

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

# **City of Lathrup Village, Michigan**

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## **Financial Report with Supplemental Information June 30, 2007**

Frank M. Brock, Jr., Mayor  
Allen Weaks, Mayor Pro-Tem  
Maria Mannarino Thompson, Council Member  
Renee McClain, Council Member  
Kyrian Nwagwu, Council Member  
Jeffrey Mueller, City Administrator

# City of Lathrup Village, Michigan

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## Independent Auditor's Report

To the City Council  
City of Lathrup Village, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, and each major fund of the City of Lathrup Village, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lathrup Village, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Lathrup Village, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

September 10, 2007

# City of Lathrup Village, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Lathrup Village, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

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. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The following is an expanded discussion of the concept touched upon earlier in this analysis and includes this year's financial statement format and information about government-wide financial statements and fund financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by the private sector. The statement of net assets includes all of the City's assets and liabilities. One of the major differences between the government-wide statements and the fund financial statements is the inclusion of depreciation in the government-wide statements. As with last year, we saw an increase in net assets. Net assets increased by \$981,472. The government-wide financial statements of the City are divided into three categories. These three categories will be discussed in more specificity later in this MD&A.

**Governmental Activities** - Most of the City's basic services are included here and are commonly referred to the "General Fund budget." Property taxes, state-shared revenues, and our "other revenues" are the primary source of funding for General Fund operations. Also included in this category are major and local streets and the Capital Acquisition Fund.

**Business-type Activities** - Commonly referred to as an Enterprise Fund, the activities shown under this category are related to our water and sewer budgets. These activities are funded through user fees in the form of water and sewer rates, meter charges, industrial surcharges, and capital projects fees.

**Component Units** - The City has one component unit, the Downtown Development Authority (the "DDA"). Although legally separate, this component unit is important because the City is financially accountable for it, including any debt, which would be issued on behalf of the DDA by the City. As presented in the financial statements, the DDA does not have any debt, and does not anticipate any debt service in the near future (although the DDA could possibly bond for the cost of the proposed boulevard in 2009).

# City of Lathrup Village, Michigan

## Management's Discussion and Analysis (Continued)

### Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of revenues and expenditures for particular purposes. Some funds are required by state law and bonding requirements. Other funds are established to control and manage money for particular purposes.

The City has three kinds of funds:

**Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash, flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps the reader determine if there are more or fewer financial resources available to spend in the near future to finance the City's programs. In the annual budget, we refer to our funds as the General, Major Streets, Local Streets, Capital Acquisitions, and although a proprietary fund, the Water and Sewer Funds.

**Proprietary Fund** - Services that are intended to be entirely self-supporting by customer usage fees are reported as proprietary funds. As mentioned above, this would be our Water and Sewer Funds. Proprietary fund statements, such as government-wide statements, provide both short- and long-term financial information.

**Fiduciary Funds** - The City is responsible for ensuring that the assets in these funds are used for their intended purposes. These activities are excluded from the government-wide financial statements because the City cannot use these assets to finance its operations. An example of this type of fund would be pension fund money.

### Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenues have been in the forefront of discussions over the past three fiscal years. State-shared revenues, which are the City's second largest single-source revenue, saw a reduction of \$9,594 as compared with the 2005-2006 fiscal year. This continues the five-year trend of reduced revenue sharing.
- Property tax and related revenues increased by \$141,346, or 4.9 percent, as compared to the 2005-2006 fiscal year.
- Total General Fund revenues were \$22,117 more than the prior year.
- On a positive note, the City was still able to realize a \$126,828 surplus.

# City of Lathrup Village, Michigan

## Management's Discussion and Analysis (Continued)

- Overall, General Fund expenditures were \$171,231 higher than the prior year. Expenditures for the fiscal year were \$31,363 less than the amended budget.
- It should be noted that through the hard work of staff and the City Council, we have been able to bring our budget in on a generally positive note.

### The City as a Whole

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current assets	\$ 3.5	\$ 3.2	\$ 1.1	\$ 0.9	\$ 4.6	\$ 4.1
Noncurrent assets	<u>14.3</u>	<u>14.0</u>	<u>7.2</u>	<u>7.5</u>	<u>21.5</u>	<u>21.5</u>
Total assets	17.8	17.2	8.3	8.4	26.1	25.6
<b>Liabilities</b>						
Current liabilities	0.4	0.2	0.2	0.1	0.6	0.3
Long-term liabilities	<u>0.3</u>	<u>0.4</u>	<u>1.5</u>	<u>2.1</u>	<u>1.8</u>	<u>2.5</u>
Total liabilities	<u>0.7</u>	<u>0.6</u>	<u>1.7</u>	<u>2.2</u>	<u>2.4</u>	<u>2.8</u>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	14.1	13.7	5.7	5.2	19.8	18.9
Restricted	0.9	0.7	-	0.5	0.9	1.2
Unrestricted	<u>2.1</u>	<u>2.2</u>	<u>0.9</u>	<u>0.5</u>	<u>3.0</u>	<u>2.7</u>
Total net assets	<u>\$ 17.1</u>	<u>\$ 16.6</u>	<u>\$ 6.6</u>	<u>\$ 6.2</u>	<u>\$ 23.7</u>	<u>\$ 22.8</u>

The City's combined net assets are \$23.7 million as compared to \$22.8 million for the prior year. This represents a 3.9 percent increase. The governmental activities portion of net assets increased \$.5 million, or 3.01 percent, while the business activities increased by \$.4 million, or 6.45 percent.

It should be noted that overall our net assets for our primary operations, governmental activities, have increased. If we look at the unrestricted net assets, the part of net assets that can be used to finance the day-to-day operations, we see there was an increase from 2005-2006 of \$.5 million.

# City of Lathrup Village, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the major revenues and expenditures as a whole for both the governmental and business-type activities (in thousands of dollars). The bottom of the table shows the changes in net assets during the current year compared to prior year.

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 0.5	\$ 0.5	\$ 1.2	\$ 1.1	\$ 1.7	\$ 1.6
Operating grants and contributions	0.3	0.3	-	-	0.3	0.3
Capital grants and contributions	-	0.1	-	-	-	0.1
General revenue:						
Property taxes	3.0	2.9	0.6	0.6	3.6	3.5
State-shared revenue	0.4	0.4	-	-	0.4	0.4
Cell tower fees	0.1	0.2	-	-	0.1	0.2
Transfers and other revenue	0.1	0.1	0.1	0.1	0.2	0.2
Total revenue	4.4	4.5	1.9	1.8	6.3	6.3
<b>Program Expenses</b>						
General government	1.2	1.1	-	-	1.2	1.1
Public safety	1.7	1.5	-	-	1.7	1.5
Public works	0.9	0.9	-	-	0.9	0.9
Recreation and culture	0.1	0.1	-	-	0.1	0.1
Water and sewer	-	-	1.5	1.1	1.5	1.1
Total program expenses	3.9	3.6	1.5	1.1	5.4	4.7
<b>Change in Net Assets</b>	<b>\$ 0.5</b>	<b>\$ 0.9</b>	<b>\$ 0.4</b>	<b>\$ 0.7</b>	<b>\$ 0.9</b>	<b>\$ 1.6</b>

### Governmental Activities

As you read through the next several paragraphs, it is important to remember that governmental activities not only include the General Fund, but also the Major and Local Streets Fund and the Capital Acquisition Funds. The chart shown above was generated by pulling data from page 10 of the financial report. