

# **City of Auburn**

**Auburn, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**June 30, 2010**

## Table of Contents

<u>Section</u>		<u>Page</u>
1	<b>List of Elected and Appointed Officials</b>	1 – 1
2	<b>Independent Auditors' Report</b>	2 – 1
3	<b>Management's Discussion and Analysis</b>	3 – 1
4	<b>Basic Financial Statements</b>	
	Government-wide Financial Statements	
	Statement of Net Assets	4 – 1
	Statement of Activities	4 – 2
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 – 3
	Reconciliation of Fund Balances of Governmental Funds to Net Assets of Governmental Activities	4 – 5
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 – 6
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 – 8
	Proprietary Funds	
	Statement of Net Assets	4 – 9
	Statement of Revenues, Expenses and Changes in Fund Net Assets	4 – 11
	Statement of Cash Flows	4 – 13
	Fiduciary Funds	
	Statement of Assets and Liabilities	4 – 15
	Notes to Financial Statements	4 – 16

<u>Section</u>	<u>Page</u>	
<b>5</b>	<b>Required Supplemental Information</b>	
	Budgetary Comparison Schedule	
	General Fund	5 – 1
	Major Street Fund	5 – 3
	Local Street Fund	5 – 4
	Street Repair Millage Fund	5 – 5
<b>6</b>	<b>Other Supplemental Information</b>	
	Nonmajor Governmental Funds	
	Balance Sheet	6 – 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 – 2
	Component Unit – Downtown Development Authority	
	Budgetary Comparison Schedule	6 – 3
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6 – 4
	Schedule of Indebtedness	6 – 5

**City of Auburn**  
**List of Elected and Appointed Officials**  
**June 30, 2010**

---

City Commission

Eric Larsen	Mayor
Matt Hardy	Commissioner
Ann Machelski	Commissioner
Brian Raab	Commissioner
Amy Rezmer	Commissioner
Jim Dominowski	Commissioner
Ken Charbonneau	Commissioner

Other Officers and Officials

JoElla Krantz	City Administrator
Karen Bellor	City Clerk / Treasurer



3023 Davenport  
Saginaw, MI 48602  
Phone (989) 793-9830 / (800) 968-0010  
Fax (989) 793-0186

## Independent Auditors' Report

To the Honorable Mayor and Members of the City Commission  
City of Auburn

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of and for the year ended June 30, 2010, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 Auburn's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

November 24, 2010  
Saginaw, Michigan

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

---

As management of the City of Auburn, Michigan, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplemental Information and Other Supplemental Information.

**Financial Highlights**

- This City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water and Sewer.
  - In total, the assets of the City exceed its liabilities by \$5,701,623 at the close of the most recent fiscal year.
    - \$3,297,873 is invested in Capital Assets, net of related debt;
    - \$2,403,750 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$1,870,760 in governmental activities and \$532,990 in business-type activities.
  - The City's total net assets increased by \$235,879 during the year, primarily due to increased infrastructure.
  - The City's bonded debt decreased by \$65,530 (new issues less retirements), during the fiscal year.
- Fund financial statements are comprised of 8 governmental funds and 3 proprietary funds. Governmental funds include the General Fund, Major and Local Street Funds, Street Repair Millage Fund, and other special revenue and debt service funds.
  - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,431,170.
  - Of the fund balance amount, \$992,170 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
  - The City's major funds, the General Fund (\$717,127), Major Street Fund (\$134,787), Local Street Fund (\$11,729) and the Street Repair Millage Fund (\$124,747) account for 99% of this unreserved balance. The remaining amount is represented across the other 4 non-major funds.
  - The general fund recognized a gain of \$77,248. At the end of the current fiscal year, unreserved general fund balance was 62% of the total general fund expenditures and other uses.

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

---

**Overview of the Basic Financial Statement**

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**Government-wide financial statements.**

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

The Statement of Net Assets includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Activities presents information showing how the City'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 revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City include: general government, public safety, streets, sanitation and recreation. The business-type activities of the City include: a water and sewer system and motor pool.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

---

**Fund Financial Statement.** The fund financial statements provide more detailed information about the City's major funds individually. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City of Auburn maintains eight (8) 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 Fund, Major Street Fund, Local Street Fund and the Street Repair Millage Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general and other major funds to demonstrate compliance with this budget.

**Proprietary funds.** The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

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

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

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

**Analysis of the Government-Wide Financial Statements**

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Government Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Assets</b>						
Current and other assets	\$1,978,932	\$1,878,159	\$ 177,853	\$ 1,708	\$2,156,785	\$1,879,867
Capital assets	1,216,323	1,308,729	2,877,350	2,955,866	4,093,673	4,264,595
Total assets	<u>3,195,255</u>	<u>3,186,888</u>	<u>3,055,203</u>	<u>2,957,574</u>	<u>6,250,458</u>	<u>6,144,462</u>
<b>Liabilities</b>						
Current liabilities	70,149	128,924	70,663	76,241	140,812	205,165
Long-term liabilities	408,023	473,553	-	-	408,023	473,553
Total liabilities	<u>478,172</u>	<u>602,477</u>	<u>76,241</u>	<u>76,241</u>	<u>548,835</u>	<u>678,718</u>
<b>Net Assets</b>						
Invested in capital assets - net of related debt	846,323	878,729	2,451,550	2,485,866	3,297,873	3,364,595
Unrestricted	1,870,760	1,705,682	532,990	395,467	2,403,750	2,101,149
Total net assets	<u>\$2,717,083</u>	<u>\$2,584,411</u>	<u>\$2,984,540</u>	<u>\$2,881,333</u>	<u>\$5,701,623</u>	<u>\$5,465,744</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Auburn, assets exceeded liabilities by \$5,701,623 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$235,878.

The largest portion of the City's net assets (58%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net assets \$2,398,424 may be used to meet the City's ongoing obligations to citizens and creditors.

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

**City's Changes in Net Assets:**

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 150,915	\$ 144,389	\$ 539,161	\$ 499,703	\$ 690,076	\$ 644,092
Operating grants and contributions	135,430	137,589	-	-	135,430	137,589
General revenue						
Property taxes	609,494	608,588	-	-	609,494	608,588
State-shared revenue	156,887	176,396	-	-	156,887	176,396
Interest	28,899	38,693	1,269	2,432	30,168	41,125
Gain on sale of capital assets	2,184	-	-	-	2,184	-
Miscellaneous	25,755	2,386	120,190	1,029	145,949	3,415
County Drain Bond Payment	-	171,710	-	-	-	171,710
Transfers	(12,400)	(12,400)	12,400	12,400	-	-
Total revenue	810,819	1,267,351	673,020	515,564	1,770,184	1,782,915
<b>Program expenses</b>						
General government	179,030	207,694	-	-	179,030	207,694
Public safety	231,368	257,249	-	-	231,368	257,249
Public works	430,459	406,070	-	-	430,459	406,070
Community and economic development	4,606	3,264	-	-	4,606	3,264
Recreation and culture	95,070	91,603	-	-	95,070	91,603
Interest on long-term debt	23,960	21,192	-	-	23,960	21,192
Water and sewer	-	-	569,813	542,783	569,813	542,783
Total program expenses	964,493	987,072	569,813	542,783	1,534,306	1,529,855
<b>Change in Net Assets</b>	<b>\$ 132,671</b>	<b>\$ 280,279</b>	<b>\$ 103,207</b>	<b>\$ (27,219)</b>	<b>\$ 235,878</b>	<b>\$ 253,060</b>

**Governmental Activities.** Governmental activities increased the City's net assets by \$132,671.

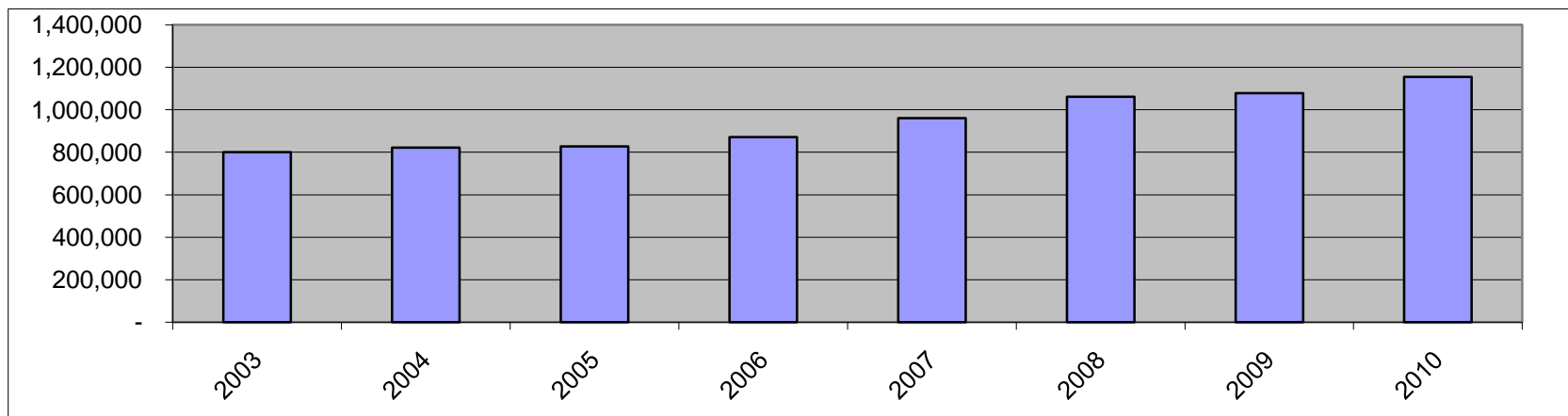
**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

---

**City of Auburn Funds**

**General Fund**

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$1,155,026, an increase of \$77,248 over prior year balance, a 7% increase over the previous year. Following is a chart of the General Fund fund balance trend over the past eight years.



**Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local street component. The City uses the funds for improvements to the City street system, along with contributions from the Street Repair Millage Fund. Major Street fund balance had an increase of \$19,912 and the Local Street fund balance had an increase of \$1,231.

**Street Repair Millage Fund**

The City's millage for road construction and improvements are accounted for in this fund. There was an increase in fund balance of \$86,629 which will be used for transfers to the Major and Local Street Funds for street improvement projects.

**City of Auburn**  
**Management's Discussion and Analysis**  
**June 30, 2010**

---

**Business-type activities.** Business-type activities increased the City's net assets by \$103,207. The Water Fund continued to invest capital assets to replace its aging infrastructure. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

### **Budgetary Highlights**

Budget and actual comparison statements are provided in the Budgetary Comparison Schedule for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times.

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

**Capital assets.** At June 30, 2010 the City had \$4.09 million invested in capital assets, including buildings, equipment, park and recreation facilities and water and sewer lines.

**Long-Term Debt.** At June 30, 2010, the City of Auburn had total bonded debt outstanding of \$370,000 and an additional \$38,023 for compensated absences. Additional information can be found in the Notes to the Financial Statements, Note 7.

### **Economic Factors**

The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

### **Financial Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

**City of Auburn**  
**Statement of Net Assets**  
**June 30, 2010**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,436,516	\$ 464,509	\$ 1,901,025	\$ 409,333
Receivables				
Taxes	19,241	265	19,506	20,105
Customers	21,568	86,680	108,248	-
Special assessments	2,219	-	2,219	-
Accrued interest and other	268	-	268	-
Due from other units of government	73,840	-	73,840	-
Internal balances	411,665	(411,665)	-	-
Inventories	5,326	-	5,326	-
Prepaid items	8,289	38,064	46,353	-
Capital assets not being depreciated	61,570	36,000	97,570	13,000
Capital assets net of accumulated depreciation	<u>1,154,753</u>	<u>2,841,350</u>	<u>3,996,103</u>	<u>9,563</u>
Total assets	<u>3,195,255</u>	<u>3,055,203</u>	<u>6,250,458</u>	<u>452,001</u>
<b>Liabilities</b>				
Accounts payable	50,294	68,160	118,454	24,385
Accrued and other liabilities	18,846	2,274	21,120	-
Due to component unit	960	-	960	-
Due to other units of government	49	229	278	-
Noncurrent liabilities				
Due within one year	65,000	-	65,000	-
Due in more than one year	<u>343,023</u>	<u>-</u>	<u>343,023</u>	<u>-</u>
Total liabilities	<u>478,172</u>	<u>70,663</u>	<u>548,835</u>	<u>24,385</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	846,323	2,451,550	3,297,873	22,563
Unrestricted	<u>1,870,760</u>	<u>532,990</u>	<u>2,403,750</u>	<u>405,053</u>
<b>Total net assets</b>	<u>\$ 2,717,083</u>	<u>\$ 2,984,540</u>	<u>\$ 5,701,623</u>	<u>\$ 427,616</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
Governmental activities								
General government	\$ 179,030	\$ 24,192	\$ -	\$ -	\$ (154,838)	\$ -	\$ (154,838)	\$ -
Public safety	231,368	2,142	-	-	(229,226)	-	(229,226)	-
Public works	430,459	116,811	135,430	-	(178,218)	-	(178,218)	-
Community and economic development	4,606	300	-	-	(4,306)	-	(4,306)	-
Recreation and culture	95,070	7,470	-	-	(87,600)	-	(87,600)	-
Interest on long-term debt	23,960	-	-	-	(23,960)	-	(23,960)	-
Total governmental activities	<u>964,493</u>	<u>150,915</u>	<u>135,430</u>	<u>-</u>	<u>(678,148)</u>	<u>-</u>	<u>(678,148)</u>	<u>-</u>
Business-type activities								
Sewer	313,236	268,450	-	-	-	(44,786)	(44,786)	-
Water	256,577	270,711	-	-	-	14,134	14,134	-
Total business-type activities	<u>569,813</u>	<u>539,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,652)</u>	<u>(30,652)</u>	<u>-</u>
Total primary government	<u>\$ 1,534,306</u>	<u>\$ 690,076</u>	<u>\$ 135,430</u>	<u>\$ -</u>	<u>(678,148)</u>	<u>(30,652)</u>	<u>(708,800)</u>	<u>-</u>
<b>Component unit</b>								
Downtown Development Authority	\$ 297,915	\$ -	\$ -	\$ -				(297,915)
General revenues								
Property taxes					609,494	-	609,494	207,612
State shared revenue					156,887	-	156,887	-
Unrestricted investment earnings					28,899	1,269	30,168	3,063
Gain on sale of capital assets					2,184	-	2,184	-
Miscellaneous					25,755	120,190	145,945	1,711
Transfers					(12,400)	12,400	-	-
Total general revenues and transfers					<u>810,819</u>	<u>133,859</u>	<u>944,678</u>	<u>212,386</u>
Change in net assets					132,671	103,207	235,878	(85,529)
Net assets - beginning of year					<u>2,584,412</u>	<u>2,881,333</u>	<u>5,465,745</u>	<u>513,145</u>
<b>Net assets - end of year</b>					<u>\$ 2,717,083</u>	<u>\$ 2,984,540</u>	<u>\$ 5,701,623</u>	<u>\$ 427,616</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2010**

	<u>Special Revenue Funds</u>					Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street Repair Millage</u>			
<b>Assets</b>							
Cash and cash equivalents	\$ 711,562	\$ 124,941	\$ 6,126	\$ 118,421	\$ 3,780	\$ 964,830	
Receivables							
Taxes	12,915	-	-	6,326	-	19,241	
Customers	21,568	-	-	-	-	21,568	
Special assessments	2,219	-	-	-	-	2,219	
Accrued interest and other	39	-	-	-	-	39	
Due from other units of government	52,746	15,029	6,065	-	-	73,840	
Due from other funds	-	-	3,757	-	-	3,757	
Inventories	5,326	-	-	-	-	5,326	
Prepaid items	6,773	484	617	-	-	7,874	
Advances to other funds	425,800	-	-	-	-	425,800	
<b>Total assets</b>	<u>\$ 1,238,948</u>	<u>\$ 140,454</u>	<u>\$ 16,565</u>	<u>\$ 124,747</u>	<u>\$ 3,780</u>	<u>\$ 1,524,494</u>	

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2010**

	Special Revenue Funds					Total Governmental Funds
	General	Major Street	Local Street	Street Repair Millage	Nonmajor Governmental Funds	
<b>Liabilities</b>						
Accounts payable	\$ 41,108	\$ 370	\$ 3,343	\$ -	\$ -	\$ 44,821
Accrued and other liabilities	12,627	994	812	-	-	14,433
Due to other funds	-	3,757	-	-	-	3,757
Due to component unit	803	62	64	-	-	929
Deferred revenue	29,384	-	-	-	-	29,384
Total liabilities	83,922	5,183	4,219	-	-	93,324
<b>Fund balances</b>						
Reserved for:						
Long-term advances	425,800	-	-	-	-	425,800
Inventory	5,326	-	-	-	-	5,326
Prepaid items	6,773	484	617	-	-	7,874
Unreserved, reported in:						
General fund	717,127	-	-	-	-	717,127
Special revenue funds	-	134,787	11,729	124,747	3,780	275,043
Total fund balances	1,155,026	135,271	12,346	124,747	3,780	1,431,170
<b>Total liabilities and fund balances</b>	\$ 1,238,948	\$ 140,454	\$ 16,565	\$ 124,747	\$ 3,780	\$ 1,524,494

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**June 30, 2010**

---

<b>Total fund balances for governmental funds</b>	\$ 1,431,170
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,072,597
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	29,384
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(3,431)
Compensated absences	(38,023)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(370,000)
Internal service funds are included as part of governmental activities.	<u>595,386</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 2,717,083</u></u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

	<u>Special Revenue Funds</u>			Nonmajor Governmental Funds	Total Governmental Funds	
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>			<u>Street Repair Millage</u>
<b>Revenues</b>						
Taxes	\$ 450,652	\$ -	\$ -	\$ 158,842	\$ -	\$ 609,494
Licenses and permits	26,104	-	-	-	204	26,308
State revenue sharing	157,559	91,764	37,034	-	-	286,357
Other state grants	-	2,211	4,421	-	-	6,632
Charges for services	116,856	-	-	-	-	116,856
Fines and forfeitures	281	-	-	-	-	281
Interest income	23,178	422	17	502	15	24,134
Rental income	6,580	-	-	-	-	6,580
Other revenue	16,075	3,671	-	11,720	-	31,466
	<u>797,285</u>	<u>98,068</u>	<u>41,472</u>	<u>171,064</u>	<u>219</u>	<u>1,108,108</u>
Total revenues						

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2010**

	<u>Special Revenue Funds</u>				<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street Repair Millage</u>		
<b>Expenditures</b>						
Current						
General government	\$ 175,581	\$ -	\$ -	\$ -	\$ -	\$ 175,581
Public safety	217,898	-	-	-	60	217,958
Public works	227,285	55,215	63,182	-	-	345,682
Community and economic development	4,606	-	-	-	-	4,606
Recreation and culture	78,593	-	-	-	-	78,593
Capital outlay	3,674	-	-	-	-	3,674
Debt service						
Principal retirement	-	-	-	-	60,000	60,000
Interest and fiscal charges	-	-	-	-	24,435	24,435
Total expenditures	<u>707,637</u>	<u>55,215</u>	<u>63,182</u>	<u>-</u>	<u>84,495</u>	<u>910,529</u>
Excess (deficiency) of revenues over expenditures	<u>89,648</u>	<u>42,853</u>	<u>(21,710)</u>	<u>171,064</u>	<u>(84,276)</u>	<u>197,579</u>
<b>Other financing sources (uses)</b>						
Transfers in	-	-	22,941	-	84,435	107,376
Transfers out	<u>(12,400)</u>	<u>(22,941)</u>	<u>-</u>	<u>(84,435)</u>	<u>-</u>	<u>(119,776)</u>
Total other financing sources and uses	<u>(12,400)</u>	<u>(22,941)</u>	<u>22,941</u>	<u>(84,435)</u>	<u>84,435</u>	<u>(12,400)</u>
Net change in fund balance	77,248	19,912	1,231	86,629	159	185,179
Fund balance - beginning of year	<u>1,077,778</u>	<u>115,359</u>	<u>11,115</u>	<u>38,118</u>	<u>3,621</u>	<u>1,245,991</u>
<b>Fund balance - end of year</b>	<u>\$ 1,155,026</u>	<u>\$ 135,271</u>	<u>\$ 12,346</u>	<u>\$ 124,747</u>	<u>\$ 3,780</u>	<u>\$ 1,431,170</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Governmental Funds**  
**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, 2010**

---

<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 185,179</b>
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(73,808)
Capital outlay	2,064
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	(672)
Special assessments	(4,821)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	475
Compensated absences	5,530
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Repayments of long-term debt	60,000
Internal service funds are also included as governmental activities	<u>(41,276)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ 132,671</u></b>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 367,637	\$ 96,872	\$ 464,509	\$ 471,686
Receivables				
Taxes	-	265	265	-
Customers	22,695	63,985	86,680	-
Accrued interest and other	-	-	-	229
Prepaid items	37,572	492	38,064	415
Total current assets	427,904	161,614	589,518	472,330
Noncurrent assets				
Capital assets not being depreciated	36,000	-	36,000	-
Capital assets net of accumulated depreciation	938,123	1,903,227	2,841,350	143,726
Total noncurrent assets	974,123	1,903,227	2,877,350	143,726
Total assets	1,402,027	2,064,841	3,466,868	616,056
<b>Liabilities</b>				
Current liabilities				
Accounts payable	58,186	9,974	68,160	5,473
Accrued and other liabilities	1,066	1,208	2,274	982
Due to component unit	-	-	-	80
Due to other units of government	114	115	229	-
Total current liabilities	59,366	11,297	70,663	6,535
Noncurrent liabilities				
Advances from other funds	-	425,800	425,800	-
Total liabilities	59,366	437,097	496,463	6,535

See Accompanying Notes to Financial Statements

**City of Auburn  
Proprietary Funds  
Statement of Net Assets  
June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Net assets</b>				
Invested in capital assets, net of related debt	\$ 974,123	\$ 1,477,427	\$ 2,451,550	\$ 143,726
Unrestricted	368,538	150,317	518,855	465,795
<b>Total net assets</b>	<b>\$ 1,342,661</b>	<b>\$ 1,627,744</b>	2,970,405	<b>\$ 609,521</b>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			14,135	
<b>Net assets of business-type activities</b>			<b>\$ 2,984,540</b>	

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Operating revenue</b>				
Customer fees	\$ 268,000	\$ 269,796	\$ 537,796	\$ -
Billings to other funds	-	-	-	123,218
Connection fees	450	915	1,365	-
Rental income	421	-	421	-
Other revenue	105,646	14,123	119,769	966
	<u>374,517</u>	<u>284,834</u>	<u>659,351</u>	<u>124,184</u>
Total operating revenue				
<b>Operating expenses</b>				
Personnel services	23,646	36,812	60,458	41,517
Supplies	2,688	3,747	6,435	26,423
Contractual services	229,399	136,245	365,644	1,155
Utilities	3,859	273	4,132	3,166
Repairs and maintenance	13,415	8,161	21,576	40,993
Other expenses	568	2,912	3,480	17,612
Depreciation	37,711	52,187	89,898	46,023
	<u>311,286</u>	<u>240,337</u>	<u>551,623</u>	<u>176,889</u>
Total operating expenses				
Operating income (loss)	<u>63,231</u>	<u>44,497</u>	<u>107,728</u>	<u>(52,705)</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2010**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Nonoperating revenue (expenses)</b>				
Interest income	\$ 836	\$ 433	\$ 1,269	\$ 4,765
Gain on sale of assets	-	-	-	2,184
Interest expense	-	(13,710)	(13,710)	-
Total nonoperating revenues (expenses)	<u>836</u>	<u>(13,277)</u>	<u>(12,441)</u>	<u>6,949</u>
Income (loss) before transfers in	64,067	31,220	95,287	(45,756)
Transfers in	-	12,400	12,400	-
Change in net assets	64,067	43,620	107,687	(45,756)
Net assets - beginning of year	<u>1,278,594</u>	<u>1,584,124</u>		<u>655,277</u>
<b>Net assets - end of year</b>	<u>\$ 1,342,661</u>	<u>\$ 1,627,744</u>		<u>\$ 609,521</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>(4,480)</u>	
<b>Change in net assets of business-type activities</b>			<u>\$ 103,207</u>	

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 371,120	\$ 271,375	\$ 642,495	\$ 1,190
Receipts from interfund users	-	-	-	123,218
Receipts to other funds	-	2,179	2,179	-
Payments to suppliers	(244,519)	(151,720)	(396,239)	(87,616)
Payments to employees	(23,646)	(36,812)	(60,458)	(41,517)
Payments for interfund services used	(4,578)	(5,858)	(10,436)	-
Net cash provided (used) by operating activities	<u>98,377</u>	<u>79,164</u>	<u>177,541</u>	<u>(4,725)</u>
<b>Cash flows from noncapital financing activities</b>				
Transfer from other funds	-	12,400	12,400	-
<b>Cash flows from capital and related financing activities</b>				
Advances from other funds	-	(44,200)	(44,200)	-
Purchases/construction of capital assets	(5,692)	(5,691)	(11,383)	(25,361)
Principal and interest paid on long-term debt	-	(13,710)	(13,710)	-
Proceeds from sale of capital assets	-	-	-	2,184
Net cash used by capital and related financing activities	<u>(5,692)</u>	<u>(63,601)</u>	<u>(69,293)</u>	<u>(23,177)</u>
<b>Cash flows from investing activities</b>				
Interest received	836	433	1,269	4,765
Net change in cash and cash equivalents	93,521	28,396	121,917	(23,137)
Cash and cash equivalents - beginning of year	<u>274,116</u>	<u>68,476</u>	<u>342,592</u>	<u>494,823</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 367,637</u>	<u>\$ 96,872</u>	<u>\$ 464,509</u>	<u>\$ 471,686</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 63,231	\$ 44,497	\$ 107,728	\$ (52,705)
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	37,711	52,187	89,898	46,023
Changes in assets and liabilities				
Receivables (net)	(3,397)	(13,459)	(16,856)	224
Due from other funds	-	2,179	2,179	-
Prepaid items	(39)	209	170	9
Accounts payable	440	(5,784)	(5,344)	1,926
Accrued and other liabilities	389	(63)	326	(208)
Due to component unit	-		-	6
Due to other units of government	42	(602)	(560)	-
<b>Net cash provided (used) by operating activities</b>	<u>\$ 98,377</u>	<u>\$ 79,164</u>	<u>\$ 177,541</u>	<u>\$ (4,725)</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Fiduciary Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2010**

---

	<u>Payroll</u>	<u>Current Tax Collection</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 756	\$ 211
<b>Liabilities</b>		
Accounts payable	\$ 756	\$ -
Due to other units of government	<u>-</u>	<u>211</u>
Total liabilities	<u>\$ 756</u>	<u>\$ 211</u>

See Accompanying Notes to Financial Statements

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

---

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

**Reporting Entity**

The City of Auburn is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Downtown Development Authority are appointed by the City Commission. The budgets and expenditures of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the City of Auburn annual financial statements.

**Jointly Governed Organizations**

Auburn-Williams Fire Protection District – The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires the City provide 30% and Williams Township 70% of the operational and building costs. The District has title to all property, plant and equipment. All of the financial operations of the District are recorded in the Auburn-Williams Fire Protection District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government 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 segments 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 fund and fiduciary fund financial

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

---

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, 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 government.

The government reports the following major governmental funds:

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

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Street Repair Millage Fund accounts for taxes levied for road construction and improvements.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue fund, Building Inspection Fund, accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds, 2000 Midland Road Bonds Fund and 2000 Michigan Transportation Bonds Fund, account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

---

The Payroll Fund and Current Tax Collection Fund account for payroll expenses and property tax and other deposits collected on behalf of other units and individuals, respectively.

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

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government'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.

Amounts reported as *program revenues* 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 *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the

portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, Liabilities, and Net Assets or Equity**

Deposits and investments – Cash and cash equivalents are considered to be 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 based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The City considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on February 15<sup>th</sup> of the following year, at which time penalties and interest are assessed.

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

---

The 2009 taxable valuation of the government totaled \$52,901,428, on which ad valorem taxes consisted of 10.0 mills for operating purposes and 3.0 mills for road repairs. This resulted in \$436,891 for operating expenses and \$158,310 for road repairs, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventory and Prepaid items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or 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 \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Roads	20 to 40 years
Other infrastructure	20 to 40 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all of their accumulated vacation pay upon termination of employment for any reason. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Comparative Data**

Comparative data is not included in the government’s financial statements.

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the first meeting held in June, the City Administrator submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Administrator is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total

expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Excess of expenditures over appropriations**

	Budget	Actual	Excess
General Fund			
Parks and recreation	\$ 72,325	\$ 78,593	\$ 6,268

**Note 3 - Deposits and Investments**

At year end the government’s deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents
Governmental activities	\$ 1,436,516
Business-type activities	464,509
Fiduciary funds	967
Total primary government	1,901,992
Component unit	409,333
Total	\$ 2,311,325

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,901,642	\$ 409,333
Petty cash and cash on hand	350	-
	\$ 1,901,992	\$ 409,333

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

*Credit risk* – State statutes and the government’s investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance 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 any of 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.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk - deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may

not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$1,430,284 of the City’s bank balance of \$2,169,779 was uninsured, however, is collateralized in AAA rated government securities from Chemical Bank.

**Note 4 - Receivables and Deferred Revenue**

The only receivable not expected to be collected within one year is as follows:

	Due After One Year	Fund
<b>Primary government</b>		
Special assessments	\$ 2,219	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue 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 are as follows:

	<u>Unavailable</u>
<b>Primary government</b>	
State shared revenue	\$ 27,165
Special assessments	2,219
	\$ 29,384

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 5 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital assets being depreciated				
Land improvements	222,529	-	-	222,529
Infrastructure	1,101,189	-	-	1,101,189
Buildings, additions and improvements	219,036	-	-	219,036
Machinery and equipment	671,862	4,425	1,811	674,476
Vehicles	115,021	23,000	45,281	92,740
Total capital assets being depreciated	2,329,637	27,425	47,092	2,309,970
Less accumulated depreciation for				
Land improvements	197,426	3,424	-	200,850
Infrastructure	131,187	55,059	-	186,246
Buildings, additions and improvements	133,484	8,766	-	142,250
Machinery and equipment	536,136	44,014	1,811	578,339
Vehicles	84,245	8,568	45,281	47,532
Total accumulated depreciation	1,082,478	119,831	47,092	1,155,217
Net capital assets being depreciated	1,247,159	(92,406)	-	1,154,753
Governmental activities capital assets, net	<u>\$ 1,308,729</u>	<u>\$ (92,406)</u>	<u>\$ -</u>	<u>\$ 1,216,323</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital assets being depreciated				
Water system	2,685,009	5,691	-	2,690,700
Sewer system	1,806,997	5,692	-	1,812,689
Total capital assets being depreciated	4,492,006	11,383	-	4,503,389
Less accumulated depreciation for				
Water system	735,286	52,187	-	787,473
Sewer system	836,855	37,711	-	874,566
Total accumulated depreciation	1,572,141	89,898	-	1,662,039
Net capital assets being depreciated	2,919,865	(78,515)	-	2,841,350
Business-type capital assets, net	<u>\$ 2,955,865</u>	<u>\$ (78,515)</u>	<u>\$ -</u>	<u>\$ 2,877,350</u>

Capital assets activity of the component unit for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Component Unit</b>				
Capital assets not being depreciated				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Capital assets being depreciated				
Land improvements	12,581	-	-	12,581
Less accumulated depreciation for				
Land improvements	2,515	503	-	3,018
Net capital assets being depreciated	10,066	(503)	-	9,563
Component unit capital assets, net	<u>\$ 23,066</u>	<u>\$ (503)</u>	<u>\$ -</u>	<u>\$ 22,563</u>

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

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

<b>Governmental activities</b>	
General government	\$ 4,762
Public safety	3,604
Public works	56,079
Recreation and culture	9,362
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>46,023</u>
 Total governmental activities	 <u>119,830</u>
 <b>Business-type activities</b>	
Sewer	37,711
Water	<u>52,187</u>
 Total business-type activities	 <u>89,898</u>
 Total primary government	 <u>\$ 209,728</u>

The component unit recognized \$503 of depreciation expense.

**Note 6 - Interfund Receivables, Payable, and Transfers**

The composition of interfund balances is as follows:

<b>Due from/to other funds</b>		
Local Street	Major Street	<u>\$ 3,757</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Advances at year end are as follows:

<b>Advances due to/from other funds</b>		
General	Water	<u>\$ 425,800</u>

The advance was made for water main improvements. Annual principal payments of \$31,000 plus 3% annual interest will be made until the advance is paid in full in 2024.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Water Fund	\$ 12,400
Major Street	Local Street	22,941
Street Repair Millage Fund	Nonmajor Governmental Funds	<u>84,435</u>
		<u>\$ 119,776</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Major Street Fund transferred revenues to the Local Street Fund for the construction of roadways. The Street Repair Millage Fund transferred funds to other governmental funds for the payment of debt.

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

**Note 7 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Future bond and interest payments will be paid from the 2000 Midland Road Bonds fund and 2000 Michigan Transportation Bonds fund. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>								
Bonds and notes payable								
General obligation bonds								
2000 Michigan Transportation Bonds	2015	5.50% - 5.60%	\$45,000 - \$60,000	\$ 290,000	\$ -	\$ 40,000	\$ 250,000	\$ 45,000
2000 Midland Road Bonds	2015	5.50% - 5.60%	\$20,000 - \$25,000	140,000	-	20,000	120,000	20,000
Total bonds payable				430,000	-	60,000	370,000	65,000
Compensated absences				43,553	-	5,530	38,023	-
Total governmental activities				<u>\$ 473,553</u>	<u>\$ -</u>	<u>\$ 65,530</u>	<u>\$ 408,023</u>	<u>\$ 65,000</u>

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 65,000	\$ 20,586
2012	70,000	17,012
2013	70,000	13,126
2014	80,000	9,240
2015	85,000	4,760
	<u>\$ 370,000</u>	<u>\$ 64,724</u>

**Note 8 - Risk Management**

The government 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 government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 9 - Employee Retirement and Benefit Systems**

**Defined Benefit Pension Plan**

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 3% of gross wages for the first \$4,200 of wages earned and 5% thereafter, for full time employees.

Annual pension costs – For year ended 2009, the government's annual pension cost of \$21,931 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2008, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8 percent investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 4.5 percent per year cost of living adjustments. Both 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 percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2009 follows:

	2009	2008	2007
Annual pension cost	\$ 26,099	\$ 31,650	\$ 32,812
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,446,614	1,473,883	1,393,058
Actuarial accrued liabilities	1,805,735	1,562,588	1,481,807
Unfunded AAL	359,121	88,705	88,749
Funded ratio	80.0%	94.0%	94.0%
Covered payroll	262,927	344,918	333,028
UAAL as a percentage of covered payroll	137%	26%	27%

**City of Auburn**  
**Notes to Financial Statements**  
**June 30, 2010**

---

**Note 10 - Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has issued Statement of Governmental Accounting Standards No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This standard will change the reporting of fund balance in the balance sheets of governmental type funds. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 is effective for financial statements for periods beginning after June 15, 2010.

**City of Auburn**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 438,200	\$ 438,200	\$ 438,316	\$ 116
Penalties and interest	3,000	4,450	5,374	924
Administration fee	6,700	6,950	6,962	12
Licenses and permits	19,850	19,850	26,104	6,254
State revenue sharing	177,000	156,000	157,559	1,559
Charges for services	110,400	115,400	116,856	1,456
Fines and forfeitures	500	500	281	(219)
Interest income	20,000	20,000	23,178	3,178
Rental income	5,100	5,840	6,580	740
Other revenue	5,100	15,000	16,075	1,075
	<u>785,850</u>	<u>782,190</u>	<u>797,285</u>	<u>15,095</u>
Total revenues				
<b>Expenditures</b>				
General government				
City commission	7,250	7,250	6,694	(556)
Manager	99,769	94,225	89,154	(5,071)
Audit	2,600	2,600	2,310	(290)
Board of review	500	500	281	(219)
Treasurer	40,730	39,960	36,249	(3,711)
Assessor	12,050	12,170	11,736	(434)
Elections	11,669	8,435	7,072	(1,363)
Buildings and grounds	33,802	28,160	17,947	(10,213)
Attorney	4,000	8,000	4,138	(3,862)
	<u>212,370</u>	<u>201,300</u>	<u>175,581</u>	<u>(25,719)</u>
Total general government				

**City of Auburn**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	\$ 189,004	\$ 151,509	\$ 149,149	\$ (2,360)
Fire department	72,025	68,750	68,749	(1)
Total public safety	<u>261,029</u>	<u>220,259</u>	<u>217,898</u>	<u>(2,361)</u>
Public works				
Department of public works	54,482	66,260	62,902	(3,358)
Sidewalks	28,165	28,165	21,120	(7,045)
Street lighting	28,000	32,000	31,805	(195)
Sanitary land fill	109,000	112,000	111,458	(542)
Total public works	<u>219,647</u>	<u>238,425</u>	<u>227,285</u>	<u>(11,140)</u>
Community and economic development				
Planning	7,900	7,900	4,546	(3,354)
Zoning	1,300	1,300	60	(1,240)
Total community and economic development	<u>9,200</u>	<u>9,200</u>	<u>4,606</u>	<u>(4,594)</u>
Recreation and culture				
Parks and recreation	60,360	72,325	78,593	6,268
Other functions				
Unallocated employee fringe benefits	2,000	-	-	-
Capital outlay	4,000	6,025	3,674	(2,351)
Transfers out	22,400	22,400	12,400	(10,000)
Total expenditures	<u>791,006</u>	<u>769,934</u>	<u>720,037</u>	<u>(49,897)</u>
Excess (deficiency) of revenues over expenditures	(5,156)	12,256	77,248	64,992
Fund balance - beginning of year	<u>1,077,778</u>	<u>1,077,778</u>	<u>1,077,778</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u><b>\$ 1,072,622</b></u>	<u><b>\$ 1,090,034</b></u>	<u><b>\$ 1,155,026</b></u>	<u><b>\$ 64,992</b></u>

