-	6,191
TOTAL REVENUES	664,838	286,688	798,593	478,386
EXPENDITURES				
Current				
Public safety	-	-	-	-
Public works	360,518	275,817	-	-
Health and welfare	-	-	610,002	-
Recreation and culture	-	-	-	364,946
Capital outlay	2,735	-	-	-
Debt service	-	-	-	-
TOTAL EXPENDITURES	363,253	275,817	610,002	364,946
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	301,585	10,871	188,591	113,440
OTHER FINANCING SOURCES (USES)				
Transfers in	-	80,000	-	-
Transfers out	(93,475)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(93,475)	80,000	-0-	-0-
NET CHANGE IN FUND BALANCES	208,110	90,871	188,591	113,440
Fund balances, beginning of year	181,987	147,595	325,499	-
Fund balances, end of year	<u>\$ 390,097</u>	<u>\$ 238,466</u>	<u>\$ 514,090</u>	<u>\$ 113,440</u>

Revenue		Debt Service Funds			Total
Gambling Forfeiture Fund	Drug Forfeiture Fund	General Obligation Fund	Special Assessment Fund	2015 General Obligation Fund	
\$ -	\$ -	\$ 614,740	\$ -	\$ 1,015,344	\$ 2,523,126
84,014	-	-	-	-	84,014
-	-	-	-	-	985,590
-	-	-	-	-	336,392
339,959	192,328	-	-	-	538,552
4,180	110	-	-	-	5,315
-	-	-	-	-	6,191
428,153	192,438	614,740	-0-	1,015,344	4,479,180
368,661	209,139	-	-	-	577,800
-	-	-	-	-	636,335
-	-	-	-	-	610,002
-	-	-	-	-	364,946
23,284	52,636	-	-	-	78,655
-	-	557,938	-	937,925	1,495,863
391,945	261,775	557,938	-0-	937,925	3,763,601
36,208	(69,337)	56,802	-0-	77,419	715,579
-	-	-	-	13,475	93,475
-	-	-	-	-	(93,475)
-0-	-0-	-0-	-0-	13,475	-0-
36,208	(69,337)	56,802	-0-	90,894	715,579
865,260	202,329	95,142	29,058	-	1,846,870
<u>\$ 901,468</u>	<u>\$ 132,992</u>	<u>\$ 151,944</u>	<u>\$ 29,058</u>	<u>\$ 90,894</u>	<u>\$ 2,562,449</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

	<u>Major Streets Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$ 666,329	\$ 666,329	\$ 664,838	\$ (1,491)
EXPENDITURES				
Current				
Public works				
Salaries and fringe benefits	182,715	202,815	186,295	16,520
Materials and supplies	35,000	35,000	22,808	12,192
Repairs and maintenance	55,000	55,000	28,918	26,082
Equipment rental	90,000	90,000	90,000	-0-
Other	96,000	96,000	32,497	63,503
Capital outlay	55,000	55,000	2,735	52,265
TOTAL EXPENDITURES	513,715	533,815	363,253	170,562
EXCESS OF REVENUES OVER EXPENDITURES	152,614	132,514	301,585	169,071
OTHER FINANCING (USES)				
Transfers out	(80,000)	(93,475)	(93,475)	-0-
NET CHANGE IN FUND BALANCE	72,614	39,039	208,110	169,071
Fund balance, beginning of year	181,987	181,987	181,987	-0-
Fund balance, end of year	<u>\$ 254,601</u>	<u>\$ 221,026</u>	<u>\$ 390,097</u>	<u>\$ 169,071</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

	<u>Local Streets Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$ 287,317	\$ 287,317	\$ 286,688	\$ (629)
EXPENDITURES				
Current				
Public works				
Salaries and fringe benefits	128,888	164,670	136,284	28,386
Materials and supplies	35,000	33,238	34,850	(1,612)
Repairs and maintenance	55,000	55,000	19,654	35,346
Equipment rental	85,000	85,000	85,000	-0-
Other	24,000	24,000	29	23,971
TOTAL EXPENDITURES	<u>327,888</u>	<u>361,908</u>	<u>275,817</u>	<u>86,091</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(40,571)	(74,591)	10,871	85,462
OTHER FINANCING SOURCES				
Transfers in	<u>80,000</u>	<u>80,000</u>	<u>80,000</u>	<u>-0-</u>
NET CHANGE IN FUND BALANCE	39,429	5,409	90,871	85,462
Fund balance, beginning of year	<u>147,595</u>	<u>147,595</u>	<u>147,595</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 187,024</u>	<u>\$ 153,004</u>	<u>\$ 238,466</u>	<u>\$ 85,462</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

	<u>Ambulance Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 422,985	\$ 463,638	\$ 464,194	\$ 556
Charges for services	310,000	310,000	334,399	24,399
TOTAL REVENUES	732,985	773,638	798,593	24,955
EXPENDITURES				
Current				
Health and welfare				
Salaries and fringe benefits	590,998	527,878	467,808	60,070
Materials and supplies	23,850	23,000	20,486	2,514
Equipment rental	38,250	38,250	38,250	-0-
Professional services	25,400	25,800	30,200	(4,400)
Other	53,000	53,450	53,258	192
TOTAL EXPENDITURES	731,498	668,378	610,002	58,376
NET CHANGE IN FUND BALANCE	1,487	105,260	188,591	83,331
Fund balance, beginning of year	325,499	325,499	325,499	-0-
Fund balance, end of year	<u>\$ 326,986</u>	<u>\$ 430,759</u>	<u>\$ 514,090</u>	<u>\$ 83,331</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

	<u>Library Fund</u>			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ -	\$ 376,004	\$ 428,848	\$ 52,844
Intergovernmental	-	23,700	34,064	10,364
Charges for services	-	3,000	1,993	(1,007)
Fines and forfeitures	-	6,000	6,265	265
Interest	-	500	1,025	525
Other	-	5,000	6,191	1,191
TOTAL REVENUES	-0-	414,204	478,386	64,182
EXPENDITURES				
Current				
Recreation and culture				
Salaries and fringe benefits	-	265,960	266,224	(264)
Materials and supplies	-	39,100	38,287	813
Repairs and maintenance	-	5,450	3,801	1,649
Professional services	-	42,000	42,468	(468)
Other	-	13,750	10,677	3,073
Capital outlay	-	3,500	3,489	11
TOTAL EXPENDITURES	-0-	369,760	364,946	4,814
NET CHANGE IN FUND BALANCE	-0-	44,444	113,440	68,996
Fund balance, beginning of year	-	-	-	-0-
Fund balance, end of year	<u>\$ -0-</u>	<u>\$ 44,444</u>	<u>\$ 113,440</u>	<u>\$ 68,996</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

Gambling Forfeiture Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - Federal	\$ -	\$ -	\$ 84,014	\$ 84,014
Fines and forfeitures	85,000	85,000	339,959	254,959
Interest	5,000	5,000	4,180	(820)
Other	7,500	7,500	-	(7,500)
TOTAL REVENUES	97,500	97,500	428,153	330,653
EXPENDITURES				
Current				
Public safety				
Salaries and fringe benefits	45,678	45,678	1,241	44,437
Materials and supplies	91,420	91,420	109,656	(18,236)
Professional services	30,000	167,923	170,558	(2,635)
Other	95,224	95,224	87,206	8,018
Capital outlay	128,000	128,000	23,284	104,716
TOTAL EXPENDITURES	390,322	528,245	391,945	136,300
NET CHANGE IN FUND BALANCE	(292,822)	(430,745)	36,208	466,953
Fund balance, beginning of year	865,260	865,260	865,260	-0-
Fund balance, end of year	<u>\$ 572,438</u>	<u>\$ 434,515</u>	<u>\$ 901,468</u>	<u>\$ 466,953</u>

City of Fraser

Nonmajor Special Revenue Funds

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

Year Ended June 30, 2017

Drug Forfeiture Fund

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 22,000	\$ 22,000	\$ -	\$ (22,000)
Fines and forfeitures	135,000	135,000	192,328	57,328
Interest	-	-	110	110
Other	10,000	10,000	-	(10,000)
TOTAL REVENUES	167,000	167,000	192,438	25,438
EXPENDITURES				
Current				
Public safety				
Salaries and fringe benefits	26,913	26,913	15,248	11,665
Materials and supplies	112,150	112,150	81,878	30,272
Repairs and maintenance	91,500	91,500	91,806	(306)
Professional services	50,000	50,000	15,207	34,793
Other	5,000	5,000	5,000	-0-
Capital outlay	-	55,000	52,636	2,364
TOTAL EXPENDITURES	285,563	340,563	261,775	78,788
NET CHANGE IN FUND BALANCE	(118,563)	(173,563)	(69,337)	104,226
Fund balance, beginning of year	202,329	202,329	202,329	-0-
Fund balance, end of year	<u>\$ 83,766</u>	<u>\$ 28,766</u>	<u>\$ 132,992</u>	<u>\$ 104,226</u>

City of Fraser

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2017

	Motor Pool Fund	Health Care Fund	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 582,417	\$ -	\$ 582,417
Accounts receivable	3,918	129,426	133,344
Prepaid expenses	-	278,885	278,885
Total current assets	586,335	408,311	994,646
Noncurrent assets			
Capital assets being depreciated, net	327,516	-	327,516
TOTAL ASSETS	913,851	408,311	1,322,162
LIABILITIES			
Current liabilities			
Accounts payable	33,678	-	33,678
Accrued liabilities	2,938	-	2,938
Due to other funds	-	85,700	85,700
Current portion of compensated absences	1,787	-	1,787
Current portion of long-term debt	14,621	-	14,621
Total current liabilities	53,024	85,700	138,724
Noncurrent liabilities			
Noncurrent portion of long-term debt	89,583	-	89,583
TOTAL LIABILITIES	142,607	85,700	228,307
NET POSITION			
Investment in capital assets	223,312	-	223,312
Unrestricted	547,932	322,611	870,543
TOTAL NET POSITION	\$ 771,244	\$ 322,611	\$ 1,093,855

City of Fraser

Internal Service Funds

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

Year Ended June 30, 2017

	Motor Pool Fund	Health Care Fund	Total
OPERATING REVENUES			
Charges for services	\$ -	\$ 605,863	\$ 605,863
Rentals	918,133	-	918,133
Other	10,688	-	10,688
TOTAL OPERATING REVENUES	928,821	605,863	1,534,684
OPERATING EXPENSES			
Salaries	84,272	-	84,272
Fringe benefits	25,952	-	25,952
Repairs and maintenance	542,240	-	542,240
Claims paid	-	307,569	307,569
Miscellaneous	5,373	5,066	10,439
Depreciation	95,919	-	95,919
TOTAL OPERATING EXPENSES	753,756	312,635	1,066,391
OPERATING INCOME	175,065	293,228	468,293
NONOPERATING REVENUES			
Interest and other revenue	17,433	-	17,433
Rebates and refunds	13,732	29,383	43,115
TOTAL NONOPERATING REVENUES	31,165	29,383	60,548
CHANGE IN NET POSITION	206,230	322,611	528,841
Net position, beginning of year	565,014	-	565,014
Net position, end of year	<u>\$ 771,244</u>	<u>\$ 322,611</u>	<u>\$ 1,093,855</u>

City of Fraser

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	Motor Pool Fund	Health Care Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 923,293	\$ 476,437	\$ 1,399,730
Cash paid to suppliers	(568,766)	(523,770)	(1,092,536)
Cash paid to employees	(80,137)	-	(80,137)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	274,390	(47,333)	227,057
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Rebates and refunds received	13,732	29,383	43,115
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,732	29,383	43,115
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital acquisitions	(45,013)	-	(45,013)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	17,433	-	17,433
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	260,542	(17,950)	242,592
Cash and cash equivalents, beginning of year	321,875	17,950	339,825
Cash and cash equivalents, end of year	<u>\$ 582,417</u>	<u>\$ -0-</u>	<u>\$ 582,417</u>

