

CITY OF FRANKFORT, MICHIGAN

BASIC FINANCIAL STATEMENTS

June 30, 2004

AUDITING PROCEDURES REPORT

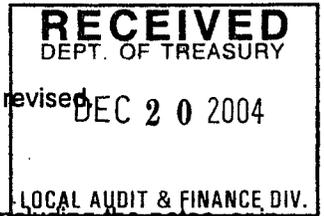
Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <i>City of Frankfort, Michigan</i>	County <i>Benzie</i>
Audit Date <i>June 30, 2004</i>	Opinion Date <i>September 24, 2004</i>	Date Accountant Report Submitted to State: <i>December 15, 2004</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.



We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- yes no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- yes no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- yes no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- yes no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- yes no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- yes no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- yes no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- yes no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- yes no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <i>Anderson Tackman & Company PLLC, CPAs</i>			
Street Address <i>16978 S. Riley Avenue</i>	City <i>Minneapolis</i>	State <i>MN</i>	ZIP <i>55425</i>
Accountant Signature <i>Anderson Tackman & Co. PLLC</i>			

CITY OF FRANKFORT, MICHIGAN

ORGANIZATION

MEMBERS OF THE CITY COMMISSION

MAYOR

RICHARD BAYER

COMMISSIONER

MYRA ELIAS

COMMISSIONER

JOANN HOLWERDA

COMMISSIONER

PATRICIA HAUGEN

COMMISSIONER

RICHARD JENKINS

APPOINTED OFFICERS

CITY SUPERINTENDENT

JOSH MILLS

CLERK/TREASURER

KIM KIDDER

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	6
Statement of Activities	7
Fund Financial Statements:	
Balance Sheet – Governmental Funds	8
Statement of Changes in Revenues, Expenditures and Changes in Fund Balance – Governmental Funds.....	9
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in in Fund Balances to the Statement of Activities.....	10
Proprietary Funds:	
Statement of Net Assets.....	11
Statement of Revenues, Expenses, and Changes in Net Assets.....	12
Statement of Cash Flows	13
Fiduciary Funds:	
Statement of Fiduciary Net Assets.....	14
Notes to Financial Statements	15

TABLE OF CONTENTS

Page

REQUIRED SUPPLEMENTAL INFORMATION:

Major Funds:

Budgetary Comparison Schedule – General Fund	34
Major Streets Fund	36
Local Streets Fund	37
MEDC Streetscape	38

OTHER SUPPLEMENTAL INFORMATION:

Combining Balance Sheet – Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	40

REPORTS ON COMPLIANCE

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	41
---	----

ADDITIONAL INFORMATION:

Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12.....	43
---	----



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS
MEMBER MACPA
OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major funds, and aggregate other funds, of the City of Frankfort, Michigan, as of and for the year ended June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Frankfort, Michigan as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The City of Frankfort, Michigan implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2004, on our consideration of the City of Frankfort's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management’s Discussion and Analysis on page 3 and budgetary comparisons are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Frankfort’s basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information, except for that portion marked “unaudited,” on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

September 24, 2004

Management's Discussion and Analysis

Using this Annual Report

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

The City as a Whole

The City's combined net assets increased 25% from a year ago increasing from \$1,543,591 to \$1,924,158. The business-type activities experienced a \$19,426 decrease in net assets, primarily as a result of new depreciation expenses. In a condensed format, the table below shows a comparison of the net assets as of the current.

The City implemented GASB-34 accounting procedures for the period beginning July 2003; therefore a comparative analysis cannot be performed this year, but will be performed in subsequent years.

In a condensed format, the table below shows the net assets of the City of Frankfort.

	<u>Governmental Activities</u> 2004	<u>Business-Type Activities</u> 2004	<u>Total</u> 2004
Current Assets	\$ 769,838	\$ 665,176	\$ 1,435,014
Noncurrent Assets	<u>1,798,953</u>	<u>3,879,739</u>	<u>5,678,692</u>
Total Assets	<u>2,568,791</u>	<u>4,544,915</u>	<u>7,113,706</u>
Long-Term Debt Outstanding	1,052,758	960,000	2,012,758
Other Liabilities	<u>238,440</u>	<u>95,185</u>	<u>333,625</u>
Total Liabilities	<u>1,291,198</u>	<u>1,055,185</u>	<u>2,346,383</u>
Net Assets			
Invested in Capital Assets - Net of Debt	698,202	2,859,739	3,557,941
Restricted	376,595	315,590	692,185
Unrestricted (Deficit)	<u>202,796</u>	<u>314,401</u>	<u>517,197</u>
Total Net Assets	<u>\$ 1,277,593</u>	<u>\$ 3,489,730</u>	<u>\$ 4,767,323</u>

The current level of unrestricted net assets for our governmental activities stands at \$202,796, or about 13% of expenditures. This is within the targeted range set by the City Board of Directors during its last budget process.

Net Assets of the governmental activities increased approximately 232%. Net Assets of the business – type activities decreased approximately 1%.

The following table shows the activities of the City.

	<u>Governmental Activities</u> 2004	<u>Business-Type Activities</u> 2004	<u>Total</u> 2004
Program Revenues			
Charges for Services	\$ 143,527	\$ 997,062	\$ 1,140,589
Operating Grants and Contributions	785,622	12,269	797,891
General Revenues			
Property Taxes	912,327	-	912,327
State-Shared Revenues	116,560	-	116,560
Federal, State, and Local – General	160,331	-	160,331
Unrestricted Investment Earnings	8,490	2,220	10,710
Transfers and Other Revenue	<u>116,629</u>	<u>(116,629)</u>	<u>-</u>
Total Revenues	<u>2,243,486</u>	<u>894,922</u>	<u>3,138,408</u>
Program Expenses			
Legislative	2,310	-	2,310
General Government	459,677	-	379,131
Public Safety	417,190	-	417,190
Public Works	563,743	-	644,289
Recreation and Culture	123,897	-	123,897
Interest Expense – Unallocated	32,775	-	32,775
Water and Sewer	-	620,288	620,288
Marina	-	258,437	258,437
Garbage and Rubbish	<u>-</u>	<u>35,623</u>	<u>35,623</u>
Total Expenses	<u>1,599,592</u>	<u>914,348</u>	<u>2,513,940</u>
Change in Net Assets	<u>\$ 643,894</u>	<u>\$ (19,426)</u>	<u>\$ 624,468</u>

Governmental Activities

Revenue from property taxes increased 4% from the previous year gaining, \$31,909, which was a significant improvement from the trend. Average gains from property taxes over the previous five years was \$24,114 per year.

Received Costal Zone Management Grant in amount of \$23,935 and Great Lakes Fishery Grant \$81,000. Expenditures increased by equal amounts otherwise government expenses were comparable. Brownfield and MESC projects wrapped up in current year.

Business-Type Activities

The City's total business-type revenues decreased by approximately \$72,557, primarily due to the Marina not receiving 27% Grant from the GT Bond like it did last year. The water system didn't receive wellhead protection Grant like last year. Garbage and Rubbish expenses slightly decreased from increased recycling. The second largest decrease, compared to the prior year, was user fees of \$14,699.