**City of Auburn**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
State revenue sharing	\$ 89,000	\$ 89,000	\$ 91,764	\$ 2,764
Other state grants	2,000	2,000	2,211	211
Interest income	700	700	422	(278)
Other revenue	-	-	3,671	3,671
	<u>91,700</u>	<u>91,700</u>	<u>98,068</u>	<u>6,368</u>
<b>Expenditures</b>				
Current				
Public works	69,805	69,805	55,215	(14,590)
Transfers out	25,500	25,500	22,941	(2,559)
	<u>95,305</u>	<u>95,305</u>	<u>78,156</u>	<u>(17,149)</u>
Excess (deficiency) of revenues over expenditures	(3,605)	(3,605)	19,912	23,517
Fund balance - beginning of year	<u>115,359</u>	<u>115,359</u>	<u>115,359</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 111,754</u>	<u>\$ 111,754</u>	<u>\$ 135,271</u>	<u>\$ 23,517</u>

**City of Auburn**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
State revenue sharing	\$ 37,000	\$ 37,000	\$ 37,034	\$ 34
Other state grants	4,200	4,200	4,421	221
Interest income	5	5	17	12
Transfers in	<u>129,250</u>	<u>129,250</u>	<u>22,941</u>	<u>(106,309)</u>
Total revenues	<u>170,455</u>	<u>170,455</u>	<u>64,413</u>	<u>(106,042)</u>
<b>Expenditures</b>				
Current				
Public works	75,645	75,645	63,182	(12,463)
Capital outlay	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total expenditures	<u>175,645</u>	<u>175,645</u>	<u>63,182</u>	<u>(112,463)</u>
Excess (deficiency) of revenues over expenditures	(5,190)	(5,190)	1,231	6,421
Fund balance - beginning of year	<u>11,115</u>	<u>11,115</u>	<u>11,115</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 5,925</u>	<u>\$ 5,925</u>	<u>\$ 12,346</u>	<u>\$ 6,421</u>

**City of Auburn**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Street Repair Millage Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 158,700	\$ 158,700	\$ 158,842	\$ 142
Interest income	500	500	502	2
Other revenue	-	-	11,720	11,720
	<u>159,200</u>	<u>159,200</u>	<u>171,064</u>	<u>11,864</u>
Total revenues				
<b>Expenditures</b>				
Current				
Public works	25	25	-	(25)
Transfers out	169,886	169,886	84,435	(85,451)
	<u>169,911</u>	<u>169,911</u>	<u>84,435</u>	<u>(85,476)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(10,711)	(10,711)	86,629	97,340
Fund balance - beginning of year	<u>38,118</u>	<u>38,118</u>	<u>38,118</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 27,407</u>	<u>\$ 27,407</u>	<u>\$ 124,747</u>	<u>\$ 97,340</u>

**City of Auburn**  
**Other Supplemental Information**  
**Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2010**

---

	<u>Special Revenue Fund</u>
	<u>Building Inspection</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>3,780</u>
<b>Fund balance</b>	
Unreserved	
Undesignated	\$ <u>3,780</u>

**City of Auburn**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2010**

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	
<b>Revenues</b>				
Licenses and permits	\$ 204	\$ -	\$ -	\$ 204
Interest income	15	-	-	15
Total revenues	<u>219</u>	<u>-</u>	<u>-</u>	<u>219</u>
<b>Expenditures</b>				
Current				
Public safety	60	-	-	60
Debt service				
Principal retirement	-	20,000	40,000	60,000
Interest and fiscal charges	-	8,050	16,385	24,435
Total expenditures	<u>60</u>	<u>28,050</u>	<u>56,385</u>	<u>84,495</u>
Excess (deficiency) of revenues under expenditures	<u>159</u>	<u>(28,050)</u>	<u>(56,385)</u>	<u>(84,276)</u>
<b>Other financing sources</b>				
Transfers in	-	28,050	56,385	84,435
Net change in fund balance	159	-	-	159
Fund balance - beginning of year	<u>3,621</u>	<u>-</u>	<u>-</u>	<u>3,621</u>
<b>Fund balance - end of year</b>	<u>\$ 3,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,780</u>

**City of Auburn**  
**Other Supplemental Information**  
**Component Unit - Downtown Development Authority**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Taxes	\$ 206,000	\$ 206,000	\$ 207,612	\$ 1,612
Local contribution	-	-	649	649
Interest income	1,000	1,000	3,063	2,063
Other revenue	-	-	1,062	1,062
	<u>207,000</u>	<u>207,000</u>	<u>212,386</u>	<u>5,386</u>
<b>Total revenues</b>				
<b>Expenditures</b>				
Current				
Community and economic development	12,600	12,600	200,472	187,872
Capital outlay	300,000	300,000	96,940	(203,060)
	<u>312,600</u>	<u>312,600</u>	<u>297,412</u>	<u>(15,188)</u>
<b>Total expenditures</b>				
Excess (deficiency) of revenues over expenditures	(105,600)	(105,600)	(85,026)	20,574
Fund balance - beginning of year	<u>490,079</u>	<u>490,079</u>	<u>490,079</u>	<u>-</u>
<b>Fund balance - end of year</b>	<u>\$ 384,479</u>	<u>\$ 384,479</u>	<u>\$ 405,053</u>	<u>\$ 20,574</u>

**City of Auburn**  
**Component Unit - Downtown Development Authority**  
**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, 2010**

---

**Net change in fund balances - Total governmental funds** \$ (85,026)

Total change in net assets reported for governmental activities in the statement of activities  
is different because:

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

Depreciation expense (503)

**Change in net assets of governmental activities** \$ (85,529)

**City of Auburn**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2010**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
<b>Governmental Activities</b>	5.50%	2011	\$ 20,000	\$ 3,338	\$ 3,338	\$ 26,676
2000 Midland Road Bonds	5.55%	2012	25,000	2,788	2,788	30,576
	5.55%	2013	25,000	2,094	2,094	29,188
	5.60%	2014	25,000	1,400	1,400	27,800
	5.60%	2015	<u>25,000</u>	<u>700</u>	<u>700</u>	<u>26,400</u>
			<u>\$ 120,000</u>	<u>\$ 10,320</u>	<u>\$ 10,320</u>	<u>\$ 140,640</u>
2000 Michigan Transportation Bonds	5.50%	2011	\$ 45,000	\$ 6,955	\$ 6,955	\$ 58,910
	5.55%	2012	45,000	5,718	5,718	56,436
	5.55%	2013	45,000	4,469	4,469	53,938
	5.60%	2014	55,000	3,220	3,220	61,440
	5.60%	2015	<u>60,000</u>	<u>1,680</u>	<u>1,680</u>	<u>63,360</u>
			<u>\$ 250,000</u>	<u>\$ 22,042</u>	<u>\$ 22,042</u>	<u>\$ 294,084</u>



