

**Beecher Metropolitan District  
Flint, Michigan**

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**Financial Report**

**June 30, 2008**

# Beecher Metropolitan District

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### *Independent Auditors' Report*

District Commission  
Beecher Metropolitan District  
1057 West Louis Avenue  
Flint, Michigan 48505

We have audited the accompanying basic financial statements of the Beecher Metropolitan District ("District") as of and for the years ended June 30, 2008 and June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Beecher Metropolitan District as of June 30, 2008 and June 30, 2007 and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and did not express an opinion on it.

*Plante & Moran, PLLC*

December 5, 2008

## **Management's Discussion and Analysis**

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# Beecher Metropolitan District

## Management's Discussion and Analysis

As management of the Beecher Metropolitan District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District.

The basic financial statements for the District are comprised of the statement of net assets, statement of changes in net assets, statement of cash flows, and notes to the financial statements.

The proprietary fund statement of net assets presents the information of the Water and Sewer Fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of changes in net assets presents information showing how the business-type fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the business-type fund financial statements.

### Financial Highlights

The financial analysis focuses on the proprietary fund statement of net asset and the statement of activities. The total assets of the District are \$6,670,356 of which \$1,352,639 represents cash, cash equivalents, and investments, \$291,584 represent receivables, and \$4,678,120 represents capital assets net of accumulated depreciation. The current liabilities are \$379,544 and non-current liabilities are \$15,594 leaving current net assets of \$6,275,218.

Net assets decreased \$181,163 for the District as a result of \$2,709,947 in operating expenses which are offset by operating revenues of \$2,073,826 and non-operating revenues of \$454,958. Net assets invested in capital assets amount to \$4,657,961 and net assets of \$38,335 are restricted for employee benefits, leaving unrestricted net assets of \$1,578,922 at June 30, 2008.

Capital assets, net of accumulated depreciation, totaled \$4,678,120 at June 30, 2008. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$5,180,979.

### Beecher Metropolitan District's Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$1,992,236	\$2,062,296	\$1,978,625
Capital assets	4,678,120	4,816,558	4,922,806
Total assets	<u>6,670,356</u>	<u>6,878,854</u>	<u>6,901,431</u>
Current liabilities	379,544	422,473	412,601
Non-current liabilities	15,594	-	-
Net assets:			
Invested in capital assets	4,657,961	4,816,558	4,922,806
Restricted	38,335	20,050	18,098
Unrestricted	<u>1,578,922</u>	<u>1,619,773</u>	<u>1,547,926</u>
Total net assets	<u>\$6,275,218</u>	<u>\$6,456,381</u>	<u>\$6,488,830</u>

# Beecher Metropolitan District

## Management's Discussion and Analysis (Continued)

### Beecher Metropolitan District's Capital Assets - Net of Depreciation Business-type Activities

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Land	\$ 13,599	\$ 13,599	\$ 13,599
Buildings and improvements	14,214	15,460	12,071
Machinery and equipment	241,682	252,616	245,669
Improvement in water system	2,052,230	2,097,376	2,132,848
Improvement in sewer system	2,356,395	2,437,507	2,518,619
Total	<u>\$4,678,120</u>	<u>\$4,816,558</u>	<u>\$4,922,806</u>

Unrestricted net assets may serve over time as a useful indicator of financial position. In the case of the Beecher Metropolitan District, unrestricted net assets amounted to \$1,578,922 or 25 percent of total net assets and 60 percent of annual operating expenses for the year ended June 30, 2008.

By far the largest portion of the District's net assets (74 percent) reflects its fixed investment in capital assets.

Current and other assets decreased \$208,498 from prior year as costs of operations exceeded user fees and the property tax revenue. Capital assets decreased \$138,438 primarily due to annual depreciation. Liabilities decreased \$27,335 due to decrease in accounts payable for vendor payables.

### Beecher Metropolitan District's Changes in Net Assets Business-type Activities

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues			
Operating revenues:			
Charges for services	\$1,948,647	\$1,992,061	\$1,649,826
Other income	125,179	120,155	101,452
Non-operating revenue:			
Tax revenues	356,463	322,888	330,981
Rental and interest income	98,495	145,281	96,754
Total revenues	<u>2,528,784</u>	<u>2,580,385</u>	<u>2,179,013</u>
Expenses:			
Operating	<u>2,709,947</u>	<u>2,612,834</u>	<u>2,535,250</u>
Decrease in net assets	(181,163)	(32,449)	(356,237)
Net Assets - Beginning of the year	<u>6,456,381</u>	<u>6,488,830</u>	<u>6,845,067</u>
Net Assets - End of the year	<u>\$6,275,218</u>	<u>\$6,456,381</u>	<u>\$6,488,830</u>

Charges for services decreased \$43,414 as a result of a decline in the number of active accounts for metered water sales and sewer service fees. Water sales decreased \$11,933 and sewer service fees decreased \$31,481.

## **Basic Financial Statements**

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# Beecher Metropolitan District

## Statement of Net Assets June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 1,352,639	\$ 570,527
Investments	-	850,000
Receivables:		
Accounts	193,088	210,231
Unbilled accounts	73,840	77,925
Interest	-	8,515
Delinquent property taxes receivable	24,656	21,786
Inventories	93,565	81,798
Restricted assets:		
Cash and cash equivalents	254,448	241,514
Total current assets	1,992,236	2,062,296
Capital assets - Net of accumulated depreciation	4,678,120	4,816,558
Total assets	6,670,356	6,878,854
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	33,083	82,145
Accrued liabilities	4,072	-
Due to other governments	121,711	118,864
Payable from restricted assets:		
Customer deposits	216,113	221,464
Current portion of long-term debt	4,565	-
Total current liabilities	379,544	422,473
Noncurrent liabilities:		
Long-term debt - Net of current portion	15,594	-
Total liabilities	395,138	422,473
<b>Net Assets</b>		
Invested in capital assets, net of related debt	4,657,961	4,816,558
Restricted for employee benefits	38,335	20,050
Unrestricted	1,578,922	1,619,773
Total net assets	\$ 6,275,218	\$ 6,456,381

The Notes to Financial Statements are an Integral Part of this Statement.

# Beecher Metropolitan District

## Statement of Revenue, Expenses, and Changes in Net Assets Years Ended June 30, 2008 and 2007

	2008	2007
<b>Operating Revenue</b>		
Charges for services:		
Metered water sales	\$ 573,190	\$ 585,123
Sewer service fees	1,375,457	1,406,938
Parts and service	55,707	49,651
Penalties	69,472	70,504
	<hr/>	<hr/>
Total operating revenue	2,073,826	2,112,216
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Administrative and engineering	1,047,395	994,460
Accounting and collections	6,271	22,267
Plant maintenance - Sewer	99,526	105,300
Plant maintenance - Mains, tower and connections	163,380	171,546
Machinery and equipment maintenance	7,697	6,899
Water pumping - Wells, distribution	121,620	125,574
Sanitary sewer line maintenance	8,949	18,809
Sanitary sewer weep tile project	305	2,550
Sewage pumping	67,408	80,450
Sewage treatment	986,848	884,921
Tools and working equipment expense	7,727	11,307
Automobile and truck expense	31,561	23,045
Depreciation	161,260	165,706
	<hr/>	<hr/>
Total operating expenses	2,709,947	2,612,834
	<hr/>	<hr/>
<b>Operating Loss</b>	(636,121)	(500,618)
	<hr/>	<hr/>
<b>Nonoperating Revenue</b>		
Tax revenues	356,463	322,888
Interest and rental income	98,495	145,281
	<hr/>	<hr/>
Total nonoperating revenue	454,958	468,169
	<hr/>	<hr/>
<b>Change in Net Assets</b>	(181,163)	(32,449)
	<hr/>	<hr/>
<b>Net Assets - Beginning of year</b>	6,456,381	6,488,830
	<hr/>	<hr/>
<b>Net Assets - End of year</b>	<b>\$ 6,275,218</b>	<b>\$ 6,456,381</b>
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The Notes to Financial Statements are an Integral Part of this Statement.