Expenses decreased by only about \$54,890 during the year. This was primarily the result of close budget monitoring and decrease in grant funding throughout the year.

Capital Asset and Debt Administration

At the end of 2004, the City had \$3,557,941 invested in a broad range of capital assets, including Water and Sewer System, Marina, Building and Improvements, Machinery and Equipment, and Land.

The City reduced its bond debt load by \$170,000 in principal payments in fiscal year 2004 ending with a bond debt balance of \$1,947,230.

Economic Factors and Next Year's Budgets and Rates

The City is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated. New City Hall will be completed in 2005, \$1,085,000.

Contacting the City's Management

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

Basic Financial Statements

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS:			
Cash & Investments - Unrestricted	\$ 160,409	\$ 138,111	\$ 298,520
- Restricted	402,655	397,216	799,871
Accounts Receivable	-	86,299	86,299
Internal Loans	169	14,323	14,492
Due from Governmental Units	206,605	-	206,605
Inventories	-	26,451	26,451
Prepaid Expenses	-	2,776	2,776
Capital Assets (Net of Accumulated Depreciation)	1,798,953	3,879,739	5,678,692
TOTAL ASSETS	\$ 2,568,791	\$ 4,544,915	\$ 7,113,706
LIABILITIES:			
Internal Loans	\$ 14,323	\$ -	\$ 14,323
Accounts Payable	14,135	19,207	33,342
Accrued Liabilities	13,342	4,050	17,392
Accrued Interest Payable	6,844	6,919	13,763
Due to Governmental Units	881	5,009	5,890
Compensated Absences	147,766	-	147,766
Installment Loans - Current	53,915	-	53,915
Installment Loans	112,762	-	112,762
Bonds Payable - Current	135,000	60,000	195,000
Bonds Payable	792,230	960,000	1,752,230
TOTAL LIABILITIES	1,291,198	1,055,185	2,346,383
NET ASSETS:			
Invested in Capital Assets (net of related debt)	698,202	2,859,739	3,557,941
Restricted for Special Projects	376,595	-	376,595
Restricted for Debt	-	315,590	315,590
Unrestricted	202,796	314,401	517,197
TOTAL NET ASSETS	\$ 1,277,593	\$ 3,489,730	\$ 4,767,323

Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
Legislative	\$ 2,310	\$ -	\$ -	\$ -	\$ (2,310)	\$ -	\$ (2,310)
General Government	459,677	27,422	46,901	-	(385,354)	-	(385,354)
Public Safety	417,190	55,788	19,015	-	(342,387)	-	(342,387)
Public Works	563,743	82	514,571	-	(49,090)	-	(49,090)
Recreation & Culture	123,897	60,235	205,135	-	141,473	-	141,473
Interest expense - Unallocated	32,775	-	-	-	(32,775)	-	(32,775)
Total Governmental Activities	1,599,592	143,527	785,622	-	(670,443)	-	(670,443)
Business-type activities:							
Water & Sewer	620,288	685,403	12,269	-	-	77,384	77,384
Marina	258,433	275,713	-	-	-	17,280	17,280
Garbage & Rubbish	35,623	35,946	-	-	-	323	323
Total Business-type Activities	914,344	997,062	12,269	-	-	94,987	94,987
Total Primary Government	\$ 2,513,936	\$ 1,140,589	\$ 797,891	\$ -	(670,443)	94,987	(575,456)
General Revenues:							
Taxes					912,327	-	912,327
State Revenue Sharing					116,560	-	116,560
Federal, State, & Local - General					160,331	-	160,331
Investment Earnings (Loss)					8,490	2,220	10,710
Transfers					116,629	(116,629)	-
Total General Revenues and Transfers					1,314,337	(114,409)	1,199,928
Change in Net Assets					643,894	(19,422)	624,472
Prior Period Adjustment					83,487	-	83,487
Net Assets - Beginning					550,212	3,509,152	4,059,364
Net Assets - Ending					\$ 1,277,593	\$ 3,489,730	\$ 4,767,323

See accompanying notes to financial statements.

City of Frankfort, Michigan

Balance Sheet Governmental Funds June 30, 2004

	General	Major Streets	Local Streets	MEDC Streetscape	City Hall Fire Building	Other Governmental Funds	Total Governmental Funds
ASSETS:							
Cash & Investments - Unrestricted	\$ 153	\$ 11,107	\$ 2,156	\$ 10,425	\$ 17,199	\$ 119,369	\$ 160,409
- Restricted	332,687	14,702	-	-	-	55,266	402,655
Due from Other Funds	55,227	-	-	-	-	-	55,227
Due from Governmental Units	183,751	16,216	6,554	-	-	84	206,605
TOTAL ASSETS	\$ 571,818	\$ 42,025	\$ 8,710	\$ 10,425	\$ 17,199	\$ 174,719	\$ 824,896
LIABILITIES:							
Due to Other Funds	\$ 14,323	\$ 39,299	\$ 6,259	\$ 2,500	\$ -	\$ 7,000	\$ 69,381
Accounts Payable	3,512	8	-	-	10,515	100	14,135
Accrued Liabilities	9,584	2,718	384	-	-	656	13,342
Due to Governmental Units	881	-	-	-	-	-	881
TOTAL LIABILITIES	28,300	42,025	6,643	2,500	10,515	7,756	97,739
FUND BALANCES:							
Designated for Special Projects	357,593	-	-	-	-	19,002	376,595
Unreserved	185,925	-	2,067	7,925	6,684	147,961	350,562
TOTAL FUND BALANCES	543,518	-	2,067	7,925	6,684	166,963	727,157
TOTAL LIABILITIES AND FUND BALANCES	\$ 571,818	\$ 42,025	\$ 8,710	\$ 10,425	\$ 17,199	\$ 174,719	

Reconciliation to amounts reported for governmental activities in the statement of net assets:

Capital assets used by governmental activities	1,798,953
Long-term notes & leases payable for governmental activities	(1,093,907)
Compensated absences liability	(147,766)
Accrued interest expense	(6,844)
Net assets of governmental activities	\$ 1,277,593

City of Frankfort, Michigan

Statement of Changes in Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2004

	General	Major Streets	Local Streets	MEDC Streetscape	City Hall Fire Building	Other Governmental Funds	Totals Governmental Funds
REVENUES:							
Taxes	\$ 760,818	\$ -	\$ -	\$ -	\$ -	\$ 151,509	\$ 912,327
Federal Sources	33,000	-	-	317,044	-	63,421	413,465
State Sources	269,466	95,544	38,562	-	-	1,145	404,717
Local Sources	199,776	-	-	-	-	-	199,776
Charges for Services	87,657	-	-	-	-	55,870	143,527
Interest & Rentals	6,755	67	-	5	-	1,663	8,490
Other Revenue	44,341	-	-	-	-	214	44,555
TOTAL REVENUES	1,401,813	95,611	38,562	317,049	-	273,822	2,126,857
EXPENDITURES:							
Legislative	2,310	-	-	-	-	-	2,310
General Government	437,635	-	-	-	-	-	437,635
Public Safety	231,711	-	-	-	-	108,847	340,558
Public Works	208,905	137,312	86,995	380,512	-	53,487	867,211
Recreation & Cultural	102,603	-	-	-	-	-	102,603
Capital Outlay	198,752	-	-	-	80,546	116,745	396,043
Debt Service	60,875	-	-	-	-	150,931	211,806
TOTAL EXPENDITURES	1,242,791	137,312	86,995	380,512	80,546	430,010	2,358,166
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	159,022	(41,701)	(48,433)	(63,463)	(80,546)	(156,188)	(231,309)
OTHER FINANCING SOURCES (USES):							
Bond Proceeds	-	-	-	-	87,230	-	87,230
Operating Transfers In	37,505	105,892	53,369	85,724	-	198,772	481,262
Operating Transfers Out	(348,033)	(10,000)	-	-	-	(6,600)	(364,633)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(151,506)	54,191	4,936	22,261	6,684	35,984	(27,450)
FUND BALANCES, JULY 1	695,024	(54,191)	(2,869)	(14,336)	-	130,979	754,607
FUND BALANCES, JUNE 30	\$ 543,518	\$ -	\$ 2,067	\$ 7,925	\$ 6,684	\$ 166,963	\$ 727,157

See accompanying notes to financial statements.

**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, 2004**

Net changes in fund balances – total governmental funds \$ (27,450)

The 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 capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$764,127 exceeded depreciation expense \$(185,694). 578,433

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:

Bond principal	\$ 125,000	
Installment principal	<u>51,386</u>	
		176,386

Amounts reported as bond proceeds in the fund financial statements that are not recognized as revenue in the statement of activities are reported here. (87,230)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	10,599	
Accrued interest on bonds	<u>(6,844)</u>	
		<u>3,755</u>

Changes in net assets of governmental activities \$ 643,894

Statement of Net Assets
Proprietary Funds
 June 30, 2004

	Enterprise Funds			Totals
	Water & Sewer	Marina	Garbage & Rubbish	
ASSETS:				
Cash & Investments - Unrestricted	\$ 58,067	\$ 37,525	\$ 42,519	\$ 138,111
- Restricted	397,216	-	-	397,216
Accounts Receivable	85,464	835	-	86,299
Due from Other Funds	14,323	-	-	14,323
Inventories	-	11,881	14,570	26,451
Prepaid Expenses	-	2,776	-	2,776
Property, Plant & Equipment	4,184,731	1,730,859	-	5,915,590
Accumulated Depreciation	(1,109,376)	(926,475)	-	(2,035,851)
TOTAL ASSETS	\$ 3,630,425	\$ 857,401	\$ 57,089	\$ 4,544,915
LIABILITIES:				
Accounts Payable	\$ 703	\$ 5,329	\$ 13,175	\$ 19,207
Accrued Liabilities	2,884	1,161	5	4,050
Accrued Interest Payable	6,352	567	-	6,919
Due to Other Governmental Units	-	5,009	-	5,009
Bonds Payable - Current	50,000	10,000	-	60,000
Bonds Payable	810,000	150,000	-	960,000
TOTAL LIABILITIES	869,939	172,066	13,180	1,055,185
NET ASSETS:				
Invested in Capital Assets (net of related debt)	2,215,355	644,384	-	2,859,739
Restricted for Debt	315,590	-	-	315,590
Unrestricted	229,541	40,951	43,909	314,401
TOTAL NET ASSETS	\$ 2,760,486	\$ 685,335	\$ 43,909	\$ 3,489,730

City of Frankfort, Michigan

Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds For the Year Ended June 30, 2004

	Enterprise Funds			Totals
	Water & Sewer	Marina	Garbage & Rubbish	
OPERATING REVENUES:				
Charges for Services	\$ 685,403	\$ 275,713	\$ 35,946	\$ 997,062
Other Revenue	12,269	-	-	12,269
Total Operating Revenues	<u>697,672</u>	<u>275,713</u>	<u>35,946</u>	<u>1,009,331</u>
OPERATING EXPENSES:				
Employee Wages & Benefits	123,685	32,798	11,342	167,825
Plant Operation	228,403	-	-	228,403
Supplies	39,470	96,654	24,281	160,405
Repairs & Maintenance	14,792	7,809	-	22,601
Contracted Services	55,154	752	-	55,906
Insurance	6,030	1,941	-	7,971
Depreciation	107,980	44,894	-	152,874
Marina Operations	-	60,161	-	60,161
Other Expenses	11,985	9,986	-	21,971
Total Operating Expenses	<u>587,499</u>	<u>254,995</u>	<u>35,623</u>	<u>878,117</u>
OPERATING INCOME (LOSS)	<u>110,173</u>	<u>20,718</u>	<u>323</u>	<u>131,214</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest Expense	(32,789)	(3,438)	-	(36,227)
Interest & Rentals	1,638	222	360	2,220
Operating Transfers Out	(85,724)	(30,905)	-	(116,629)
Total Non-operating Expenses	<u>(116,875)</u>	<u>(34,121)</u>	<u>360</u>	<u>(150,636)</u>
CHANGE IN NET ASSETS	(6,702)	(13,403)	683	(19,422)
NET ASSETS, JULY 1	<u>2,767,188</u>	<u>698,738</u>	<u>43,226</u>	<u>3,509,152</u>
NET ASSETS, JUNE 30	<u>\$ 2,760,486</u>	<u>\$ 685,335</u>	<u>\$ 43,909</u>	<u>\$ 3,489,730</u>

City of Frankfort, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2004

	Water & Sewer	Marina	Garbage & Rubbish	Totals
Cash Flows From Operating Activities:				
Cash Received from Customers or Users	\$ 702,520	\$ 276,897	\$ 22,640	\$ 1,002,057
Cash Payments to Vendors & Employees	(494,201)	(349,381)	(22,443)	(866,025)
Net Cash Provided (Used) By Operating Activities	<u>208,319</u>	<u>(72,484)</u>	<u>197</u>	<u>136,032</u>
Cash Flows from Non-capital Financing Activities:				
Transfers (Out)	(85,724)	(30,905)	-	(116,629)
Net Cash Provided (Used) for Non-capital Financing Activities	<u>(85,724)</u>	<u>(30,905)</u>	<u>-</u>	<u>(116,629)</u>
Cash Flows From Capital and Related Financing Activities:				
Debt Principal Payments	(45,000)	-	-	(45,000)
Debt Interest Payments	(32,789)	(3,438)	-	(36,227)
Proceeds from Bonds	-	160,000	-	160,000
Purchase of Property and Equipment	(22,022)	(23,130)	-	(45,152)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(99,811)</u>	<u>133,432</u>	<u>-</u>	<u>33,621</u>
Cash Flows From Investing Activities:				
Interest Income	1,638	222	360	2,220
Net Cash Provided (Used) by Investing Activities	<u>1,638</u>	<u>222</u>	<u>360</u>	<u>2,220</u>
Net Increase (Decrease) in Cash	24,422	30,265	557	55,244
Cash and Cash Equivalents at Beginning of Year	430,861	7,260	41,962	480,083
Cash and Cash Equivalents at End of Year	<u>\$ 455,283</u>	<u>\$ 37,525</u>	<u>\$ 42,519</u>	<u>\$ 535,327</u>
Interest Paid	<u>\$ 32,789</u>	<u>\$ 3,438</u>	<u>\$ -</u>	<u>\$ 36,227</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income	\$ 110,173	\$ 20,718	\$ 323	\$ 131,214
Add Non-Cash Expenses:				
Depreciation	107,980	44,894	-	152,874
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Receivables	4,848	1,182	-	6,030
Due from Other Funds	(14,323)	-	-	(14,323)
Inventory	-	(2,450)	(13,306)	(15,756)
Prepaid Expenses	-	(2,776)	-	(2,776)
Increase (Decrease) in Liabilities:				
Due to Other Funds	-	(134,095)	-	(134,095)
Due to Government Unit	-	4,765	-	4,765
Accounts Payable	(4,163)	(6,090)	13,175	2,922
Accrued Liabilities	3,804	1,368	5	5,177
Net Cash Provided (Used) By Operating Activities	<u>\$ 208,319</u>	<u>\$ (72,484)</u>	<u>\$ 197</u>	<u>\$ 136,032</u>

City of Frankfort, Michigan

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004**

	Agency Funds		Totals
	County School Tax	District Library	
ASSETS:			
Cash & Cash Equivalents:			
Unrestricted	\$ 102	\$ 306	\$ 408
TOTAL ASSETS	<u>\$ 102</u>	<u>\$ 306</u>	<u>\$ 408</u>
LIABILITIES:			
Due to Other Funds	\$ -	\$ 169	\$ 169
Due to Other Governmental Units	102	137	239
TOTAL LIABILITIES	<u>\$ 102</u>	<u>\$ 306</u>	<u>\$ 408</u>

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Frankfort was incorporated as a Home Rule City on March 11, 1935 under the authority granted by the Constitution and laws of the State of Michigan under the 1909 Public Act 279, as amended. The City operates under a charter adopted May 20, 1935 and is governed by an elected Mayor and Council. The City provides services to its residents in many areas including law enforcement, fire protection, community enrichment and development, refuse collection and human services.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, no other governmental organizations are considered to be part of the reporting entity for financial statement purposes. The criteria established by GASB Statement No. 14 for various governmental organizations to be included in the reporting entity's financial statement include legal separation, financial accountability and fiscal dependency.

The City has formed a utilities authority with the Village of Elberta to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the City of Frankfort. It is therefore not a component of the City but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements.

Jointly Governed Organization

The City-County Airport Authority, an entity legally separate from the City, is governed by a five-member board. Two members are appointed from the County of Benzie; two members are appointed from the City of Frankfort; and the fifth member is appointed by the four members of the County and City.

For financial reporting purposes, the Authority is reported as a separate unit because the Authority can legally issue debt (although it has a letter of understanding with the City of Frankfort that no debt will be issued); levy tax revenue if desired; and adopt and amend its own budget. In the event of the Authority being dissolved, it will be reverted to the City of Frankfort. The Authority operates on a June 30 year end and is audited under a separate contract.

Complete financial statements can be obtained from the County of Benzie, P.O. Box 377, 448 Court Place, Beulah, MI 49617

Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The Statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including its fiduciary-funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The City reports the following major governmental funds:

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

Major Streets. The Major Street Fund is used to account for the repair, maintenance, and construction of the City's major streets.

Local Streets. The Local Street Fund is used to account for the repair, maintenance, and construction of the City's local streets.

City Hall/Fire Building. This capital project fund is used to account for the construction of the new City Hall and Fire Building.

MEDC Streetscape Fund. The Streetscape Fund is used to account for construction of sidewalks, streetlights, and repaving of main street.

The City reports the following major enterprise fund:

Water and Sewer. This fund accounts for the operation, maintenance, and development of water and sewer utilities.

Marina. This fund accounts for the operation, maintenance and development of the Marina.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

The City reports the following fund types:

Governmental Funds

General Fund. Described above.

Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Permanent Funds. The Tri Centennial Trust is the City's permanent fund. The principle portion of this fund must stay intact, but the interest earnings are used to provide for the trust's purpose.

Enterprise Funds. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Agency Funds. These funds account for monies held on behalf of other government units, employees, and retirement boards that use the City as a custodian.

Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the City follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

The City considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

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 arrangements 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."

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003 consist of the road network assets bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$250 or more and useful life of one (1) year or more are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure - Sidewalks	10 – 30 years
- Roads	10 – 30 years
- Bridges	50
- Storm sewers	50
Buildings	30 – 50
Building improvements	15 – 20
Vehicles	2 – 15
Office equipment	3 – 15
Computer equipment	3 – 15

Budgetary Data

The City Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund, Special Revenue Funds, Debt Service, and Capital Project Funds to the City Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end. A budgetary comparison statement is not presented for the City Hall Fire Building because it is a capital project fund and is not legally required to be disclosed.

Use of Estimates

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 2 - CASH AND INVESTMENTS:

	<u>Primary Government</u>	<u>Reporting Entity</u>	<u>Fiduciary Funds</u>
Cash and Investments:			
- Unrestricted	\$ 298,520	\$ 298,520	\$ 408
- Restricted	<u>799,871</u>	<u>799,871</u>	<u>-</u>
Total	<u>\$ 1,098,391</u>	<u>\$ 1,098,391</u>	<u>\$ 408</u>
Imprest	\$ 653	\$ 653	\$ -
CD's savings and checking	<u>1,097,738</u>	<u>1,097,738</u>	<u>408</u>
Total	<u>\$ 1,098,391</u>	<u>\$ 1,098,391</u>	<u>\$ 408</u>

Deposits:

At year-end, the carrying amount of the City's deposits was \$1,097,738 and the bank balance was \$1,297,355. Of the bank balance, \$117,199, approximately 9% was covered by federal depository insurance according to FDIC regulations.

These deposits are in various financial institutions located in Benzie County in varying amounts. All accounts are in the name of the City and specific funds. They are recorded in City records at cost. Interest is recorded when the deposits mature or is credited to the applicable account.

NOTE 2 - CASH AND INVESTMENTS: (Continued)

Cash and Investments – Restricted:

The following funds have restricted cash and investments for various purposes:

Primary Government:

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund:		
	Capital Outlay	\$ 1,072
	Equipment Reserve	65,321
	DPW Improvements	2,000
	Park Improvements	5,000
	Launch Ramp Improvements	15,000
	Building Reserve	25,000
	Grant Match	46,985
	Land Contract	42,092
	Compensated Absences	112,923
	Fire District	16,103
	Police Car	1,106
	Paving Reserve	85
Major Streets:		
	Equipment Reserve	14,702
Debt Service:		
	Debt Service	16,264
Water and Sewer:		
	Equipment Reserve	15,000
	Improvement	48,726
	Emergency	8,595
	Sewer Bond	109,023
	Improvement	23,193
	Wellhead Projection	19,439
	Water Meter	13,250
	Improvement	80,277
	Launch Ramp	1,346
	Sewer Bond	417
	Improvement	77,950
Fire Fund:		
	Fire Equipment	33,797
Tri-Centennial Trust:		
	Trust Purposes	<u>5,205</u>
		<u>\$ 799,871</u>

NOTE 2 - CASH AND INVESTMENTS: (Continued)

Statutory Authority

Michigan law (Public Act 20 of 1943, as amended) authorizes the City of Frankfort to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

NOTE 2 - CASH AND INVESTMENTS: (Continued)

DEPOSITS

The City's deposits for the Primary Government are deposited in several financial institutions. Deposits are carried at cost.

	<u>Collateralized Insured</u>	<u>Uncollateralized Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
<u>Primary Government:</u>				
Deposits:				
Checking and savings accounts	\$ 117,199	\$ 1,174,951	\$ 1,292,150	\$ 1,092,941
Certificates of deposit	\$ -	\$ 5,205	\$ 5,205	\$ 5,205

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The City of Frankfort reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at June 30, 2004 consisted of the following:



	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>MEDC Streetscape</u>	<u>All Others</u>	<u>Total</u>
General Fund	\$ -	\$ 39,299	\$ 6,259	\$ 2,500	\$ 7,169	\$ 55,227
Water & Sewer	14,323	-	-	-	-	14,323
Total	<u>\$ 14,323</u>	<u>\$ 39,299</u>	<u>\$ 6,259</u>	<u>\$ 2,500</u>	<u>\$ 7,169</u>	<u>\$ 69,550</u>

All balances resulted 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.

NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)

Interfund transfers for the year ended June 30, 2004 consisted of the following:

	General Fund	Major Streets	Water & Sewer	Marina	All Others	Total
General Fund	\$ -	\$ -	\$ -	\$ 30,905	\$ 6,600	\$ 37,505
Major Streets	105,892	-	-	-	-	105,892
Local Streets	43,369	10,000	-	-	-	53,369
MEDC	-	-	85,724	-	-	85,724
All Others	198,772	-	-	-	-	198,772
Total	\$ 348,033	\$ 10,000	\$ 85,724	\$ 30,905	\$ 6,600	\$ 481,262

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 4 - ACCOUNTS RECEIVABLE:

The General Fund due from other governmental units consists of amounts due from the State of Michigan and other governmental units. The Major Streets and Local Streets due from other governmental units consist of the May and June payments due from the Michigan Department of Transportation. The Water and Sewer Fund accounts receivable consist of amounts due from individuals to the City for water and sewer billings.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2004, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets not depreciated:</i>				
Land & land improvements	\$ 278,737	\$ -	\$ -	\$ 278,737
Construction in progress	-	80,546	-	80,546
	<u>278,737</u>	<u>80,546</u>	<u>-</u>	<u>359,283</u>
<i>Capital assets being depreciated:</i>				
Land improvements	167,125	698,892	-	866,017
Buildings and improvements	1,068,645	-	250,000	818,645
Machinery and equipment	1,107,006	68,176	121,817	1,053,365
Total capital assets being depreciated	<u>2,342,776</u>	<u>767,068</u>	<u>371,817</u>	<u>2,738,027</u>

NOTE 5 - CAPITAL ASSETS: (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Less accumulated depreciation for:				
Land improvements	(50,636)	(28,939)	-	(79,575)
Buildings and improvements	(801,186)	(17,549)	(250,000)	(568,735)
Machinery and equipment	(513,110)	(139,206)	(2,269)	(650,047)
Total accumulated depreciation	<u>(1,364,932)</u>	<u>(185,694)</u>	<u>(252,269)</u>	<u>(1,298,357)</u>
Total capital assets being depreciated, net	977,844	581,374	119,548	1,439,670
Governmental activities capital assets, net	<u>\$ 1,256,581</u>	<u>\$ 661,920</u>	<u>\$ 119,548</u>	<u>\$ 1,798,953</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
<i>Capital assets being depreciated:</i>				
Water system	2,615,078	22,022	-	2,637,100
Sewer system	1,410,670	-	-	1,410,670
Marina	1,576,409	23,130	-	1,599,539
Equipment	251,281	-	-	251,281
Total capital assets being depreciated	<u>5,853,438</u>	<u>45,152</u>	<u>-</u>	<u>5,898,590</u>
Less accumulated depreciation for:				
Water system	462,016	62,095	-	524,111
Sewer system	467,952	32,131	-	500,083
Marina	817,622	39,410	-	857,032
Equipment	135,387	19,238	-	154,625
Total accumulated depreciation	<u>1,882,977</u>	<u>152,874</u>	<u>-</u>	<u>2,035,851</u>
Total capital assets being depreciated, net	<u>3,970,461</u>	<u>(107,722)</u>	<u>-</u>	<u>3,862,739</u>
Business-type activities capital assets, net	<u>\$ 3,987,461</u>	<u>\$ (107,722)</u>	<u>\$ -</u>	<u>\$ 3,879,739</u>

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

Governmental Activities:	
General Government	\$ 15,002
Public Safety	81,805
Public Works	69,328
Recreation and Culture	<u>19,559</u>
Total Governmental Activities	<u>\$ 185,694</u>

NOTE 6 - LONG-TERM DEBT:

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the City of Frankfort. The City has pledged the general full faith and credit of the City for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending June 30, 2004 are summarized as follows:

	<u>Balance 07/01/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/04</u>	<u>Due Within One Year</u>
Enterprise Funds:					
2003 Marina Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest of 4.25%. Secured by revenues of the Marina.	\$ -	\$ 160,000	\$ -	\$ 160,000	\$ 10,000
1993 Sewage Disposal System Revenue Bonds maturing serially to 2013 in annual amounts ranging from \$5,000 to \$15,000 and bearing interest from 2.9% to 5.9%. Secured by net revenues of sewer system and, if applicable, ad valorem tax levy.	125,000	-	10,000	115,000	10,000
1998 Water Supply System Revenue Bonds maturing serially to 2019 in Annual amounts ranging from \$35,000 To \$55,000 and bearing interest of 2.50%	<u>780,000</u>	<u>-</u>	<u>35,000</u>	<u>745,000</u>	<u>40,000</u>
Total Enterprise Funds	<u>905,000</u>	<u>160,000</u>	<u>45,000</u>	<u>1,020,000</u>	<u>60,000</u>
General Long-Term Debt:					
2000 General Obligation Unlimited Tax Street Bonds maturing serially to 2004 In annual amounts ranging from \$65,000 To \$95,000 at an interest rate of 4.95%.	180,000	-	85,000	95,000	95,000
2001 Installment Loan Purchase Agreement for a Cat front end loader through West Michigan National Bank and Trust.	34,343	-	9,657	24,686	9,980
Decorative Street Lighting Installment Purchase Agreement payable in monthly Installments at an annual interest rate of 5.0%.	148,207	-	33,558	114,649	35,318
2004 General Obligation Unlimited Tax Bonds maturing serially to 2034 in annual amounts ranging from \$19,000 to \$63,000 at an interest rate of 4.375%.	-	87,230	-	87,230	-

NOTE 6 - LONG-TERM DEBT: (Continued)