City of Fraser

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2017

	Motor Pool Fund	Health Care Fund	Total
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	\$ 175,065	\$ 293,228	\$ 468,293
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	95,919	-	95,919
Decrease (increase) in:			
Receivables	3,207	(129,426)	(126,219)
Prepays	210	(278,885)	(278,675)
Increase (decrease) in:			
Accounts payable	4,589	-	4,589
Accrued liabilities	2,938	-	2,938
Due to other funds	(8,735)	67,750	59,015
Compensated absences	1,197	-	1,197
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 274,390</u>	<u>\$ (47,333)</u>	<u>\$ 227,057</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Assets acquired via capital lease	<u>\$ 104,204</u>	<u>\$ -</u>	<u>\$ 104,204</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, each major fund, and the aggregate remaining fund information of City of Fraser, Michigan (the City), as of and for the year ended June 30, 2017, 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 22, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below as 2017-001 and 2017-002, that we consider to be significant deficiencies.

2017-001 APPROPRIATE REVIEW OF MATERIAL ADJUSTING JOURNAL ENTRIES

Condition: The City's Finance Director is directly responsible for the preparation and fair presentation of the City's financial statements, including assuring that all necessary adjusting journal entries are recorded appropriately and accurately. Currently, the City does not have a designated individual that possesses suitable skill, knowledge, and/or experience to provide an appropriate review of the Finance Director's work.

2017-001 APPROPRIATE REVIEW OF MATERIAL ADJUSTING JOURNAL ENTRIES - CONTINUED

Criteria: The City must assume all management responsibilities pertaining to the preparation and fair presentation of the financial statements by designating an individual who possesses suitable skill, knowledge, and/or experience to perform such functions. For sound internal control, an independent review of the necessary adjusting journal entries should be performed by the City's management that also possess suitable skill, knowledge, and/or experience.

Cause: The responsibility for the City's financial statements has been assigned to the City's Finance Director. However, a risk of material misstatement of the financial statements exists because there is not an independent review and approval of material adjusting journal entries.

Effect: The City's financial reports have the potential to contain material misstatements that remain undetected and uncorrected.

Recommendation: We recommend that the City consider hiring additional financial personnel with suitable skill, knowledge, and/or experience to provide an appropriate review of the Finance Director's work. As an alternative to hiring additional financial personnel, we recommend the City consider contracting with an accounting firm to provide such reviews on a periodic basis. The annual external audit of the financial statements should not be considered a substitute for sound internal control.

Corrective Action Response: The City will take the above recommendation into consideration during its annual budgeting process.

2017-002 PAYROLL EXPENSE ALLOCATION

Condition: We noted that certain costs related to payroll expenses were not allocated to various functions based on actual use or benefit. Specifically, the City did not have supporting documentation for the DPW director's payroll allocation to various functions.

Criteria: To the extent possible, all costs should be charged directly to the program benefited. When costs cannot be charged directly to a function, those costs should be allocated using a clearly documented basis. Often a reasonable basis for the allocation of costs is actual hours spent in providing services.

Cause: The City's allocation of the DPW director's wages to various functions lacks support.

Effect: Because of the encumbering task of tracking every hour spent on each program service, we believe it is appropriate to conduct time studies periodically and develop a reasonable basis for allocating certain costs, such as payroll or contracted services. The basis for such allocation should be documented thoroughly the use of time summary records and retained for audit purposes.

Recommendation: We recommend the City develop a reasonable estimation of actual use of resources and allocate the DPW director's wages to functions based on this estimate.

Corrective Action Response: The City will consider the above recommendation to develop a time study for the allocation of the DPW director's wages.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance, described below as 2017-002, that is required to be reported.

2017-003 EXCESS OF EXPENDITURES OVER BUDGETED AMOUNTS

Condition: We noted that expenditures had exceeded the amounts appropriated in several functions in the General Fund.

2017-003 EXCESS OF EXPENDITURES OVER BUDGETED AMOUNTS - CONTINUED

Criteria: The Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The City adopted the budget for the General Fund at the functional level and the Special Revenue funds at the fund level.

Cause: The City did not adequately monitor expenditures in relation to budgeted amounts in the over budget areas.

Effect: The City is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the City monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The City has implemented several changes, subsequent to June 30, 2017, that will assist in their ability to monitor expenditures against the adopted budget.

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

Stevens Kirinovic & Tucker, P.C.

STEVENS, KIRINOVIC & TUCKER, P.C.
Certified Public Accountants

December 22, 2017