



**CITY OF FREMONT, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**



# CITY OF FREMONT, MICHIGAN

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**CITY OF FREMONT, MICHIGAN**

**List of Elected and Appointed Officials**

**June 30, 2011**

**Elected Officials**

Mayor	James Rynberg
Mayor Pro Tem	James Breinling
Council Members	Richard Conley Jane Drake Merle Ross

**Appointed Officials**

City Manager	Bryan Gruesbeck
City Clerk/Finance Director	Todd Blake
City Treasurer	Joyce Winchel

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## INDEPENDENT AUDITORS' REPORT

October 11, 2011

Honorable Mayor and  
Members of the City Council  
City of Fremont, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Fremont, Michigan** (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fremont, Michigan as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 and the Schedules of Funding Progress on page 52 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fremont's basic financial statements. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the City of Fremont's basic financial statements. The combining and individual funds statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Lobson".

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

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This discussion and analysis is intended to serve as an introduction to the City of Fremont's (City) basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2011. The City's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

### **FINANCIAL HIGHLIGHTS**

- At the close of the fiscal year, the City of Fremont had total assets of \$33,857,063 and total liabilities of \$2,097,129 leaving net assets of \$31,759,934, a decrease of 1.96% in the City's overall net assets. In addition, the City's component units had total assets of \$311,039 and total liabilities of \$70,217, leaving net assets of \$240,822, an increase of 147% in the City's component unit overall net assets.
- Of the total \$31,759,934 in primary government net assets, the City may use \$5,440,881 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$5,374,398, comprised of governmental revenues of \$4,262,030 and business-type revenues of \$1,112,368. Revenues for the component units totaled \$689,987.
- Total expenses for all of the City's programs were \$6,009,477. Of that total, the governmental expenses were \$4,937,966 and the business-type expenses were \$1,071,511. Expenses for the component units were \$546,843.
- Despite State-Shared Revenue cuts annually over the last five years, stagnant taxable values over the past few years and increasing operating costs, the City was able to maintain the number, type and current levels of City services to its citizens with no increase in its property tax levy.
- Many municipal government financial advisors recommend maintaining unrestricted fund balances at approximately 20-25% of annual operating costs to allow for sufficient working capital and emergency funding throughout the upcoming year. The City of Fremont has had to expend some of its General Fund fund-balance over the last few years, but still maintained an estimated 22.6% fund balance going into Fiscal Year 2011/12.

### OVERVIEW OF THE FINANCIAL STATEMENTS

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private-sector business.

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

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. The City reports all changes in net assets when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include water distribution and sanitary sewer services.

The Statement of Net Assets and the Statement of Activities include not only the City of Fremont itself (known as the primary government), but also discretely presented component units. Component units are separate legal entities for which the City has some level of financial accountability. The City has three component units shown in a separate column on the Statement of Net Assets and Statement of Activities: the Downtown Development Authority (DDA), the Local Development Finance Authority (LDFA), and the Fremont Community Joint Planning Commission (Commission). The component units exist primarily for the issuance and repayment of debt to finance capital projects in specific commercial and industrial areas of the City.

#### **Fund Financial Statements**

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

#### **Governmental Funds**

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

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

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Major Streets, Local Improvement and Capital Projects funds, which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein for the general fund and major special revenue funds to demonstrate compliance with those budgets.

### **Proprietary Funds**

The City of Fremont has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and sanitary sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

### **Fiduciary Funds**

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

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI) and other supplementary information. RSI includes this management's discussion and analysis. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the RSI Schedules of Funding Progress as other supplementary information.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2011, the City's net assets from governmental activities totaled \$18,213,659 and \$13,546,275 from business-type activities, for a government-wide net asset total of \$31,759,934. The City's component unit net assets totaled \$240,822.

In examining the composition of net assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries or operational expenses or to fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$1,762,419. This represents the amount of discretionary resources that can be used for general governmental operations.

Governmental activities current and other assets decreased by \$706,450 and capital assets by \$160,233 as the City undertook several road improvement and other infrastructure projects this year. Capital assets increased more than current assets decreased as the City was able to obtain grants for some of the projects. Correspondingly, the net asset category of invested in capital assets, net of related debt increased. Current liabilities increased due to payables at year-end on some of these projects.

Business-type assets and liabilities remained relatively consistent with the prior year as the City undertook a couple of infrastructure improvement projects for which it was able to pay out of current year operations

### NET ASSETS

	Governmental		Business-type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Current assets and other assets	\$ 2,910,329	\$ 3,621,646	\$ 3,857,286	\$ 3,752,798	\$ 6,767,615	\$ 7,374,444
Capital assets, net	17,221,635	17,381,868	9,867,813	9,743,221	27,089,448	27,125,089
Total assets	20,131,964	21,003,514	13,725,099	13,496,019	33,857,063	34,499,533
Other liabilities	283,688	372,292	162,966	27,793	446,654	400,085
Long-term liabilities	1,634,617	1,696,684	15,858	7,751	1,650,475	1,704,435
Total liabilities	1,918,305	2,068,976	178,824	35,544	2,097,129	2,104,520
Net assets						
Invested in capital assets, net of related debt	15,861,000	15,923,541	9,867,813	9,743,221	25,728,813	25,666,762
Restricted	590,240	850,356	-	-	590,240	850,356
Unrestricted	1,762,419	2,160,641	3,678,462	3,717,254	5,440,881	5,877,895
Total net assets	\$ 18,213,659	\$ 18,934,538	\$ 13,546,275	\$ 13,460,475	\$ 31,759,934	\$ 32,395,013

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets.

### CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 735,716	\$ 795,815	\$ 1,079,785	\$ 1,106,110	\$ 1,815,501	\$ 1,901,925
Operating grants and contributions	457,721	394,920	-	-	457,721	394,920
Capital grants and contributions	941,323	1,530,940	3,000	4,500	944,323	1,535,440
General revenues						
Property taxes	1,675,445	1,798,688	-	-	1,675,445	1,798,688
Franchise fees	40,962	38,822	-	-	40,962	38,822
Grants and contributions not restricted	360,211	350,440	-	-	360,211	350,440
Unrestricted investment earnings	38,216	52,866	29,583	34,022	67,799	86,888
Miscellaneous	5,936	16,784	-	-	5,936	16,784
Gain on sale of capital assets	6,500	-	-	-	6,500	-
<b>Total revenues</b>	<b>4,262,030</b>	<b>4,979,275</b>	<b>1,112,368</b>	<b>1,144,632</b>	<b>5,374,398</b>	<b>6,123,907</b>
<b>Expenses:</b>						
General government	953,281	788,179	-	-	953,281	788,179
Public safety	1,431,395	1,243,245	-	-	1,431,395	1,243,245
Public works	2,176,468	1,932,530	-	-	2,176,468	1,932,530
Community and economic development	112,671	116,380	-	-	112,671	116,380
Culture and recreation	203,867	234,638	-	-	203,867	234,638
Interest on long term debt	60,284	62,391	-	-	60,284	62,391
Sewer	-	-	524,450	526,392	524,450	526,392
Water	-	-	547,061	538,828	547,061	538,828
<b>Total expenses</b>	<b>4,937,966</b>	<b>4,377,363</b>	<b>1,071,511</b>	<b>1,065,220</b>	<b>6,009,477</b>	<b>5,442,583</b>
Change in net assets before transfers	(675,936)	601,912	40,857	79,412	(635,079)	681,324
Transfers	(44,943)	(78,782)	44,943	78,782	-	-
Change in net assets	(720,879)	523,130	85,800	158,194	(635,079)	681,324
Net assets - Beginning	18,934,538	18,411,408	13,460,475	13,302,281	32,395,013	31,713,689
<b>Net assets - Ending</b>	<b>\$ 18,213,659</b>	<b>\$ 18,934,538</b>	<b>\$ 13,546,275</b>	<b>\$ 13,460,475</b>	<b>\$ 31,759,934</b>	<b>\$ 32,395,013</b>

### Governmental Activities

- The City Charter permits up to 20.0 mills, but the millage rate has remained at 14.0 mills for the past thirteen years.
- With overall operating revenues decreasing and expenses increasing, the City experienced a net decrease in governmental net assets of \$720,879. The City continues to receive a significant amount of grants for streets, airport, parks and community projects, last year's totaling \$1,400,000.
- The City established an Agricultural Renaissance Zone for Gerber Products warehousing and production sites, which lowered property tax revenues for the City by more than \$200,000. Property tax revenues from the remaining parcels remained stagnant due to decreased taxable values on some properties resulting from the poor economy, offsetting new construction and values added to the roll.
- Unfortunately, interest rates fell again during the year, causing investment earnings to fall yet another 50%, following last fiscal year's 50% decrease. Another factor was that many projects were completed during the year, leaving fewer funds to invest.

### Business-Type Activities

- Overall business-type revenues decreased 3% and expenses increased 1%, but the City experienced a 0.6% increase in net assets of \$85,800. A Governmental Fund transfer of \$44,943 helped offset the reduction in revenues.
- Expenses in by the Water and Sewer Funds increased by 0.1% and 1.9% respectively, whereas watermain and sanitary sewer line replacements and new installations continue to be completed.

### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this Management's Discussion and Analysis, the City of Fremont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental Funds

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

At the end of the 2011 fiscal year, the governmental funds reported a combined fund balance of \$2,116,203. Of this number, \$580,010 represents the General Fund's unassigned fund balance and \$192,720 represents assigned fund balance for the next fiscal year's use. The unassigned balance represents what is available for spending at the City's discretion. The remainder of the fund balance is assigned to indicate that it is not available for new spending because it has already been assigned to liquidate contracts and purchase orders, advances, cemetery perpetual care, debt service, capital projects and other miscellaneous reservations.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, public works, elections, legal, recreation, garbage collection, boards and commissions and other minor functions. The General Fund ended the year with a fund balance of \$792,579, a decrease of \$40,917 (5%) from fiscal year 2009/10. The health of the General Fund may be measured by the ratio of General Fund balance to budgeted annual General Fund expenditures. General Fund fund balance on 6/30/11 represents 22.6% of the budgeted fiscal year 2011/12 General Fund expenditures.

General Fund revenues were less than expenditures by \$176,341. Combined with a beginning fund balance of \$833,496, the General Fund had an ending fund balance of \$792,579. Overall and in comparison to the previous year, General Fund revenues decreased by \$286,063 and expenditures increased by \$95,407. Revenues decreased mainly because of declining state equalized and taxable values on property in Fremont, as well as the entire State of Michigan. Expenditures increased slightly due to annually increasing maintenance and operational costs.

Although state shared revenues (gas and weight tax, etc.) remained stagnant, both Major Streets and Local Streets funds financed reconstruction and resurfacing projects that were needed.

The City continues to help fund special assessment projects through the Local Improvement Fund, a portion of which is later assessed back to property owners benefiting from the projects.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. For the year ended June 30, 2011, net assets of the Sewer Fund decreased by \$58,305 and net assets of the Water Fund increased by \$141,428.

Although the Sewer Fund experienced a decrease in net assets due to depreciation expense, the Fund remains healthy as shown on the Statement of Cash Flows. As this statement indicates, sewer operations generated \$185,309 in cash flow, leaving available cash and investments at year end of \$1,846,481.

High depreciation expense in the Sewer Fund is due primarily to Gerber Products Company's food processing wastewater irrigation system. The City coordinated a Community Development Block Grant (CDBG) through the State of Michigan in 1996-97 to help replace key components of Gerber's existing food production wastewater treatment system. The City continues to own the system but leases it to Gerber, which is responsible for all operation, maintenance, repair and replacement costs.

### Budget Analysis – General Fund

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy.

The most significant of this year's budget amendments were:

- MHSDA withdrew a \$220,000 capital project grant when a private developer opted not to invest in his property, so grant revenue and project costs were reduced to reflect the change
- The DDA's tax captures from the City was reduced by \$82,384 to reflect the above project change, which increased the City's tax revenue accordingly
- The City received a \$90,000 USDA Grant to be used as a revolving loan fund within the DDA
- Following Dura Automotives bankruptcy order, the City experienced \$21,400 in chargebacks from the County Treasurer for prior tax years
- The City also reduced tax revenues another \$66,700 from the increased tax tribunal filings, due to declining property valuations
- The City amended the General Fund budget to reflect the purchase of property for \$24,285, to expand Fremont Lake Park, and to purchase tax foreclosed commercial property for \$13,900
- There were various budget amendments to reflect capital projects extending in to the next fiscal year

- Several special assessment projects were ordered this fiscal year, requiring a \$157,920 transfer from the Improvement Fund, which was assessed to effected property owners
- The City reduced the annual transfer to Fremont Public Schools for Community Recreation by another \$10,000, pending discussions to assemble an area Recreation Authority

As a result of unexpected changes in revenues and expenditures in the General Fund, the City has variations between budgeted items and actual. The following comments summarize the major variations (over \$5,000) from the final budget to actual expenditures:

- Police Department operations were over budget by \$13,841 because of an increase in overtime paid out to officers
- Employee fringe benefits were over budget by \$34,552 because of unexpected higher increases than usual in health care and retirement expenses
- Airport operations were over budget by \$5,839 because of increased winter maintenance costs

### **Capital Asset Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2011 totaled \$27,089,448 (net of accumulated depreciation.) Investments in capital assets include land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture and equipment.

Major projects included finishing the extension of the Town & Country Path along 44<sup>th</sup> Street and the new section of Market Avenue, street reconstruction and resurfacing, and watermain replacements along Division Avenue, reconstruction of the NW Downtown alleyway and parking lot area, installation of new backup generator system for Daisybrook well field area, completion of the new DPW Equipment & Operations Building and replacement of a few Municipal vehicles.

### **Debt Administration**

As of June 30, 2011, the City had outstanding long-term liabilities of \$1,650,475 consisting of a capital improvement bond and compensated absences. Long-term liabilities decreased \$58,460 as the City makes annual scheduled payments on improvement bonds outstanding.

There is no outstanding long-term debt in any of the City's discretely presented component units.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The general operating budget for fiscal year 2011-12 was based on the continuation of the existing 14 mill property tax levy for the last nine years. The City's Charter permits a maximum tax levy of 20 mills for general operating purposes, but the City has been able to keep its levy at this relatively low level for more than eleven years. If needed, an additional 6 mills (less a small Headlee millage rollback) could generate an additional estimated \$700,000 for general operating purposes.

Property tax revenue increases are greatly influenced by the 1994 Amendment to the State Constitution commonly referred to as "Proposal A." The statewide tax reform amendment limits the growth in "taxable value" on any individual property to the lesser of inflation or five percent (5%). Because some properties may increase in value by less than inflation, the mathematical result of this is that the total taxable value may grow at a rate less than inflation. Property taxes are based on this artificially capped "taxable value" until such time as the property is sold. Then, the taxable value is uncapped and increases to match the "assessed value," which by law must represent 50% of the estimated "true cash value" of the property. Thus, taxing units will continue to capture taxes on a less than value rate until such time all properties sell or legislation is changed.

The City has responded to the economic downturn and pressure on revenues by trying to keep program expenses constant and increasing some user fees. The budget for fiscal year 2011-12 reflects both revenue and expenditure reductions in several departments.

The General Fund budget for fiscal year 2011-12 increased by \$180,000. There are plans to decrease the General Fund fund balance another year to offset increased operational costs, decreased State Revenue Sharing, and finish much needed capital projects along with continuing transfers to the Downtown Development Authority Fund in the amount of \$30,000 for administration of the Downtown Façade Renovation programs, \$50,000 to the Local Street Fund for more than 50% of Local Street Fund construction projects, and \$300,000 to the Capital Projects Fund for various street, airport and recreation projects.

For the City's business-type activities, the City has budgeted to expend accumulated resources of \$1,029,205 to fund additional water and sewer distribution/collection line projects in coordination with street projects. The budget fiscal year 2011-12 implements water and sanitary sewer rate increases, whereas a recent rate study identified the need to increase rates to keep up with future system repairs and expansions. Both increasing, the Water Fund budget includes \$706,500 in capital construction and the Sewer Fund budget includes \$375,000 in capital construction.

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

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, please contact City Manager Bryan Gruesbeck or Finance Director/City Clerk Todd Blake at the City of Fremont, 101 E. Main Street, Fremont, MI 49412 or by phone at 231-924-2101 or by email at [bgruesbeck@cityoffremont.net](mailto:bgruesbeck@cityoffremont.net) or [tblake@cityoffremont.net](mailto:tblake@cityoffremont.net).