	Balance 07/01/03	Additions	Deductions	Balance 06/30/04	Due Within One Year
General Long-Term Debt: (Continued)					
Installment purchase agreement payable in ten annual installments of \$6,306 at an interest rate of 4.87% per annum secured by beach cleaner.	35,512	-	8,170	27,342	8,617
1998 General Obligation Unlimited Tax Water Bonds maturing serially to 2019 in Annual amounts ranging from \$35,000 to \$55,000 at an interest rate of 2.50%.	785,000	-	40,000	745,000	40,000
Accrued sick leave and vacation	158,365	-	10,599	147,766	-
Total General Long-Term Obligations	<u>1,341,427</u>	<u>87,230</u>	<u>186,984</u>	<u>1,241,673</u>	<u>188,915</u>
TOTAL LONG TERM OBLIGATIONS	<u>\$ 2,246,427</u>	<u>\$ 247,230</u>	<u>\$ 231,984</u>	<u>\$ 2,261,673</u>	<u>\$ 248,915</u>

The annual principal and interest requirements for the years ending June 30, 2004 and after, excluding accrued compensated absences are as follows:

	Enterprise		General Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2005	\$ 60,000	\$ 31,797	\$ 188,915	\$ 27,437	\$ 248,915	\$ 59,234
2006	60,000	29,483	96,547	21,442	156,547	50,925
2007	65,000	27,361	93,110	17,736	158,110	45,097
2008	65,000	25,134	43,104	15,139	108,104	40,273
2009	70,000	22,906	40,000	14,125	110,000	37,031
2010-2014	385,000	73,279	230,000	54,000	615,000	127,279
2015-2019	260,000	23,500	260,000	23,500	520,000	47,000
2020-2024	55,000	688	55,000	687	110,000	1,375
TOTALS	<u>\$ 1,020,000</u>	<u>\$ 234,148</u>	<u>\$ 1,006,676</u>	<u>\$ 174,066</u>	<u>\$ 2,026,676</u>	<u>\$ 408,214</u>

The following is a summary of debt transactions of the City for the year ended June 30, 2004.

	General Obligation	Revenue Bonds	Installment Loans	Compensated Absences	Total
Long-Term Debt 07/01/03	\$ 965,000	\$ 905,000	\$ 218,062	\$ 158,365	\$ 2,246,428
Debt Issued	87,230	160,000	-	-	247,230
Debt Retired	<u>125,000</u>	<u>45,000</u>	<u>51,385</u>	<u>10,599</u>	<u>231,985</u>
Long-Term Debt 06/30/04	<u>\$ 927,230</u>	<u>\$ 1,020,000</u>	<u>\$ 166,677</u>	<u>\$ 147,766</u>	<u>\$ 2,261,673</u>

NOTE 7 - COMPENSATED ABSENCES:

Accumulated unpaid vacation, sick leave and longevity for police and other City employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of June 30, 2004, the liability totaled \$147,766.

Vacation is earned in varying amounts based on an employee's years of service. Accrued vacation for salaried and nonunion employees' leave is limited to the amount earned in the prior year, except by mutual agreement between the City and the employees. Employees of the City Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

NOTE 8 - PROPERTY TAXES:

City property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are turned over to Benzie County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

The taxable value of real and personal property located in the City at December 31, 2003 totaled \$52,204,471. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	14.4909
Water and Sewer Debt	1.1326
Main Street Debt	1.7586

NOTE 9 - FUND BALANCE/RETAINED EARNING DESIGNATIONS/RESERVES:

General Fund

The General Fund balance is designated by \$55,227 to reflect the long-term nature of interfund receivables from the Water and Sewer Fund carried within the General Fund. The remaining \$302,366 is reserved for special projects.

Water and Sewer Fund

The Water and Sewer Fund Retained Earnings balance is reserved by \$315,590 to reflect the monies reserved for future maintenance projects, debt payments, and capital outlays for the water and sewer system.

NOTE 10 - DEFINED BENEFIT PENSION PLAN:

The City of Frankfort participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2003.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

The contribution rate as a percentage of payroll at December 31, 2003 is as follows:

General - Employees	8.77%
General - Police	16.95%

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

Annual Pension Cost

During the fiscal year ended June 30, 2004, the City's contributions totaling \$62,228 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial Value of Assets	\$ 1,188,981	\$ 1,269,924	\$ 1,399,955
Actuarial Accrued Liability	1,542,868	1,731,425	1,858,960
Unfunded AAL	353,887	461,501	459,005
Funded Ratio	77%	73%	75%
Covered Payroll	456,054	597,883	548,033
UAAL as a Percentage of Covered Payroll	78%	77%	84%

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance - The City received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the City. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at June 30, 2004.

Bonds Payable - The City has pledged its full faith and credit for payment of principal and interest of the various bond issues of the Water and Sewer Fund. The general obligation bonds payable for the Water and Sewer Fund are recorded as liabilities in the Enterprise Fund.

NOTE 11 - COMMITMENTS AND CONTINGENCIES: (Continued)

Property Taxes - In accordance with an agreement, Benzie County annually purchases real property taxes and delinquent special assessments (included on the tax bills) which have not been paid as of March 1 from the City. The County has recourse against the City for amounts which remain unpaid.

Litigation - The City is involved in various lawsuits now pending. It is the opinion of the City and of its counsel that the outcome of the various lawsuits will not materially affect the operations or the financial position of the City. The amount of all legal costs relating to such actions are not currently determinable.

In June of 2004 the City was awarded a \$1,085,000 loan to construct a new City Hall. The City was required to match the loan with local funds of \$73,710, which was spent in the fiscal year 2004. In addition, \$87,203 of the USDA loan was drawn to pay for expenditures paid as of June 30, 2004. The balance of the USDA loan \$997,770 will be drawn on in fiscal 2005 to complete the new City Hall.

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLE:

Effective July 1, 2003, the City implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

NOTE 13 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, general liability, and Worker's Compensation insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$250 for each insured event.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended June 30, 2004, is as follows:

	<u>Water and Sewer</u>	<u>Marina</u>	<u>Garbage and Rubbish</u>
Operating Revenues	\$ 697,672	\$ 275,713	\$ 35,946
Depreciation	107,980	44,894	-
Operating Income (Loss)	110,173	20,718	323
Operating Interfund Transfers (net)	(85,724)	(30,905)	-
Net Income (Loss)	(6,702)	(13,403)	683
Property, Plant and Equipment			
Additions (net)	22,022	23,130	-
Net Working Capital	495,131	16,294	43,909
Total Assets	3,630,425	857,401	57,089
Bonds and Other Long-term			
Liabilities Payable from			
Operating Revenues	810,000	150,000	-
Total Equity	2,760,486	685,335	43,909

NOTE 15 - RELATED PARTIES:

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees.

NOTE 16 - EXCESS EXPENDITURES OVER APPROPRIATIONS:

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures were in excess of amounts appropriated as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public Safety	\$ 219,623	\$ 231,711	\$ (12,088)
Operating Transfers Out	175,832	348,033	(172,201)
City Hall Fire Building Fund:			
Capital Outlay	70,031	80,546	(10,515)

Required Supplemental Information

Required Supplemental Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 761,080	\$ 762,118	\$ 760,818	\$ (1,300)
Federal Sources	-	3,090	33,000	29,910
State Sources	175,320	153,711	269,466	115,755
Local Sources	94,200	203,989	199,776	(4,213)
Charges for Services	78,205	87,657	87,657	-
Interest & Rentals	9,200	6,755	6,755	-
Other Revenue	18,725	35,494	44,341	8,847
TOTAL REVENUES	1,136,730	1,252,814	1,401,813	148,999
EXPENDITURES:				
Legislative:				
City Council	2,836	2,309	2,310	(1)
General Government:				
City Superintendent	112,929	107,260	105,832	1,428
Elections	1,825	1,314	1,314	-
City Assessor	18,661	18,070	18,070	-
City Clerk/Treasurer	117,010	117,829	116,065	1,764
Planning	-	216	216	-
Board of Review	325	332	332	-
City Hall	21,733	39,035	39,378	(343)
Other General Government	126,252	156,426	156,428	(2)
Total General Government	398,735	440,482	437,635	2,847
Public Safety:				
Police Department	219,583	219,623	231,711	(12,088)
Total Public Safety	219,583	219,623	231,711	(12,088)
Public Works:				
Highways & Streets	241,946	185,243	187,185	(1,942)
Sanitation	20,650	21,503	21,720	(217)
Total Public Works	262,596	206,746	208,905	(2,159)
Recreation & Cultural:				
Launch Ramp	48,777	23,092	23,762	(670)
Parks	86,962	80,552	78,841	1,711
Total Recreation & Cultural	135,739	103,644	102,603	1,041
Capital Outlay	18,800	214,112	198,752	15,360
Debt Service	76,874	76,875	60,875	16,000
TOTAL EXPENDITURES	1,115,163	1,263,791	1,242,791	21,000

City of Frankfort, Michigan

Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	21,567	(10,977)	159,022	169,999
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	127,694	11,600	37,505	25,905
Operating Transfers Out	(79,577)	(175,832)	(348,033)	(172,201)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 69,684</u>	<u>\$ (175,209)</u>	(151,506)	<u>\$ 23,703</u>
FUND BALANCE, JULY 1			695,024	
FUND BALANCE, JUNE 30			<u>\$ 543,518</u>	

City of Frankfort, Michigan

**Required Supplemental Information
Budgetary Comparison Schedule
Major Streets Fund
Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 143,064	\$ 107,548	\$ 95,544	\$ (12,004)
Interest & Rentals	190	67	67	-
TOTAL REVENUES	143,254	107,615	95,611	(12,004)
EXPENDITURES:				
Public Works	143,251	139,018	137,312	1,706
TOTAL EXPENDITURES	143,251	139,018	137,312	1,706
EXCESS OF REVENUES OVER EXPENDITURES	3	(31,403)	(41,701)	10,298
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	91,190	105,892	14,702
Operating Transfers Out	-	(10,000)	(10,000)	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ 3	\$ 49,787	54,191	\$ 25,000
FUND BALANCE, JULY 1			(54,191)	
FUND BALANCE, JUNE 30			\$ -	

City of Frankfort, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 37,937	\$ 38,588	\$ 38,562	\$ (26)
Interest & Rentals	30	-	-	-
TOTAL REVENUES	<u>37,967</u>	<u>38,588</u>	<u>38,562</u>	<u>(26)</u>
EXPENDITURES:				
Public Works	58,304	87,095	86,995	100
TOTAL EXPENDITURES	<u>58,304</u>	<u>87,095</u>	<u>86,995</u>	<u>100</u>
EXCESS OF REVENUES OVER EXPENDITURES	(20,337)	(48,507)	(48,433)	(74)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	20,500	23,369	53,369	30,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 163</u>	<u>\$ (25,138)</u>	4,936	<u>\$ 29,926</u>
FUND BALANCE, JULY 1			(2,869)	
FUND BALANCE, JUNE 30			<u>\$ 2,067</u>	

City of Frankfort, Michigan

Required Supplemental Information Budgetary Comparison Schedule MEDC Streetscape Fund Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Federal Sources	\$ 574,350	\$ 456,794	\$ 317,044	\$ (139,750)
Interest & Rentals	-	5	5	-
TOTAL REVENUES	<u>574,350</u>	<u>456,799</u>	<u>317,049</u>	<u>(139,750)</u>
EXPENDITURES:				
Public Works	574,350	476,924	380,512	96,412
TOTAL EXPENDITURES	<u>574,350</u>	<u>476,924</u>	<u>380,512</u>	<u>96,412</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	(20,125)	(63,463)	43,338
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	14,336	85,724	71,388
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ (5,789)</u>	22,261	<u>\$ 114,726</u>
FUND BALANCE, JULY 1			<u>(14,336)</u>	
FUND BALANCE, JUNE 30			<u>\$ 7,925</u>	

Other Supplemental Information

	Special Revenue Funds				Debt Service Funds			Capital Project Funds		Permanent Trust Funds	Totals (Memorandum Only)
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	
ASSETS:											
Cash & Investments - Unrestricted	\$ 44,925	\$ 2,365	\$ 2,535	\$ 10,050	\$ -	\$ -	\$ -	\$ 53,163	\$ 6,331	\$ -	\$ 119,369
Cash & Investments - Restricted	33,797	-	-	-	3,904	5,726	6,634	-	-	5,205	55,266
Due from Governmental Units	-	84	-	-	-	-	-	-	-	-	84
TOTAL ASSETS	\$ 78,722	\$ 2,449	\$ 2,535	\$ 10,050	\$ 3,904	\$ 5,726	\$ 6,634	\$ 53,163	\$ 6,331	\$ 5,205	\$ 174,719
LIABILITIES:											
Due to Other Funds	\$ 7,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,000
Accounts Payable	100	-	-	-	-	-	-	-	-	-	100
Accrued Liabilities	592	64	-	-	-	-	-	-	-	-	656
TOTAL LIABILITIES	7,692	64	-	-	-	-	-	-	-	-	7,756
FUND BALANCES:											
Reserved	13,797	-	-	-	-	-	-	-	-	5,205	19,002
Unreserved	57,233	2,385	2,535	10,050	3,904	5,726	6,634	53,163	6,331	-	147,961
TOTAL FUND BALANCES	71,030	2,385	2,535	10,050	3,904	5,726	6,634	53,163	6,331	5,205	166,963
TOTAL LIABILITIES AND FUND BALANCES	\$ 78,722	\$ 2,449	\$ 2,535	\$ 10,050	\$ 3,904	\$ 5,726	\$ 6,634	\$ 53,163	\$ 6,331	\$ 5,205	\$ 174,719

Statement of Revenues, Expenditures, and
Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue Funds				Debt Service Funds			Capital Project Funds		Permanent Trust Funds	Totals (Memorandum Only)
	Fire	First Responders	Portable Hydrant	Brownfield Redevelopment	1989 General Obligation Bonds	GO Bonds Water Improvement	Main Street Bonds	Capital Improvement Bond	Main Street Project	Tri Centennial Trust	
REVENUES:											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 59,225	\$ 92,284	\$ -	\$ -	\$ -	\$ 151,509
Federal Sources	-	-	-	63,421	-	-	-	-	-	-	63,421
State Sources	1,145	-	-	-	-	-	-	-	-	-	1,145
Charges for Services	50,443	5,345	-	-	-	-	82	-	-	-	55,870
Interest & Rentals	747	20	36	116	16	39	230	55	328	1,663	
Other Revenue	214	-	-	-	-	-	-	-	-	-	214
TOTAL REVENUES	52,549	5,365	36	63,537	16	59,264	92,442	230	55	328	273,822
EXPENDITURES:											
Public Safety	97,764	11,083	-	-	-	-	-	-	-	-	108,847
Public Works	-	-	-	53,487	-	-	-	-	-	-	53,487
Capital Outlay	6,790	-	2,888	-	-	-	107,067	-	-	-	116,745
Debt Service	-	-	-	-	-	59,125	91,806	-	-	-	150,931
TOTAL EXPENDITURES	104,554	11,083	2,888	53,487	-	59,125	91,806	107,067	-	-	430,010
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(52,005)	(5,718)	(2,852)	10,050	16	139	636	(106,837)	55	328	(156,188)
OTHER FINANCING SOURCES (USES):											
Operating Transfers In	34,666	3,790	-	316	-	-	-	160,000	-	-	198,772
Operating Transfers Out	(6,600)	-	-	-	-	-	-	-	-	-	(6,600)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(23,939)	(1,928)	(2,852)	10,366	16	139	636	53,163	55	328	35,984
FUND BALANCES, JULY 1	94,969	4,313	5,387	(316)	3,888	5,587	5,998	-	6,276	4,877	130,979
FUND BALANCES, JUNE 30	\$ 71,030	\$ 2,385	\$ 2,535	\$ 10,050	\$ 3,904	\$ 5,726	\$ 6,634	\$ 53,163	\$ 6,331	\$ 5,205	\$ 166,963

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of the City of Frankfort, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon, dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Frankfort, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 24, 2004.

Honorable Mayor and Members
of the City Council

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Frankfort, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

- 1) Noncompliance with the Uniform Budgeting and Accounting Act.

We also noted certain immaterial instances of noncompliance, which we have reported to management of the City of Frankfort, Michigan in a separate letter dated September 24, 2004.

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



**Anderson, Tackman & Company, PLC
Certified Public Accountants**

September 24, 2004

Additional Information

CITY OF FRANKFORT, MICHIGAN

ADDITIONAL INFORMATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	43
Note 1 - Debt Issues Applicable to SEC Rule 15c2-12	
Disclosure Requirements.....	44
Note 2 - Tables:	
A – Number of Sewer Customers by Water Classification.....	44
B – Residential Sewage Disposal Rates.....	44
C – Daily Industrial Surcharges for Sewage Disposal Service	45
D – Water Consumption as Billed by Meter Classification (1)	45



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

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

Our report on our audit of the basic financial statements of the City of Frankfort, Michigan, as of and for the year ended June 30, 2004, appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC
Certified Public Accountants

September 24, 2004

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURES REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of June 30, 2004, the City has the following debt issues which apply to SEC Rule 15c2-12. As of June 30, 2003 the City agreed to provide the following disclosures relating to the following debt issue of Betsie Lake Utility Authority which applies to SEC Rule 15c2-12.

1. \$2,025,000 Sewage Disposal System Revenue Refunding Bonds, Series 2000.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12.

A. Number of Sewer Customers by Water Classification:

Fiscal Year Ended June 30	Residential	Commercial	Industrial	Governmental	Other	Total Number of Meters	Percent Change
1997	837	128	8	16	13	1,002	0.30
1998	842	128	8	16	13	1,007	0.50
1999	849	129	7	14	16	1,015	0.10
2000	913	129	7	14	16	1,079	6.00
2001	725	109	8	14	74	930	14.00
2002	751	114	7	10	22	904	3.00
2003	751	111	9	12	22	905	0.11
2004	728	140	12	12	23	915	1.00

Source: City of Frankfort

B. Residential Sewage Disposal Service Rates:

Fiscal Year Ended or Ending June 30	Monthly Ready-to-Serve Charge (1)	Charge Per 1,000 Gallons
1998	18.00	3.00
1999	18.00	3.00
2000	18.00	3.00
2001	18.00	3.00
2002	18.00	3.00
2003	18.00	3.00
2004	18.00	3.00

(1) Commercial and industrial ready-to-serve charges are based on residential ready-to-serve charges multiplied by a monthly Residential Equivalent Unit ("REA") factor.

Source: City of Frankfort



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

To the Honorable Mayor
and City Commission
City of Frankfort, Michigan

We have audited the basic financial statements of the City of Frankfort, Michigan for the year ended June 30, 2004, and have issued our report thereon dated September 24, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of City of Frankfort, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Frankfort are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal 2004. We noted no transactions entered into by the City of Frankfort during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus. The City implemented GASB Statement #34 as of July 1, 2003.

Accounting Estimates

Accounting estimates are an integral part of the basic 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 basic financial statements and because of the possibility that the future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant adjustment as a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the City of Frankfort that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments related to the basic financial statements. The errors appear to have been caused by misclassifications. The corrections were considered material in relation to the individual fund-type financial statements of the City of Frankfort taken as a whole.

Disagreement with Management

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

Consultation with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

General (Prior Year)

The City of Frankfort does not have an all-inclusive written purchasing policy. The City should develop a sufficient written purchasing procedures policy which includes, but is not limited to, a preapproved vendor listing and competitive bidding.

Enterprise Fixed Assets (Prior Year)

Fixed asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2001, 2002, 2003, and 2004. Fixed asset purchases for the enterprise funds should be recorded in the applicable fixed asset account in the general ledger to comply with U.S. generally accepted accounting principles.

Inventory (Prior Year)

The City currently expenses inventory for the Marina and Garbage & Rubbish funds. We recommend that the City record inventory for these funds as required by U.S. generally accepted accounting principles. We also recommend, the City complete a physical inventory and reconcile to the general ledger on a periodic basis.

Accounting Procedures Manual (Prior Year)

The City does not maintain a complete current accounting policies and procedures manual. We recommend the City develop an accounting policies and procedures manual which includes but is not limited to information regarding the criteria for establishing or discontinuing a fund, activities to be accounted for in each fund, closing practices to be followed for preparation of financial reports, and job/responsibility descriptions of each employee.

Compensated Absences (Prior Year)

The City does not record accrued compensated absences in the general ledger as required by the Governmental Accounting Standards Board (GASB) Statement 16 "Accounting for Compensated Absences." The responsible individual should begin recording the applicable amount for accrued compensated absences in the general ledger in accordance with GASB Statement 16.

General Fixed Assets (Prior Year)

A fixed asset listing at the time of audit had not been completed, though staff had accumulated new-tagged assets and support documentation. The fixed asset listing should be updated to reflect these assets as well as deletions found during the audit. Also we recommend increasing the capitalization policy threshold to \$5,000.

General Ledger (Prior Year)

Several accounts (receivables, payables, interfund loans, transfers, and fund equity) needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

Payroll Deductions (Prior Year)

The payroll deduction account balances (i.e. social security, retirement, and workmen's comp.) are not accurately recorded each month. There are various balances that continue to accumulate. Procedures should be reviewed to ensure that current and accurate payroll deduction liabilities are recorded.

Budgeting

Public Act 621 requires that all expenditures be budgeted prior to payment. During fiscal year 2004, the City had excess expenditures over amounts appropriated. Additionally, the City did not adopt its budgets in accordance with the state law. Specifically, budgets adopted for the Local Streets and MEDC Funds had expenditures in excess of beginning fund balance. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.