# Beecher Metropolitan District

## Statements of Cash Flows Years Ended June 30, 2008 and 2007

	2008	2007
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	\$ 2,095,054	\$ 2,108,853
Payments to suppliers	(1,855,287)	(1,642,554)
Payments to employees	(752,661)	(782,636)
Net cash used in operating activities	<u>(512,894)</u>	<u>(316,337)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital lease payments	(2,663)	-
Purchase of capital assets	-	(59,458)
Net cash used in capital and related financing activities	<u>(2,663)</u>	<u>(59,458)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
Receipts from rentals	40,200	39,600
Property tax collections	353,593	323,385
Net cash provided by noncapital financing activities	<u>393,793</u>	<u>362,985</u>
<b>Cash Flows from Investing Activities</b>		
Interest earned	66,810	97,166
Purchases (sales) of investments	850,000	2,849
Net cash provided by investing activities	<u>916,810</u>	<u>100,015</u>
<b>Net increase in Cash and Cash Equivalent:</b>	<u>795,046</u>	<u>87,205</u>
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>812,041</u>	<u>724,836</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 1,607,087</b></u>	<u><b>\$ 812,041</b></u>
(includes restricted cash and cash equivalents of \$254,448 and \$241,514 for 2008 and 2007, respectively)		
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (636,121)	\$ (500,618)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	161,260	165,706
Changes in operating assets and liabilities		
Accounts receivable	21,228	(3,363)
Inventories	(11,767)	12,066
Accounts payable	(49,062)	34,841
Accrued liabilities	4,072	-
Due to other governments	2,847	(28,603)
Customer deposits	(5,351)	3,634
Net cash used in operating activities	<u><b>\$ (512,894)</b></u>	<u><b>\$ (316,337)</b></u>

Noncash investing, capital and financing activities - During the year ended June 30, 2008, the Water and Sewer Fund obtained a vehicle through a capital lease

The Notes to Financial Statements are an Integral Part of this Statement.

## **Notes to Basic Financial Statements**

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# **Beecher Metropolitan District**

## **Notes to Financial Statements June 30, 2008**

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

The accounting policies of Beecher Metropolitan District, (the "District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Beecher Metropolitan District:

#### **A. Reporting Entity**

Beecher Metropolitan District is governed by an elected five-member board. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The District had no component units at June 30, 2008.

#### **B. Basis of Accounting**

The accrual basis of accounting is used by the District. The District follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The District has elected not to follow private sector standards issued after November 30, 1989.

#### **C. Use of Estimates**

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

#### **D. Operating Revenue**

Amounts reported as operating revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as non-operating revenue rather than as operating revenue. Likewise, non-operating revenue includes all taxes.

#### **E. Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The District's 2007 tax is levied and collectible on December 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are available for the financing of operations.

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note I - Summary of Significant Accounting Policies (Continued)

#### E. Property Tax Revenue (Continued)

The Metropolitan District is permitted by charter to levy up to \$5 per \$1,000 (5 mills) of taxable value for general government services, upon real and personal property in their district in the Townships of Genesee and Mt. Morris. For the year ended June 30, 2008, the Beecher Metropolitan District levied 3.5614 mills. These amounts are recognized in the respective Water and Sewer Fund financial statements as tax revenue.

	<u>Taxable Valuation</u>
Genesee Township	\$30,579,036
Mt. Morris Township	<u>70,515,936</u>
Total	<u>\$101,094,972</u>

#### F. Assets, Liabilities, and Net Assets or Equity

##### 1. Bank deposits and investments

Cash and cash equivalents include cash on hand, demand deposits, and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

##### 2. Receivables

All trade and property tax receivables are shown as net of allowance for uncollectible mounts. All amounts are considered collectible at year end.

##### 3. Inventories

Inventories consist of expendable supplies held for consumption and are valued at the lower of cost or market with cost determined on a first-in, first-out basis. The cost value is recorded as an asset until used, at which time it is recorded as an expense.

##### 4. Capital assets

Capital assets consist of property, plant, equipment, and sewer and water line infrastructure assets. Capital assets are defined by the District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note I - Summary of Significant Accounting Policies (Continued)

#### F. Assets, Liabilities, and Net Assets or Equity (Continued)

##### 4. Capital assets (continued)

Property, plant, equipment and sewer and water line infrastructure assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Machinery and equipment	5-100
Water system	10-100
Sewer system	25-100

##### 5. Restricted assets

Restricted assets in the Water and Sewer Fund consists of cash and equivalents set aside for customer deposits and employee benefits.

##### 6. Compensated absences

Accumulated unpaid vacation and sick pay are not accrued by Beecher Metropolitan District. Vacation time must be taken and is not allowed to accumulate. Sick and personal time is allowed for eight days per year and is not allowed to accrue.

##### 7. Net assets - Equity displayed in three components as follows:

Invested in capital assets, net of related debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets. The District has no debt related to capital assets.

Restricted - This consists of net assets that are legally restricted by outside parties, or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 2 - Detail Notes on All Funds

#### A. Deposits and investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The District has designated Bank One for the deposit of its funds. The District has adopted an investment policy. The District's deposits are in accordance with statutory authority.

The Authority's cash and investments are subject to two different types of risk, which are examined in more detail below:

#### Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year end, the District had \$1,341,561 of bank deposits (certificates of deposit and savings) that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Governmental security money market mutual funds	\$92,446	Counterparty

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 2 - Detail Notes on All Funds (Continued)

#### A. Deposits and Investments (Continued)

##### Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The District has no policy that further limits its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Governmental Securities Money Market Mutual Fund	\$ 92,446	Not available

#### B. Capital Assets

Capital asset activity for the District was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 13,599	\$ -	\$ -	\$ 13,599
Total capital assets, not being depreciated	13,599	-	-	13,599
Capital assets, being depreciated:				
Buildings and improvements	229,897	-	-	229,897
Machinery and equipment	1,437,197	22,822	25,831	1,434,188
Water system	3,461,492	-	-	3,461,492
Sewer system	4,719,923	-	-	4,719,923
Total capital assets being depreciated	9,848,509	22,822	25,831	9,845,500
Less accumulated depreciation for:				
Buildings and improvements	214,437	1,246	-	215,683
Machinery and equipment	1,184,580	33,757	25,831	1,192,506
Water system	1,364,116	45,146	-	1,409,262
Sewer system	2,282,417	81,111	-	2,363,528
Total accumulated depreciation	5,045,550	161,260	25,831	5,180,979
Total capital assets, being depreciated, net	4,802,959	(138,438)	-	4,664,521
Business-type activities capital assets, net	\$4,816,558	\$(138,438)	\$ -	\$4,678,120

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 2 - Detail Notes on All Funds (Continued)

#### B. Capital Assets (Continued)

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

Business-type activities:

Water and sewer	<u>\$161,260</u>
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#### C. Long-term Debt

During the year the District obtained a loan from GMAC for the purchase of a 2007 Chevrolet cargo van. The amount of the loan was \$22,822 with 0 percent interest with monthly payments due in the amount of \$380.38 for 60 months beginning December 26, 2007.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Business-Type Activities</b>					
GMAC	\$ -	\$ 22,822	\$ (2,663)	\$ 20,159	\$ 4,565
				<u>\$ 20,159</u>	

Annual debt requirements to maturity for the above long-term debt are as follows:

	<u>Principal</u>
2009	\$ 4,565
2010	4,565
2011	4,565
2012	4,565
2013	1,899
	<u>\$ 20,159</u>

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 3 - Other Information

#### A. Retirement Plans

##### I. Defined benefit pension plan

*Plan Description.* The District participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the District, except employees hired after January 1, 2004. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

*Funding policy.* The obligation to contribute to and maintain the system for these employees was established by negotiation with the District's collective bargaining units and requires employee contributions of 2 percent of gross wages.

*Annual Pension Cost.* For year ended June 30, 2008 the District's annual pension cost of \$131,554 for the plan was equal to the District's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) a percentage based on an age-related scale to reflect merit, longevity and promotional pay increases. Both (a) and (b) include an inflation component of 3 to 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 23 years for general employee group and 28 years for general administration.

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 3 - Other Information (Continued)

#### A. Retirement Plans (Continued)

##### 1. Defined benefit pension plan (continued)

*Three year trend information.*

	Fiscal year ended June 30:		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$120,231	\$122,992	\$131,554
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31:		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$3,778,827	\$4,065,240	\$4,369,854
Actuarial Accrued Liability (entry age)	4,451,788	4,707,864	4,934,186
Unfunded AAL	672,961	642,624	564,332
Funded ratio	85%	86%	89%
Covered payroll	659,121	666,127	674,136
UAAL as a percentage of covered payroll	102%	96%	84%

##### 2. Deferred compensation plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The law was changed to allow trusts to be created for the Plan assets, thereby, insulating the assets from the unit of government's general creditors. The District's plan administrator, ICMA created the trust and placed the assets of the Plan within the trust. As a result, the Plan assets are not shown on the District's financial statements to reflect that the District no longer has any fiduciary or administrative responsibility for the Plan.

# Beecher Metropolitan District

## Notes to Financial Statements June 30, 2008

### Note 3 - Other Information (Continued)

#### A. Retirement Plans (Continued)

##### 3. Defined contribution plan

The District provides pension benefits to all of its full-time employees hired after January 1, 2004 a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan provisions and contribution requirements were established through a collective bargaining agreement. Employees are eligible to participate from the date of employment and are fully vested after 6 years of service. The District contributes 10 percent of employees' gross earnings and employees are required to contribute 2 percent of annual earnings.

During the current year, the District contributed \$7,526 and employees contributed \$1,357 to the plan.

#### B. Other Post-employment Benefits

The District has elected to provide post-employment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Currently, 5 retirees are eligible for post-employment health benefits. For the fiscal year ended June 30, 2008, the District made payments for post-employment health benefit premiums of \$73,042. The government obtains health care coverage through private insurers for medical and is self insured for vision and dental.

Upcoming reporting change: The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

#### C. Risk Management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries ( workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for employee injuries (workers' compensation) and medical benefits provided to employees and participates in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors, and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# **Beecher Metropolitan District**

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## **Notes to Financial Statements June 30, 2008**

### **Note 3 - Other Information (Continued)**

#### **C. Risk Management (Continued)**

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **D. Contingent Liabilities**

The District has a disputed liability for repairs made to a pump station jointly owned by Genesee Township and the District. The repairs were made by Genesee Township. The disputed amount is \$254,791. Genesee Township claims there is a contract agreement in place supporting the amount invoiced. However, the District is unaware of such contract and Genesee Township has not yet provided such documentation. At this time, it is unclear if the District will have to pay the invoiced amount.

# **Beecher Metropolitan District**

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**Report to the Members of the Commission  
June 30, 2008**

To the Members of the Commission  
Beecher Metropolitan District

We have recently completed our audit of the basic financial statements of Beecher Metropolitan District (the "District") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the District:

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<b>Report on Internal Control</b>	1-3
<b>Results of the Audit</b>	4-6
<b>Other Recommendations</b>	7-8
<b>Informational – Legislative matters, etc.</b>	9-11

We are grateful for the opportunity to be of service to the Beecher Metropolitan District. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

December 5, 2008

## Report on Internal Control

December 5, 2008

To the Members of the Commission  
Beecher Metropolitan District

Dear Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the District's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Beecher Metropolitan District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

To the Members of the Commission  
Beecher Metropolitan District

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### **Lack of Segregation of Duties**

Because of the small size of the District's staff, one person has complete responsibility for the processing of financial information. This arrangement causes a lack of what is termed "segregation of duties". When segregation of duties is present in an internal control system, there are processes whereby the work of one individual is reviewed or checked by another. The following are some of the controls required to achieve adequate segregation of duties:

- Do not permit any one employee to handle a transaction from beginning to end.
- Separate all cash handling from recordkeeping.
- Separate the cash receipt function from the cash disbursement function.

Because of the small size of the District's staff, it may not be practical or cost effective to put all or any of the above controls in place. We would also like to note that the District does have the following compensating controls in place:

- Bank statements are delivered to the Administrator unopened and reviewed before given to the accountant to prepare the bank reconciliation.
- All checks issued are reviewed by the Administrator.

### **Significant Audit Adjustments**

Significant audit adjustments were proposed that may not have been detected except through the auditing procedures we performed. The adjustments related to the following items:

- Correcting the balance of accounts payable
- Correcting balances in property tax revenue
- Adjusting recorded depreciation expense to actual and recording additions and disposals
- Reversing of prior year adjusting entries for accruals
- Adjusting pension payable
- Recording of long-term debt for vehicle purchase

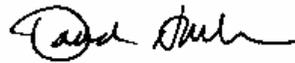
To the Members of the Commission  
Beecher Metropolitan District

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the items noted above relating to significant audit adjustments are also considered to be a material weakness.

This communication is intended solely for the information and use of management, the Members of the Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Tadd Harburn". The signature is cursive and somewhat stylized.

Tadd Harburn, CPA

## Results of the Audit

December 5, 2008

To the Members of the Commission  
Beecher Metropolitan District

We have audited the financial statements of Beecher Metropolitan District for the year ended June 30, 2008, and have issued our report thereon dated December 5, 2008. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated September 15, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Beecher Metropolitan District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

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

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 23, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Beecher Metropolitan District are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008.

To the Members of the Commission  
Beecher Metropolitan District

We noted no transactions entered into by the organization during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the useful lives of capital assets is based on prior history with the type of asset and the capitalization policy used by the District. We evaluated the key factors and assumptions used to develop the useful lives of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

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

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

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management: adjusting entries related to accounts payable, depreciation, capital asset additions and disposals, pension payable, and long-term debt.

#### ***Disagreements with Management***

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

#### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated December 5, 2008.

To the Members of the Commission  
Beecher Metropolitan District

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

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the organization’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization’s auditors.

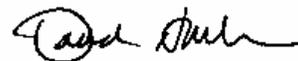
**Other Information in Documents Containing Audited Financial Statements**

Our responsibility relates to the organization’s financial statements and other information as identified in the auditor’s report. We have no responsibility for any other information that may be included in documents containing those audited statements. We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

This information is intended solely for the use of the Members of the Commission and management of Beecher Metropolitan District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



Tadd Harburn, CPA

## **Other Recommendations**

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# **Beecher Metropolitan District**

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## **Other Recommendations**

We noted the following items that we feel the District should consider implementing to become a stronger organization:

- Wire transfer policy - We recommend that the District adopts a formal wire transfer policy detailing the policies and procedures for all wire transfers to ensure appropriate segregation of duties.
- Customer deposits liability - We recommend that the District research the abandoned customer deposits liability at year end. The balance has not changed for several years.
- Actuarial report for Post-employment Benefits - As mentioned in the notes to the financial statements, there is a new financial reporting change that will be effective for the year ended June 30, 2010 relative to the requirement to record a liability for any underfunding of the required annual contribution (as determined by an actuary) for post-employment benefits. We recommend that the District plan to obtain an actuarial valuation by the end of June 30, 2008 in order to plan for the impact, if any, on the District's budget in future years as well as obtain the information required for disclosure in the annual financial statements.

## **Informational/ Legislative Matters**

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# Beecher Metropolitan District

## Informational/Legislative Matters

**Upcoming Reporting Change:** The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” post-employment benefits (other than pensions). The new rules will cause the government wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

### **Property Taxes and Taxable Value Changes**

The District’s future budget forecasts will have to deal with a general decline in the entire real estate market. You may have already seen a decline as a result of the soft market, and you will need to be able to react to a potential of 2-4 years of continuing weak taxable values.

As a response to the situation with the real estate market, legislation is being discussed in Lansing to adjust the mechanics of the general property tax act. The nature of the legislation has ranged from the suspension of the “pop-up” or increase in taxable value that occurs when a property sells or a “super cap” on taxable value that prohibits an increase in taxable value when market values are declining. The outcome of this legislation could also have a significant impact on the District.

### **Change in Investment Act**

Public Act 213 of 2007, adopted at the end of 2007 requires local governments to perform their investment reporting **quarterly** to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates

### **Fair and Accurate Credit Transactions**

The Fair and Accurate Credit Transactions Act was passed in 2003, with final regulations published at the end of 2007. These FTC rules, and more specifically the Red Flag Rules encompassed in them, may be applicable to municipal utility systems. The rules, put in place as a measure to protect against identity theft, indicate that a “creditor” with a “covered account” must implement a written identify theft prevention program to detect, prevent and mitigate identity theft in connection with the opening of a covered account or any existing covered account.

# **Beecher Metropolitan District**

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## **Informational/Legislative Matters (Continued)**

Under the rules, a creditor is defined very broadly, encompassing any entity that defers payment for goods and services, as defined under the Red Flag Rules. This most likely includes municipalities that “defer payments” by their utility customers when water, sewer, electric, gas, trash and the like are sold to customers day-by-day but paid for at the end of the billing cycle.

The Act would require written policies and procedures to be put in place to identify and follow up on red flags. Red flags, just as an example, would be the presentation by the customer of suspicious personal information that is inconsistent with external sources or suspicious documents provided for identification that appear to be alerted. The regulations appear to be flexible so that each government would have the ability to design an identity theft program that is tailored to its particular operation, given its size, technology currently utilized, and the perceived risk of identity theft in its community.

We understand that recent action has pushed back the required implementation date of this act, to allow creditors more time to put these new systems in place. We encourage you to follow up with legal counsel if you believe this Act may apply to your governmental unit.

### **Other Legislative Items**

- Multiple bills are pending in Lansing that would make changes to investment laws governing Michigan communities. Changes have been proposed to add different types of investments to what is commonly referred to as “Public Act 20” which governs the investment of surplus operating monies. Changes are also being proposed to the laws governing the investment of retirement monies.
- A bill is pending in the Michigan Legislature regarding retainages held by governmental units. Retainages are a common method used by local governments in procurement, particularly in the area of construction contracts. The law change focuses on reducing the retainage amount that a local government could require and stipulate the payment of interest on these monies among other provisions.
- Efforts continue in the wake of the *Bolt* case to provide a means for local units of government to engage in rate making to finance the cost of utility operations, particularly that of storm water. Senate Bill 1249 has been introduced to address the tests included in the *Bolt* decision on whether a charge is really a fee or a tax.