## **BASIC FINANCIAL STATEMENTS**

# CITY OF FREMONT, MICHIGAN

## Statement of Net Assets

June 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 2,386,741	\$ 3,525,155	\$ 5,911,896	\$ 170,954
Receivables	338,902	297,457	636,359	80,085
Due from other governments	113,676	-	113,676	60,000
Internal balances	(28,620)	28,620	-	-
Due from component unit	60,000	-	60,000	-
Prepaid items	19,849	6,054	25,903	-
Bond issuance costs, net	19,781	-	19,781	-
Capital assets not being depreciated	3,043,179	240,698	3,283,877	-
Capital assets being depreciated, net	14,178,456	9,627,115	23,805,571	-
	<b>20,131,964</b>	<b>13,725,099</b>	<b>33,857,063</b>	<b>311,039</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	249,980	162,966	412,946	10,217
Due to primary government	-	-	-	60,000
Unearned revenue	17,365	-	17,365	-
Accrued interest payable	8,869	-	8,869	-
Long-term debt:				
Due within one year	198,000	-	198,000	-
Due in more than one year	1,436,617	15,858	1,452,475	-
Net other postemployment benefits obligation	7,474	-	7,474	-
	<b>1,918,305</b>	<b>178,824</b>	<b>2,097,129</b>	<b>70,217</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	15,861,000	9,867,813	25,728,813	-
Restricted for:				
Streets and highways	258,507	-	258,507	-
Perpetual care	331,733	-	331,733	-
Unrestricted	1,762,419	3,678,462	5,440,881	240,822
	<b>\$ 18,213,659</b>	<b>\$ 13,546,275</b>	<b>\$ 31,759,934</b>	<b>\$ 240,822</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**

**Statement of Activities**

**For the Year Ended June 30, 2011**

<b>Functions / Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 953,281	\$ 103,336	\$ 5,000	\$ -	\$ (844,945)
Public safety	1,431,395	229,737	27,992	-	(1,173,666)
Public works	2,176,468	294,846	387,729	941,323	(552,570)
Community and economic development	112,671	107,797	37,000	-	32,126
Culture and recreation	203,867	-	-	-	(203,867)
Interest on long-term debt	60,284	-	-	-	(60,284)
<b>Total governmental activities</b>	<b>4,937,966</b>	<b>735,716</b>	<b>457,721</b>	<b>941,323</b>	<b>(2,803,206)</b>
Business-type activities:					
Sewer	524,450	429,076	-	-	(95,374)
Water	547,061	650,709	-	3,000	106,648
<b>Total business-type activities</b>	<b>1,071,511</b>	<b>1,079,785</b>	<b>-</b>	<b>3,000</b>	<b>11,274</b>
<b>Total primary government</b>	<b>\$ 6,009,477</b>	<b>\$ 1,815,501</b>	<b>\$ 457,721</b>	<b>\$ 944,323</b>	<b>(2,791,932)</b>
<b>Component units</b>					
Downtown Development Authority	\$ 514,320	\$ 15,933	\$ 210,367	\$ -	\$ (288,020)
Local Development Finance Authority	25,013	-	71,747	-	46,734
Fremont Community Joint Planning Commission	7,510	7,870	8,190	-	8,550
<b>Total component units</b>	<b>\$ 546,843</b>	<b>\$ 23,803</b>	<b>\$ 290,304</b>	<b>\$ -</b>	<b>(232,736)</b>

(Continued)

**CITY OF FREMONT, MICHIGAN**

**Statement of Activities (Continued)**

**For the Year Ended June 30, 2011**

	<u>Primary Government</u>			<u>Component Units</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,803,206)	\$ 11,274	\$ (2,791,932)	\$ (232,736)
General revenues:				
Property taxes	1,675,445	-	1,675,445	373,345
Franchise fees	40,962	-	40,962	-
Grants and contributions not restricted to specific programs	360,211	-	360,211	-
Gain on sale of capital assets	6,500	-	6,500	-
Unrestricted interest earnings	38,216	29,583	67,799	2,363
Miscellaneous	5,936	-	5,936	172
Transfers	(44,943)	44,943	-	-
Total general revenues and transfers	<u>2,082,327</u>	<u>74,526</u>	<u>2,156,853</u>	<u>375,880</u>
Change in net assets	(720,879)	85,800	(635,079)	143,144
Net assets, beginning of year	<u>18,934,538</u>	<u>13,460,475</u>	<u>32,395,013</u>	<u>97,678</u>
<b>Net assets, end of year</b>	<b><u><u>\$ 18,213,659</u></u></b>	<b><u><u>\$ 13,546,275</u></u></b>	<b><u><u>\$ 31,759,934</u></u></b>	<b><u><u>\$ 240,822</u></u></b>

(Concluded)

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**

**Balance Sheet**

**Governmental Funds**

**June 30, 2011**

	<b>General</b>	<b>Major Streets</b>	<b>Local Improvement</b>	<b>Capital Projects</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>						
Cash and investments	\$ 696,538	\$ 108,031	\$ 252,674	\$ 536,194	\$ 470,910	\$ 2,064,347
Receivables:						
Accounts	100,299	-	-	-	23,000	123,299
Special assessments	-	-	215,603	-	-	215,603
Due from other governments	65,173	34,192	-	1,306	13,005	113,676
Due from other funds	23,000	-	-	-	-	23,000
Due from component unit	-	-	-	60,000	-	60,000
Prepaid items	19,849	-	-	-	-	19,849
Advances to other funds	-	-	11,610	-	-	11,610
<b>Total assets</b>	<b>\$ 904,859</b>	<b>\$ 142,223</b>	<b>\$ 479,887</b>	<b>\$ 597,500</b>	<b>\$ 506,915</b>	<b>\$ 2,631,384</b>
<b>Liabilities</b>						
Accounts payable	\$ 64,453	\$ -	\$ -	\$ 163,513	\$ -	\$ 227,966
Accrued liabilities	18,852	580	-	-	205	19,637
Due to other funds	-	-	-	-	23,000	23,000
Deferred revenue	17,365	-	215,603	-	-	232,968
Advances from other funds	11,610	-	-	-	-	11,610
<b>Total liabilities</b>	<b>112,280</b>	<b>580</b>	<b>215,603</b>	<b>163,513</b>	<b>23,205</b>	<b>515,181</b>
<b>Fund balances (Note 12)</b>						
Nonspendable	19,849	-	11,610	-	331,733	363,192
Restricted	-	141,643	-	-	116,864	258,507
Committed	-	-	252,674	433,987	35,113	721,774
Assigned	192,720	-	-	-	-	192,720
Unassigned	580,010	-	-	-	-	580,010
<b>Total fund balances</b>	<b>792,579</b>	<b>141,643</b>	<b>264,284</b>	<b>433,987</b>	<b>483,710</b>	<b>2,116,203</b>
<b>Total liabilities and fund balances</b>	<b>\$ 904,859</b>	<b>\$ 142,223</b>	<b>\$ 479,887</b>	<b>\$ 597,500</b>	<b>\$ 506,915</b>	<b>\$ 2,631,384</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2011**

Fund balances - total governmental funds \$ 2,116,203

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

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

Capital assets not being depreciated	3,043,179
Capital assets being depreciated, net	12,906,351

Bond issuance costs are not financial resources and therefore are not reported in the funds.

Unamortized bond issuance costs	19,781
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Special assessment revenue is not recognized until it is receivable in the current period and, therefore, is shown as deferred revenue in the governmental funds.	215,603
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Internal service funds are used by management to charge the costs of certain activities, such as equipment usage and other centralized costs, to individual funds. The assets and liabilities of internal service funds are included in governmental activities.

Net assets of governmental activities accounted for in the internal service fund	1,592,122
Net assets of business-type activities accounted for in the internal service fund	(28,620)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(1,360,635)
Compensated absences payable	(273,982)
Net other postemployment benefits obligation	(7,474)
Accrued interest on bonds payable	(8,869)

<b>Net assets of governmental activities</b>	<b><u><u>\$ 18,213,659</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>General</u>	<u>Major Streets</u>	<u>Local Improvement</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>						
Property taxes	\$ 1,626,552	\$ -	\$ -	\$ -	\$ -	\$ 1,626,552
Special assessments	-	-	68,601	-	-	68,601
Licenses and permits	44,887	-	-	-	-	44,887
Intergovernmental:						
State	382,908	293,467	-	-	94,262	770,637
Local	5,000	-	-	180,244	192,470	377,714
Charges for services	519,190	-	-	-	7,163	526,353
Fines and forfeitures	26,865	-	-	-	-	26,865
Investment earnings	16,636	532	9,953	3,853	3,954	34,928
Other	425,174	50,991	-	615	-	476,780
Total revenues	<u>3,047,212</u>	<u>344,990</u>	<u>78,554</u>	<u>184,712</u>	<u>297,849</u>	<u>3,953,317</u>
<b>Expenditures</b>						
Current:						
General government	561,955	-	-	-	-	561,955
Public safety	1,215,858	-	-	-	-	1,215,858
Public works	655,311	160,716	-	71,747	87,848	975,622
Community and economic development	76,973	-	15,933	-	-	92,906
Culture and recreation	106,823	-	-	2,531	-	109,354
Other governmental functions	552,450	-	-	-	-	552,450
Debt service:						
Principal	-	-	-	-	100,000	100,000
Interest and fees	1,219	-	-	-	53,909	55,128
Capital outlay	52,964	-	-	708,255	-	761,219
Total expenditures	<u>3,223,553</u>	<u>160,716</u>	<u>15,933</u>	<u>782,533</u>	<u>241,757</u>	<u>4,424,492</u>
Revenues over (under) expenditures	(176,341)	184,274	62,621	(597,821)	56,092	(471,175)
<b>Other financing sources (uses)</b>						
Proceeds from sale of capital assets	-	-	-	71,747	-	71,747
Transfers in	177,319	-	-	506,977	84,000	768,296
Transfers out	(41,895)	(344,250)	(199,920)	(1,463)	(81,356)	(668,884)
Total other financing sources (uses)	<u>135,424</u>	<u>(344,250)</u>	<u>(199,920)</u>	<u>577,261</u>	<u>2,644</u>	<u>171,159</u>
Net change in fund balances	(40,917)	(159,976)	(137,299)	(20,560)	58,736	(300,016)
Fund balances, beginning of year	833,496	301,619	401,583	454,547	424,974	2,416,219
<b>Fund balances, end of year</b>	<u><b>\$ 792,579</b></u>	<u><b>\$ 141,643</b></u>	<u><b>\$ 264,284</b></u>	<u><b>\$ 433,987</b></u>	<u><b>\$ 483,710</b></u>	<u><b>\$ 2,116,203</b></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2011**

Net change in fund balances - total governmental funds \$ (300,016)

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

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	629,504
Donated capital assets	175,500
Depreciation expense	(1,039,815)
Proceeds from sale of capital assets	(71,747)
Loss on sale of capital assets	(180,032)

Internal service funds are used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) of those funds is reported with governmental activities.

Operating income from governmental activities in internal service funds	17,990
Operating income from business-type activities in internal service funds	(2,677)
Net transfers from governmental activities to the internal service funds	(144,355)
Interest income from governmental activities in internal service funds	3,288
Gain on sale of capital assets from governmental activities in internal service funds	6,500

Governmental funds recognize special assessments as revenue as they become current; however, they are recognized in full when levied in the statement of net assets. 123,425

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal payments on long-term debt	100,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Net other postemployment benefits	2,337
Compensated absences	(35,625)
Amortization of bond discount	(2,308)
Amortization of bond issuance costs	(3,179)
Accrued interest payable	331

**Change in net assets of governmental activities \$ (720,879)**

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Property taxes	\$ 1,598,909	\$ 1,614,593	\$ 1,626,552	\$ 11,959
Licenses and permits	40,000	40,000	44,887	4,887
Intergovernmental:				
State	363,785	363,785	382,908	19,123
Local	5,000	5,000	5,000	-
Charges for services	486,300	486,300	519,190	32,890
Fines and forfeitures	22,500	22,500	26,865	4,365
Investment earnings	20,000	20,000	16,636	(3,364)
Other	405,400	405,400	425,174	19,774
Total revenues	<u>2,941,894</u>	<u>2,957,578</u>	<u>3,047,212</u>	<u>89,634</u>
<b>Expenditures</b>				
Current:				
General government				
Legislative	11,400	11,400	11,049	(351)
Executive	82,700	87,300	78,975	(8,325)
Elections	8,000	8,000	6,579	(1,421)
General administration	8,500	10,500	9,841	(659)
Clerk	100,900	103,900	106,755	2,855
Treasurer	61,300	61,300	62,307	1,007
Board of review	1,150	1,150	880	(270)
Assessor	49,225	49,225	50,968	1,743
Cemetery	82,750	99,345	89,113	(10,232)
Attorney	25,000	25,000	16,558	(8,442)
Building and grounds	105,000	96,200	98,228	2,028
Public relations	33,000	33,000	30,702	(2,298)
Public safety				
Police department	652,500	944,400	958,241	13,841
Fire department	270,465	279,465	257,617	(21,848)
Public works				
Streets, street lighting and sidewalks	409,000	424,000	405,258	(18,742)
Sanitation	269,000	259,000	250,053	(8,947)
Community and economic development				
Planning and zoning	46,290	49,290	50,674	1,384
Other	28,100	28,100	26,299	(1,801)
Culture and recreation				
Parks and recreation	109,500	109,500	106,823	(2,677)
Other governmental functions				
Employee fringe benefits and other items	671,100	378,000	412,552	34,552
Airport operations	48,700	67,700	73,539	5,839
Parking systems	40,000	40,000	40,000	-
Tax tribunal refunds ordered	5,000	26,400	26,359	(41)
Debt service:				
Interest and fees	1,600	1,600	1,219	(381)
Capital outlay	50,000	68,185	52,964	(15,221)
Total expenditures	<u>3,170,180</u>	<u>3,261,960</u>	<u>3,223,553</u>	<u>(38,407)</u>
Revenues over (under) expenditures	(228,286)	(304,382)	(176,341)	128,041

The accompanying notes are an integral part of these financial statements. (Continued)

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**General Fund (Continued)**  
**For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
<b>Other financing sources (uses)</b>				
Transfers in	\$ 374,536	\$ 346,277	\$ 177,319	\$ (168,958)
Transfers out	(146,250)	(41,895)	(41,895)	-
Total other financing sources (uses)	<u>228,286</u>	<u>304,382</u>	<u>135,424</u>	<u>(168,958)</u>
Net change in fund balances	-	-	(40,917)	(40,917)
Fund balance, beginning of year	<u>833,496</u>	<u>833,496</u>	<u>833,496</u>	-
<b>Fund balance, end of year</b>	<u><b>\$ 833,496</b></u>	<u><b>\$ 833,496</b></u>	<u><b>\$ 792,579</b></u>	<u><b>\$ (40,917)</b></u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**Major Streets Special Revenue Fund**  
**For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Intergovernmental:				
State	\$ 275,000	\$ 275,000	\$ 293,467	\$ 18,467
Investment earnings	5,000	5,000	532	(4,468)
Other	<u>61,000</u>	<u>61,000</u>	<u>50,991</u>	<u>(10,009)</u>
Total revenues	341,000	341,000	344,990	3,990
<b>Expenditures</b>				
Current:				
Public works				
Construction	55,000	55,000	41,424	(13,576)
Routine maintenance	46,500	46,500	46,954	454
Traffic services	12,500	12,500	12,612	112
Snow & ice control	30,000	30,000	25,929	(4,071)
Trunkline maintenance	<u>60,000</u>	<u>60,000</u>	<u>33,797</u>	<u>(26,203)</u>
Total expenditures	<u>204,000</u>	<u>204,000</u>	<u>160,716</u>	<u>(43,284)</u>
Revenues over expenditures	137,000	137,000	184,274	47,274
<b>Other financing sources (uses)</b>				
Transfers in	207,250	207,250	-	(207,250)
Transfers out	<u>(344,250)</u>	<u>(344,250)</u>	<u>(344,250)</u>	<u>-</u>
Total other financing sources (uses)	<u>(137,000)</u>	<u>(137,000)</u>	<u>(344,250)</u>	<u>(207,250)</u>
Net change in fund balance	-	-	(159,976)	(159,976)
Fund balance, beginning of year	<u>301,619</u>	<u>301,619</u>	<u>301,619</u>	<u>-</u>
<b>Fund balance, end of year</b>	<b><u><u>\$ 301,619</u></u></b>	<b><u><u>\$ 301,619</u></u></b>	<b><u><u>\$ 141,643</u></u></b>	<b><u><u>\$ (159,976)</u></u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual**  
**Local Improvement Special Revenue Fund**  
**For the Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Special assessments	\$ 40,000	\$ 40,000	\$ 68,601	\$ 28,601
Investment earnings	<u>14,220</u>	<u>14,220</u>	<u>9,953</u>	<u>(4,267)</u>
Total revenues	54,220	54,220	78,554	24,334
<b>Expenditures</b>				
Current:				
Community and economic development	<u>15,930</u>	<u>15,930</u>	<u>15,933</u>	<u>3</u>
Revenues over expenditures	38,290	38,290	62,621	24,331
<b>Other financing sources (uses)</b>				
Transfers in	3,710	161,630	-	(161,630)
Transfers out	<u>(42,000)</u>	<u>(199,920)</u>	<u>(199,920)</u>	<u>-</u>
Total other financing sources (uses)	<u>(38,290)</u>	<u>(38,290)</u>	<u>(199,920)</u>	<u>(161,630)</u>
Net change in fund balance	-	-	(137,299)	(137,299)
Fund balance, beginning of year	<u>401,583</u>	<u>401,583</u>	<u>401,583</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><b>\$ 401,583</b></u>	<u><b>\$ 401,583</b></u>	<u><b>\$ 264,284</b></u>	<u><b>\$ (137,299)</b></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Internal</u> <u>Service</u>
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 1,846,481	\$ 1,678,674	\$ 3,525,155	\$ 322,394
Accounts receivable	132,629	164,828	297,457	-
Prepaid items	3,027	3,027	6,054	-
Total current assets	1,982,137	1,846,529	3,828,666	322,394
Noncurrent assets:				
Capital assets, net				
Land	228,972	11,726	240,698	-
Buildings	-	-	-	632,455
Utility systems	9,531,389	6,782,634	16,314,023	-
Equipment	100,418	58,386	158,804	2,629,795
Accumulated depreciation	(4,899,258)	(1,946,454)	(6,845,712)	(1,990,145)
Total noncurrent assets	4,961,521	4,906,292	9,867,813	1,272,105
<b>Total assets</b>	<b>6,943,658</b>	<b>6,752,821</b>	<b>13,696,479</b>	<b>1,594,499</b>
<b>Liabilities</b>				
Accounts payable	145,797	13,516	159,313	1,946
Accrued liabilities	1,553	2,100	3,653	431
Compensated absences	5,214	10,644	15,858	-
Total liabilities (all current)	152,564	26,260	178,824	2,377
<b>Net assets</b>				
Invested in capital assets	4,961,521	4,906,292	9,867,813	1,272,105
Unrestricted	1,829,573	1,820,269	3,649,842	320,017
<b>Total net assets</b>	<b>\$ 6,791,094</b>	<b>\$ 6,726,561</b>	13,517,655	<b>\$ 1,592,122</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			28,620	
<b>Net assets of business-type activities</b>			<b>\$ 13,546,275</b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Activities</u>
				<u>Internal</u>
				<u>Service</u>
<b>Revenue</b>				
Charges for services	\$ 429,076	\$ 650,709	\$ 1,079,785	\$ 420,158
<b>Operating expenses</b>				
Administration	88,565	98,089	186,654	48,145
Operations	201,398	328,009	529,407	163,044
Depreciation	235,953	122,174	358,127	190,979
Total operating expenses	<u>525,916</u>	<u>548,272</u>	<u>1,074,188</u>	<u>402,168</u>
Operating income (loss)	(96,840)	102,437	5,597	17,990
<b>Nonoperating revenue</b>				
Investment income	15,354	14,229	29,583	3,288
Connection fees	-	3,000	3,000	-
Gain on sale of capital assets	-	-	-	6,500
Total nonoperating revenue	<u>15,354</u>	<u>17,229</u>	<u>32,583</u>	<u>9,788</u>
Net income (loss) before transfers	(81,486)	119,666	38,180	27,778
<b>Other financing sources (uses)</b>				
Transfers in	23,181	21,762	44,943	5,645
Transfers out	-	-	-	(150,000)
Total other financing sources (uses)	<u>23,181</u>	<u>21,762</u>	<u>44,943</u>	<u>(144,355)</u>
Change in net assets	(58,305)	141,428	83,123	(116,577)
Net assets, beginning of year	<u>6,849,399</u>	<u>6,585,133</u>		<u>1,708,699</u>
<b>Net assets, end of year</b>	<b><u>\$ 6,791,094</u></b>	<b><u>\$ 6,726,561</u></b>		<b><u>\$ 1,592,122</u></b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>2,677</u>	
<b>Change in net assets of business-type activities</b>			<b><u>\$ 85,800</u></b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental</b>
	<b>Sewer</b>	<b>Water</b>	<b>Total</b>	<b>Activities</b> <b>Internal</b> <b>Service</b>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 430,824	\$ 665,433	\$ 1,096,257	\$ 104
Receipts from interfund services provided	-	-	-	420,054
Payments to suppliers	(54,608)	(177,288)	(231,896)	(254,400)
Payments to employees	(197,878)	(223,510)	(421,388)	(48,031)
Payments for interfund services used	(31,564)	(26,070)	(57,634)	-
Net cash provided by operating activities	146,774	238,565	385,339	117,727
<b>Cash flows from non-capital financing activities</b>				
Transfers in	23,181	21,762	44,943	5,645
Transfers out	-	-	-	(150,000)
Net cash provided by (used in) non-capital financing activities	23,181	21,762	44,943	(144,355)
<b>Cash flows from capital and related financing activities</b>				
Proceeds from sale of capital assets	-	-	-	6,500
Purchase of capital assets	-	(344,582)	(344,582)	(517,336)
Connection fees	-	3,000	3,000	-
Net cash used in capital and related financing activities	-	(341,582)	(341,582)	(510,836)
<b>Cash flows from investing activities</b>				
Interest received	15,354	14,229	29,583	3,288
Net increase (decrease) in cash and investments	185,309	(67,026)	118,283	(534,176)
Cash and investments, beginning of year	1,661,172	1,745,700	3,406,872	856,570
<b>Cash and investments, end of year</b>	<b>\$ 1,846,481</b>	<b>\$ 1,678,674</b>	<b>\$ 3,525,155</b>	<b>\$ 322,394</b>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ (96,840)	\$ 102,437	\$ 5,597	\$ 17,990
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	235,953	122,174	358,127	190,979
Changes in assets/liabilities:				
Accounts receivable	1,748	14,724	16,472	-
Accounts payable	4,113	(4,975)	(862)	(91,356)
Accrued liabilities	436	1,962	2,398	114
Compensated absences	1,364	2,243	3,607	-
<b>Net cash provided by operating activities</b>	<b>\$ 146,774</b>	<b>\$ 238,565</b>	<b>\$ 385,339</b>	<b>\$ 117,727</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Fund**  
**June 30, 2011**

	<b>Tax Collection Fund</b>
<b>Assets</b>	
Cash and investments	\$ 24,419
Receivables	779
Due from other governmental units	300
<b>Total assets</b>	<b>\$ 25,498</b>
<b>Liabilities</b>	
Accounts payable	\$ 75
Due to other governmental units	25,423
<b>Total liabilities</b>	<b>\$ 25,498</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Combining Statement of Net Assets**  
**Discretely Presented Component Units**  
**June 30, 2011**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Fremont Community Joint Planning Commission</b>	<b>Total</b>
<b>Assets</b>				
Cash and investments	\$ 6,001	\$ 111,772	\$ 53,181	\$ 170,954
Notes receivable	80,085	-	-	80,085
Due from other governments	60,000	-	-	60,000
<b>Total assets</b>	<b>146,086</b>	<b>111,772</b>	<b>53,181</b>	<b>311,039</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	6,698	-	3,519	10,217
Due to primary government	60,000	-	-	60,000
<b>Total liabilities</b>	<b>66,698</b>	<b>-</b>	<b>3,519</b>	<b>70,217</b>
<b>Net assets</b>				
Unrestricted	<b>\$ 79,388</b>	<b>\$ 111,772</b>	<b>\$ 49,662</b>	<b>\$ 240,822</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FREMONT, MICHIGAN**  
**Combining Statement of Activities**  
**Discretely Presented Component Units**  
**For the Year Ended June 30, 2011**

	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	<u>Fremont Community Joint Planning Commission</u>	<u>Total</u>
<b>Program revenues</b>				
Charges for services	\$ 15,933	\$ -	\$ 7,870	\$ 23,803
Operating grants and contributions	<u>210,367</u>	<u>71,747</u>	<u>8,190</u>	<u>290,304</u>
Total program revenues	226,300	71,747	16,060	314,107
<b>General revenues</b>				
Property taxes	350,000	23,345	-	373,345
Unrestricted investment earnings	1,234	754	375	2,363
Miscellaneous	<u>124</u>	<u>48</u>	<u>-</u>	<u>172</u>
Total general revenues	<u>351,358</u>	<u>24,147</u>	<u>375</u>	<u>375,880</u>
Total revenues	577,658	95,894	16,435	689,987
<b>Expenses</b>				
Downtown Development Authority	514,320	-	-	514,320
Local Development Finance Authority	-	25,013	-	25,013
Fremont Community Joint Planning Commission	<u>-</u>	<u>-</u>	<u>7,510</u>	<u>7,510</u>
Total expenses	<u>514,320</u>	<u>25,013</u>	<u>7,510</u>	<u>546,843</u>
Change in net assets	63,338	70,881	8,925	143,144
Net assets, beginning of year	<u>16,050</u>	<u>40,891</u>	<u>40,737</u>	<u>97,678</u>
<b>Net assets, end of year</b>	<u><b>\$ 79,388</b></u>	<u><b>\$ 111,772</b></u>	<u><b>\$ 49,662</b></u>	<u><b>\$ 240,822</b></u>

The accompanying notes are an integral part of these financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fremont (the "City") was incorporated in 1972, under provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services: Public safety (police and fire), streets, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

#### *The Reporting Entity*

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

#### *Blended Component Unit*

*Building Authority* – The Building Authority is governed by a board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its sole purpose is to finance and construct the City's public buildings. Currently, there is no outstanding Building Authority indebtedness.

#### *Discretely Presented Component Units*

*Downtown Development Authority (DDA)* – The DDA's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and the construction of public facilities to promote and facilitate economic growth in the DDA district. Board members of the DDA are appointed by the City, and the DDA is fiscally dependent on the City as the Council approves the DDA budget and must approve any debt issuance.

*Local Development Finance Authority (LDFA)* – The LDFA's sole purpose is the collection of tax increment revenues, the issuance and repayment of debt and construction of public facilities in the LDFA district to promote and facilitate economic growth in the City. Board members of the LDFA are appointed by the City, and the LDFA is fiscally dependent on the City as the Council approves the LDFA budget and must approve any debt issuance.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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*Fremont Community Joint Planning Commission* (the Commission) – The Commission is comprised of the City, Dayton Township, and Sheridan Charter Township. The Commission's purpose is to enable its members to cooperate on planning and zoning issues. Board members of the Commission are appointed by each of its members with the City appointing five of the thirteen total board members. All three members must approve the Commission's budget and any debt issuance. The funds and financial statements of the Commission are managed by the City.

Complete financial statements for the component units are not separately prepared.

### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

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

The *Major Streets fund* accounts for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

The *Local Improvement fund* accounts for amounts collected and receivable in conjunction with various special assessments for several City construction projects.