3023 Davenport  
Saginaw, MI 48602  
Phone (989) 793-9830 / (800) 968-0010  
Fax (989) 793-0186

November 24, 2010

Management and the City Commission  
City of Auburn  
Auburn, Michigan

We have completed our audit of the financial statements of City of Auburn as of and for the year ended June 30, 2010 and have issued our report dated November 24, 2010. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

III Other information

We discussed these matters with various personnel in the organization during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Commission, and others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*  
Saginaw, Michigan

## Appendix I

### Auditor's Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

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

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the organization during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

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

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

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

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

##### *Corrected Misstatements*

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

##### *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 auditors' report. We had no disagreements with management during the audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### *Management's Consultations with Other 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*

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

Appendix II  
Management Comments

In planning and performing our audit of the financial statements of City of Auburn as of and for the year ended June 30, 2010, we considered City of Auburn's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls. This letter does not affect our report dated date, on the financial statements of City of Auburn. Our comments and recommendations regarding those matters are:

**Recording of Accounts Payable**

During our review of transactions after year end, we identified two invoices related to 2009-10 that were not recorded as accounts payable. Adjustments were made for both, and properly included in the year-end financial statements. We recommend that the City look at the year-end process for classifying invoices in the period the goods were received or the services performed to ascertain that all accounts payable are identified and properly recorded.

## **GASB 54 Changes Fund Balance Reporting**

The Governmental Accounting Standards Board (GASB) is at it again. *Fund Balance Reporting and Governmental Fund Type Definitions* includes new fund balance classifications and additional note disclosures. GASB 54 will mean a new look for your governmental funds balance sheet. However, it will not change the total amount of the fund balance.

### **Why was GASB 54 Created?**

There has been inconsistency reporting fund balances. There is widespread confusion about terminology. Restrictions are being placed on the use of some resources, but it is unclear at what level the restrictions have been imposed, and by what authority. Users of the financial statements misunderstand the fund balance components. It is often unclear if any of the reserved or designated fund balances are available or not to help balance a city's budget.

The purpose of GASB 54 is to improve transparency and eliminate inconsistency. It is intended to eliminate the mismatch between what governments are reporting about fund balance and what the users of the financial statements really need.

### **Definitions**

GASB 54 requires fund balance classifications in a hierarchy that shows the extent to which the city is bound to honor constraints on the specific purposes for which each amount can be spent. **Fund balances are required to be presented based on the most restricted (non-spendable) to the least restricted (unassigned) classification.**

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

**Restricted** – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or legislation. Examples include bonded capital projects, debt service funds established for voter approved debt millage, and major and local street funds.

**Committed** – amounts constrained on use imposed by the city itself using its highest level of decision making authority. Resources should be constrained before the city's fiscal year-end, although the exact amount may be determined at a later time. A committed amount can be reversed only by the same manner as it was initiated, and it should be done before the end of the fiscal year. Two examples of this are a city's resolution to move a certain percentage of general fund balance into a capital project fund or a city's resolution to set-aside funds for a future project.

**Assigned** – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or an authorized city official. Residual amounts in governmental funds other than the general fund are assigned. An appropriation of the existing fund balance to cover current year expenditures is considered an assignment of fund balance.

**Unassigned** – all other resources; the remaining fund balance after non-spendable, restrictions, commitments and assignments. This class only occurs in the general fund, except for cases of negative fund balances. Those are always reported as Unassigned, no matter which fund.

### **Note Disclosures**

Cities will be required to disclose more information about amounts reported in fund balance, including the following:

1. Description of authority and actions that lead to committed and assigned fund balance.
2. The city's policy regarding order of spending of:
  - a. Restricted vs. unrestricted
  - b. Committed, assigned and unassigned
  - c. Multiple policies
  - d. The "default" policy
  - e. Negative balances – general fund and others
3. Restricted and unrestricted fund balances
4. Committed, assigned and unassigned
5. Encumbrances, if significant, are reported in conjunction with other disclosures of significant commitments.
6. Description of any formally adopted minimum fund balance policies.
  - a. Appropriate level of unrestricted fund balance to be maintained in the general fund
  - b. Circumstances in which unrestricted fund balances can be "spent down"
  - c. Policy for replenishing deficiencies (source of funding and time period)
  - d. Circumstances under which contingencies may be spent should be as specific as possible.
7. The purpose of each major special revenue fund and which revenues or other sources are reported in each of those funds.

### **Fund Balance Policies**

If a city establishes a minimum fund balance policy, it needs to look at their operations and determine what they want their fund balance limits to be. Determining the components of fund balance will be an exercise to perform each year as part of the year-end financial reporting. Consider the following variables when setting the minimum amount of general fund unrestricted fund balance:

- Volatility of operating revenues (state and federal sources)
- Exposure to natural disasters
- Concentration of revenue sources (state and federal funded)
- Timing differences between revenue collections and expenditures

### The Next Step

Cities should review their current policies and procedures to determine if resources will meet the definition of committed or assigned, and consider policy changes as they approach adoption of this statement. Additional policies may need to be adopted or revised to be consistent with the new definitions.

GASB 54 will improve the reporting of the fund balance and will help those who use the financial statements. Disaggregating the fund balance into non-spendable, restricted, committed, assigned and unassigned categories will greatly facilitate the understanding of a city's commitment of financial resources. It means we will have to get use to changes in the familiar fund accounting terminology before the end of the 2010-11 fiscal year.

City of Auburn  
Governmental Funds  
Fund Balance - New Format  
June 30, 2010

	General Fund	Street Funds	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund balance</b>				
Nonspendable				
Long-term advances	\$ 425,800	\$ -	\$ -	\$ 425,800
Inventory	5,326	-	-	5,326
Prepaid items	6,773	1,101	-	7,874
Restricted for:				
Street activity	-	271,263	-	271,263
Building inspection	-	-	3,780	3,780
Committed to:				
(Comission action)	-	-	-	-
Assigned to:				
(Delegated action)	-	-	-	-
Unassigned	<u>717,127</u>	<u>-</u>	<u>-</u>	<u>717,127</u>
 Total fund balance	 <u>\$ 1,155,026</u>	 <u>\$ 272,364</u>	 <u>\$ 3,780</u>	 <u>\$ 1,431,170</u>