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

The City reports the following major enterprise funds:

The *Sewer fund* is used to account for the operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Water fund* is used to account for the operation, maintenance and capital improvement of the water system, and retirement of related debt.

Additionally, the City reports the following fund types:

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

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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

The *Permanent fund* is used to record the activity and balance of the Cemetery Trust which provides funds for perpetual care of cemetery lots.

*Internal service funds* are used to account for financing of goods or services provided by the City to other departments or funds to other governmental units on a cost reimbursement basis.

*Agency funds* are used to account for assets held on behalf of outside parties, including other governments.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

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.

### ***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Not later than the second regular meeting in June, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2011. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. The legal level of budgetary control is at the department level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

### ***Cash and Investments***

For purposes of the statement of cash flows, the City considers all assets held in highly liquid investments with an original maturity of three months or less to be cash and temporary investments. Investments are stated at fair value in accordance with GASB Statement No. 31.

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

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

Advances between funds are offset by nonspendable fund balance in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances at year-end are considered by management to be immaterial.

### ***Special Assessments***

Special assessments are recorded as revenue when due, not when levied. Estimated annual installments not yet available are reflected as deferred revenue. Special assessments are billed annually.

### ***Due from Other Governments***

Amounts due from other governments include amounts due from grantors for specific programs and capital projects. Program and capital grants are recorded as receivables and revenue at the time reimbursable costs are incurred. Revenues received in advance of costs being incurred are deferred.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### *Prepaid Items*

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

### *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	20
Buildings and improvements	10-50
Infrastructure	20
Utility systems	40-67
Vehicles and equipment	3-30

### *Deferred Revenue*

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period and for resources that have been received, but not yet earned.

### *Compensated Absences*

The City's policy allows employees to earn and accumulate sick and vacation pay benefits. Accrued compensated absences are reported in the proprietary and governmental fund types to the extent that they will be liquidated with expendable available financial resources, and the long-term balance payable from governmental funds is recorded on the statement of net assets.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### *Pensions*

The provision for pension cost is recorded on an annual basis and the City's policy is to fund pension costs as they accrue.

### *Long-Term Obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

### *Property Taxes*

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before August 10, and winter taxes are levied on December 1 and are due without penalty on or before February 14. The City bills and collects its own property taxes for general governmental services, road, and debt retirement. Additionally, the City collects taxes for Newaygo County and various school districts and authorities. Collections of property taxes and remittances to the appropriate authorities are accounted for in the Tax Collection agency fund.

### *Fund Equity*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council (the City's highest level of decision-making authority). A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. The City reports assigned fund balance for amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has delegated the authority to assign fund balance to the City Manager or his designee. Unassigned fund balance is the residual classification for the General Fund.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The City Council has adopted a minimum fund balance policy in which the total fund balance of the General Fund will be equal to at least 15 percent of the previous year's budgeted expenditures and transfers out. If the General Fund balance falls below the minimum range, the City will replenish shortages or deficiencies using budget strategies and timeframes as detailed in the policy.

When the City incurs an expenditure for purposes for which various fund balance classifications can be used, it is the City's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

### *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. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

### *Use of Estimates*

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2011, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<b>Total</b>	<b>Amount of</b>	<b>Budget</b>
	<b>Appropriations</b>	<b>Expenditures</b>	<b>Variance</b>
General fund			
Clerk	\$ 103,900	\$ 106,755	\$ 2,855
Treasurer	61,300	62,307	1,007
Assessor	49,225	50,968	1,743
Building and grounds	96,200	98,228	2,028
Police department	944,400	958,241	13,841
Planning and zoning	49,290	50,674	1,384
Employee fringe benefits and other items	378,000	412,552	34,552
Airport operations	67,700	73,539	5,839
Major Streets			
Routine maintenance	46,500	46,954	454
Traffic services	12,500	12,612	112
Local Improvement			
Community and economic development	15,930	15,933	3

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### 3. DEPOSITS AND INVESTMENTS

Deposits and investments consist of the following at June 30, 2011:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>	<u>Total</u>
Cash and investments	\$ 5,911,896	\$ 24,419	\$ 170,954	\$ 6,107,269

The City's deposits are in eight (8) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. Deposits and investments are recorded in City records at fair value. Interest is recorded when earned.

Cash and investments are composed of the following at June 30, 2011:

Checking/savings accounts	\$ 2,068,399
Certificates of deposit	
Due within one year	1,258,366
Due in more than one year	891,924
Investments	<u>1,888,580</u>
<b>Total cash and investments</b>	<b><u>\$ 6,107,269</u></b>

#### *Statutory Authority*

State statutes authorize the City to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The City chooses to disclose its investments by specifically identifying each. As of June 30, 2011, the City had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Cooperative Liquid Assets			
Securities System	Various	\$ 1,537,048	AAAm (S&P)
Federal Home Loan Bank	6/13/2016	127,765	AA- (SAP)
Federal Home Loan Mortgage Corp	12/30/2025	100,139	AAA (S&P)
Federal Home Loan Mortgage Corp	4/4/2036	123,628	AAA (S&P)
<b>Total investments</b>		<b><u>\$ 1,888,580</u></b>	

The City voluntarily invests certain excess funds in an external investment pool. The pool is an external investment pool of "qualified" investments for Michigan municipalities. The pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the value of the pool.

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" above. The City's investment policy requires investments to be diversified by specific maturity dates and by individual financial institutions of a specific class of securities as a means of managing its exposure to fair value losses arising from increasing interest rates and in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. The maturity date for each investment is identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds, and qualified external investment pools as identified under "statutory authority" above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. The City minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the City's investment policy. As of year-end, \$2,457,176 of the City's bank balance of \$4,378,774 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

*Custodial Credit Risk - Investments.* Investments are exposed to custodial credit risk if the securities are uninsured, unregistered or held by a counterparty or its agency but not in the government's name. In accordance with the City's investment policy, all investments are held in the name of the City and are evidenced by a safekeeping receipt confirmation, and thus not exposed to custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified under "statutory authority" above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

#### 4. RECEIVABLES

At June 30, 2011, the City's receivables were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>	<u>Agency Funds</u>
Accounts	\$ 123,299	\$ 297,457	\$ -	\$ 779
Special assessments	215,603	-	-	-
Notes	-	-	80,085	-
<b>Total</b>	<b><u>\$ 338,902</u></b>	<b><u>\$ 297,457</u></b>	<b><u>\$ 80,085</u></b>	<b><u>\$ 779</u></b>

Of the amounts reported above, \$177,870 of special assessments receivable reported in the Local Improvement fund are not expected to be collected within one year.

#### 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2011, the City's accounts payable and accrued expenses were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Units</u>	<u>Agency Funds</u>
Accounts payable	\$ 229,912	\$ 159,313	\$ 8,892	\$ 75
Accrued expenses	20,068	3,653	1,325	-
<b>Total</b>	<b><u>\$ 249,980</u></b>	<b><u>\$ 162,966</u></b>	<b><u>\$ 10,217</u></b>	<b><u>\$ 75</u></b>

**CITY OF FREMONT, MICHIGAN**

**Notes to Financial Statements**

**For the Year Ended June 30, 2011**

**6. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2011, are as follows:

	<b>Beginning of Year</b>	<b>Additions</b>	<b>Disposals</b>	<b>End of Year</b>
<b>Governmental activities</b>				
Capital assets not being depreciated:				
Land	\$ 3,210,467	\$ 38,183	\$ 251,779	\$ 2,996,871
Construction in progress	1,163,450	46,308	1,163,450	46,308
Total capital assets not being depreciated	4,373,917	84,491	1,415,229	3,043,179
Capital assets being depreciated:				
Land improvements	1,099,984	49,740	-	1,149,724
Buildings and improvements	4,270,381	632,455	-	4,902,836
Vehicles and equipment	3,304,434	77,007	20,971	3,360,470
Infrastructure	15,355,159	1,642,097	-	16,997,256
Total capital assets being depreciated	24,029,958	2,401,299	20,971	26,410,286
Less accumulated depreciation for:				
Land improvements	292,931	56,774	-	349,705
Buildings and improvements	2,330,032	154,589	-	2,484,621
Vehicles and equipment	2,311,666	209,667	20,971	2,500,362
Infrastructure	6,087,378	809,764	-	6,897,142
Total accumulated depreciation	11,022,007	1,230,794	20,971	12,231,830
Net capital assets being depreciated	13,007,951	1,170,505	-	14,178,456
<b>Governmental activities capital assets, net</b>	<b>\$ 17,381,868</b>	<b>\$ 1,254,996</b>	<b>\$ 1,415,229</b>	<b>\$ 17,221,635</b>

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

<b>Governmental activities</b>	
General government	\$ 91,190
Public safety	13,652
Public works	851,368
Community and economic development	6,552
Culture and recreation	77,053
Depreciation charged to Internal Service Funds	190,979
<b>Total depreciation expense - governmental activities</b>	<b>\$ 1,230,794</b>

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

	<b>Beginning of Year</b>	<b>Additions</b>	<b>Disposals</b>	<b>End of Year</b>
<b>Business-type activities</b>				
Capital assets not being depreciated:				
Land	\$ 240,698	\$ -	\$ -	\$ 240,698
Capital assets being depreciated:				
Utility systems	15,831,304	482,719	-	16,314,023
Equipment	158,804	-	-	158,804
Total capital assets being depreciated	15,990,108	482,719	-	16,472,827
Less accumulated depreciation for:				
Utility systems	6,348,642	355,106	-	6,703,748
Equipment	138,943	3,021	-	141,964
Total accumulated depreciation	6,487,585	358,127	-	6,845,712
Net capital assets being depreciated	9,502,523	124,592	-	9,627,115
<b>Business-type activities capital assets, net</b>	<b>\$ 9,743,221</b>	<b>\$ 124,592</b>	<b>\$ -</b>	<b>\$ 9,867,813</b>

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

<b>Business-type activities</b>	
Sewer	\$ 235,953
Water	122,174
<b>Total depreciation expense - business-type activities</b>	<b>\$ 358,127</b>

**CITY OF FREMONT, MICHIGAN**

**Notes to Financial Statements**

**For the Year Ended June 30, 2011**

**7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances as of June 30, 2011 is as follows:

**Due to/from other funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Nonmajor governmental funds	\$23,000	Operational loan

**Advances to/from other funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Local Improvement	General	\$11,610	Operational loan

The composition of interfund transfers as of June 30, 2011 is as follows:

<b>Transfers out</b>	<b>Transfers In</b>						<b>Total</b>
	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Internal Service Fund</b>	
General fund	\$ -	\$ 8,500	\$ 27,750	\$ -	\$ -	\$ 5,645	\$ 41,895
Major Streets fund	-	288,000	56,250	-	-	-	344,250
Local Improvement	-	154,977	-	23,181	21,762	-	199,920
Capital Projects fund	1,463	-	-	-	-	-	1,463
Nonmajor governmental funds	25,856	55,500	-	-	-	-	81,356
Internal Service fund	150,000	-	-	-	-	-	150,000
<b>Total</b>	<b>\$177,319</b>	<b>\$506,977</b>	<b>\$ 84,000</b>	<b>\$23,181</b>	<b>\$21,762</b>	<b>\$ 5,645</b>	<b>\$ 818,884</b>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, and (3) to move amounts from the funds used to purchase capital assets to the funds utilizing such assets.

**8. BOND ISSUANCE COSTS**

Changes in bond issuance costs for the year ending June 30, 2011 are as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Disposals</u>	<u>End of Year</u>
<b>Governmental activities</b>				
Bond issuance costs	\$ 35,114	\$ -	\$ -	\$ 35,114
Accumulated amortization	(12,154)	(3,179)	-	(15,333)
<b>Bond issuance costs, net</b>	<b>\$ 22,960</b>	<b>\$ (3,179)</b>	<b>\$ -</b>	<b>\$ 19,781</b>

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

### 9. DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Special assessments	\$ 215,603	\$ -
Prepaid rentals	-	17,365
<b>Total deferred revenue - governmental funds</b>	<b>\$ 215,603</b>	<b>\$ 17,365</b>

### 10. LONG-TERM DEBT

The following is a summary of the debt transactions for the City during the year ended June 30,

	Beginning of Year	Additions	Deletions	End of Year	Due Within One Year
<b>Governmental Activities</b>					
2006 Capital Improvement Bonds due in annual installments of \$100,000 to \$150,000 including interest at rates ranging from 3.625% to 3.875% through November 2021	\$ 1,475,000	\$ -	\$ 100,000	\$1,375,000	\$ 100,000
Unamortized discount	(16,673)	-	(2,308)	(14,365)	-
Subtotal	1,458,327	-	97,692	1,360,635	100,000
Compensated absences	238,357	133,248	97,623	273,982	98,000
<b>Total governmental activities</b>	<b>\$ 1,696,684</b>	<b>\$133,248</b>	<b>\$ 195,315</b>	<b>\$1,634,617</b>	<b>\$ 198,000</b>
<b>Business-type Activities</b>					
Compensated absences	<b>\$ 12,251</b>	<b>\$ 12,929</b>	<b>\$ 9,322</b>	<b>\$ 15,858</b>	<b>\$ 15,858</b>

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The annual requirements, excluding unamortized discounts and compensated absences, to maturity on the total long-term obligations outstanding at June 30, 2011 are as follows:

	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2012	\$ 100,000	\$ 51,277
2013	100,000	47,407
2014	100,000	43,537
2015	125,000	39,184
2016	125,000	34,347
2017-2021	675,000	97,235
2022	150,000	2,903
<b>Total</b>	<b>\$ 1,375,000</b>	<b>\$ 315,890</b>

The City was in compliance in all material respects with all bond indentures at June 30, 2011.

For the governmental activities, compensated absences are generally liquidated by the general fund.

### 11. CONTINGENT LIABILITIES

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

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

### 12. FUND BALANCES - GOVERNMENTAL FUNDS

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the current year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. While the classifications of fund balance in the City's various governmental funds were revised, the implementation of this standard had no effect on total fund balance. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Major Streets Fund	Local Improvement Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:						
Prepays	\$ 19,849	\$ -	\$ -	\$ -	\$ -	\$ 19,849
Long-term advances	-	-	11,610	-	-	11,610
Permanent corpus	-	-	-	-	331,733	331,733
<b>Total nonspendable</b>	<b>19,849</b>	<b>-</b>	<b>11,610</b>	<b>-</b>	<b>331,733</b>	<b>363,192</b>
Restricted for:						
Highways and streets	-	141,643	-	-	116,864	258,507
Committed for:						
Capital projects	-	-	252,674	433,987	-	686,661
Debt service	-	-	-	-	32,336	32,336
Parks	-	-	-	-	2,777	2,777
<b>Total committed</b>	<b>-</b>	<b>-</b>	<b>252,674</b>	<b>433,987</b>	<b>35,113</b>	<b>721,774</b>
Assigned for:						
Subsequent years' budget	192,720	-	-	-	-	192,720
Unassigned	580,010	-	-	-	-	580,010
<b>Total fund balances - governmental funds</b>	<b>\$ 792,579</b>	<b>\$ 141,643</b>	<b>\$ 264,284</b>	<b>\$ 433,987</b>	<b>\$ 483,710</b>	<b>\$2,116,203</b>

### 13. COMMITMENTS

The City has entered into an agreement for a street improvement project with a remaining commitment of approximately \$249,000. The majority of this cost is being financed with available fund balance.

In addition, the City has entered into an agreement for a downtown parking lot reconstruction with a remaining commitment of approximately \$331,000. The majority of this cost is being financed by a State of Michigan grant.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### 14. LEASES

The City leases land and vehicles under noncancelable operating leases. For the year ended June 30, 2011, rental expense on the operating leases was approximately \$5,800. The future minimum lease payments for these leases are as follows for the years ending June 30:

	<u>Amount</u>
2012	\$ 7,500
2013	5,500
2014	3,200
<b>Total</b>	<b><u>\$ 16,200</u></b>

The City also received approximately \$33,000 from noncancelable operating leases for land use and hanger rental during the year ended June 30, 2011, which has been recorded as rental income. The future minimum rental income for these leases is as follows for the years ending June 30:

	<u>Amount</u>
2012	\$ 29,800
2013	15,000
2014	10,600
2015	2,400
2016	800
2017-2021	4,200
2022-2026	4,200
2027-2031	4,200
2032-2034	2,500
<b>Total</b>	<b><u>\$ 73,700</u></b>

### 15. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility of small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

The City carries commercial insurance for employee health and accident. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three past fiscal years.

### 16. PENSION PLANS

#### *Municipal Employee Retirement System of Michigan*

##### *Plan Description*

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

##### *Funding Policy*

Plan members are not required to contribute to the plan. The City is required to contribute at an actuarially-determined rate; the current rate varies from 15.5 to 25.22 percent of annual covered payroll depending on position. The contribution requirements of plan members and the City are established and may be amended by MERS.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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For the year ended June 30, 2011 the City's annual pension cost of \$315,200 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.4% per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, the date of the latest actuarial valuation, was 28 years. This period will be reduced by one year in each of the next eight valuations until reaching 20 years after which the 20 year period will be reestablished with each annual actuarial valuation.

### Three-Year Trend Information

<b>Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percent of APC Contributed</b>	<b>Net Pension Obligation</b>
<b>June 30</b>			
2011	\$ 315,200	100%	-
2010	258,700	100%	-
2009	267,000	100%	-

### *Funded Status and Funding Progress*

As of December 31, 2010, the most recent actuarial valuation date, the plan was 68 percent funded. The actuarial accrued liability for benefits was \$9,094,433, and the actuarial value of assets was \$6,166,902, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,927,531. The covered payroll (annual payroll of active employees covered by the plan) was \$1,451,346, and the ratio of the UAAL to the covered payroll was 202 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The City also has a 457(b) plan, whereas employees may elect to participate. The City is not required to contribute to the plan.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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### 17. OTHER POST EMPLOYMENT BENEFITS

#### *Plan Description*

The City administers a single-employer defined benefit healthcare plan. The plan provides health insurance to eligible retirees and their spouses until the retiree reaches age 65 through the City's group health insurance plan, which covers both active and retired members. Effective April 1, 2011, the City adopted the Michigan Municipal Employees' Retirement System (MERS) Retiree Health Funding Vehicle to fund the obligation.

#### *Funding Policy*

Plan members are not required to contribute to the plan, but retirees are required to pay half of the amount of the monthly insurance premium on a pay-as-you-go basis. The contribution requirements of plan members and the City are established and may be amended by the City Council. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund the benefits as determined annually by the City. For the fiscal year ended June 30, 2011, the City paid postemployment healthcare premiums of \$24,804 and made a deposit of \$10,000 into the MERS Retiree Health Funding Vehicle for future premiums.

#### *Annual OPEB Cost and Net OPEB Obligation*

The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year 2011 and the previous year were as follows:

<b>Year Ended June 30</b>	<b>Net OPEB Cost</b>	<b>Percent of Net OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2011	\$ 32,467	107%	\$ 7,474
2010	32,356	70%	9,811

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 32,624
Interest on net OPEB obligation	379
Adjustment to annual required contribution	<u>(536)</u>
Net OPEB cost	32,467
Contributions made	<u>34,804</u>
Increase in net OPEB obligation	(2,337)
Net OPEB obligation, beginning of year	<u>9,811</u>
<b>Net OPEB obligation, end of year</b>	<b><u><u>\$ 7,474</u></u></b>

### *Funded Status and Funding Progress*

As of June 30, 2010, the date of the most recent actuarial valuation, the actuarial accrued liability for benefits was \$296,014, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) and the ratio of the UAAL to the covered payroll were unavailable.

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

### *Actuarial Methods and Assumptions*

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 employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# CITY OF FREMONT, MICHIGAN

## Notes to Financial Statements

For the Year Ended June 30, 2011

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The required contribution was determined as part of the June 30, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 0 percent investment rate of return (net of administrative expenses) as the Plan was not funded and (b) an annual healthcare trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 5 years. The plan's unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period at June 30, 2010 was 30 years.

### 18. ECONOMIC DEPENDENCY

The City's Sewer and Water funds have a significant economic dependence on a local corporation. During the year ended June 30, 2011, the corporation's billings for utilities approximated 38.5% of total combined billings in the Sewer and Water funds.

### 19. NET ASSETS INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT

The compensation of net assets invested in capital assets, net of related debt as of June 30, 2011, was as follows:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>
Capital assets not being depreciated	\$ 3,043,179	\$ 240,698
Capital assets being depreciated, net	14,178,456	9,627,115
Bonds payable	(1,375,000)	-
Unamortized bond discount	14,365	-
	<b><u>\$ 15,861,000</u></b>	<b><u>\$ 9,867,813</u></b>

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**CITY OF FREMONT, MICHIGAN**

**Required Supplementary Information**

**For the Year Ended June 30, 2011**

**Municipal Employees Retirement System  
Schedule of Funding Progress**

*(Dollar amounts in thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
12/31/2008	\$ 5,993	\$ 8,485	\$ 2,492	71%	\$ 1,351	184%
12/31/2009	6,063	8,789	2,726	69%	1,407	194%
12/31/2010	6,167	9,094	2,927	68%	1,451	202%

**Other Postemployment Benefit Plan  
Schedule of Funding Progress**

*(Dollar amounts in thousands)*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b-a)/c)</b>
6/30/2010	\$ -	\$ 296	\$ 296	0%	*	*

\* Information not available

**COMBINING AND INDIVIDUAL FUND STATEMENTS**

**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF FREMONT, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2011**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Permanent Cemetery</u>	<u>Totals</u>
	<u>Local Streets</u>	<u>Arboretum Park</u>	<u>Construction Bond</u>	<u>Perpetual Care</u>	
<b>Assets</b>					
Cash and investments	\$ 104,064	\$ 2,777	\$ 32,336	\$ 331,733	\$ 470,910
Accounts receivable	-	23,000	-	-	23,000
Due from other governments	13,005	-	-	-	13,005
<b>Total assets</b>	<b><u>\$ 117,069</u></b>	<b><u>\$ 25,777</u></b>	<b><u>\$ 32,336</u></b>	<b><u>\$ 331,733</u></b>	<b><u>\$ 506,915</u></b>
<b>Liabilities</b>					
Accrued liabilities	\$ 205	\$ -	\$ -	\$ -	\$ 205
Due to other funds	-	23,000	-	-	23,000
<b>Total liabilities</b>	<b>205</b>	<b>23,000</b>	<b>-</b>	<b>-</b>	<b>23,205</b>
<b>Fund balances (Note 12)</b>					
Nonspendable	-	-	-	331,733	331,733
Restricted	116,864	-	-	-	116,864
Committed	-	2,777	32,336	-	35,113
<b>Total fund balances</b>	<b><u>116,864</u></b>	<b><u>2,777</u></b>	<b><u>32,336</u></b>	<b><u>331,733</u></b>	<b><u>483,710</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 117,069</u></b>	<b><u>\$ 25,777</u></b>	<b><u>\$ 32,336</u></b>	<b><u>\$ 331,733</u></b>	<b><u>\$ 506,915</u></b>

**CITY OF FREMONT, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Special Revenue</u>		<u>Debt Service</u>	<u>Permanent Cemetery</u>	<u>Total</u>
	<u>Local Streets</u>	<u>Arboretum Park</u>	<u>Construction Bond</u>	<u>Perpetual Care</u>	
<b>Revenues</b>					
Intergovernmental:					
State	\$ 94,262	\$ -	\$ -	\$ -	\$ 94,262
Local	-	37,000	155,470	-	192,470
Charges for services	-	-	-	7,163	7,163
Investment earnings	664	26	409	2,855	3,954
	<u>94,926</u>	<u>37,026</u>	<u>155,879</u>	<u>10,018</u>	<u>297,849</u>
Total revenues	94,926	37,026	155,879	10,018	297,849
<b>Expenditures</b>					
Current:					
Public works	73,848	14,000	-	-	87,848
Debt service:					
Principal	-	-	100,000	-	100,000
Interest and fees	-	-	53,909	-	53,909
	<u>73,848</u>	<u>14,000</u>	<u>153,909</u>	<u>-</u>	<u>241,757</u>
Total expenditures	73,848	14,000	153,909	-	241,757
Revenue over expenditures	21,078	23,026	1,970	10,018	56,092
<b>Other financing sources (uses)</b>					
Transfers in	84,000	-	-	-	84,000
Transfers out	(55,500)	(23,000)	-	(2,856)	(81,356)
	<u>28,500</u>	<u>(23,000)</u>	<u>-</u>	<u>(2,856)</u>	<u>2,644</u>
Total other financing sources (uses)	28,500	(23,000)	-	(2,856)	2,644
Net change in fund balances	49,578	26	1,970	7,162	58,736
Fund balances, beginning of year	67,286	2,751	30,366	324,571	424,974
<b>Fund balances, end of year</b>	<b><u>\$ 116,864</u></b>	<b><u>\$ 2,777</u></b>	<b><u>\$ 32,336</u></b>	<b><u>\$ 331,733</u></b>	<b><u>\$ 483,710</u></b>

## **FIDUCIARY FUNDS**

**CITY OF FREMONT, MICHIGAN**  
**Combining Statement of Changes in Assets and Liabilities**  
**Agency Fund**  
**For the Year Ended June 30, 2011**

	<u>Balance, July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2011</u>
<b>Tax Collection Fund</b>				
<b>Assets</b>				
Cash and investments	\$ 34,748	\$ 7,272,078	\$ 7,282,407	\$ 24,419
Receivables	1,267	15,497	15,985	779
Due from other governmental units	300	-	-	300
<b>Total assets</b>	<u><b>\$ 36,315</b></u>	<u><b>\$ 7,287,575</b></u>	<u><b>\$ 7,298,392</b></u>	<u><b>\$ 25,498</b></u>
<b>Liabilities</b>				
Accounts payable	\$ 9,404	\$ 4,925,141	\$ 4,934,470	\$ 75
Due to other governmental units	26,911	5,689,884	5,691,372	25,423
<b>Total liabilities</b>	<u><b>\$ 36,315</b></u>	<u><b>\$ 10,615,025</b></u>	<u><b>\$ 10,625,842</b></u>	<u><b>\$ 25,498</b></u>

## **INTERNAL CONTROL AND COMPLIANCE**

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**INDEPENDENT AUDITORS' 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***

October 11, 2011

Honorable Mayor and  
Members of the City Council  
City of Fremont, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Fremont, Michigan* (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 11, 2011. 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.

**Internal Control over Financial Reporting**

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

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

However, we noted certain matters that we reported to management of the City in a separate letter dated October 11, 2011.

### **Compliance and Other Matters**

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

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

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.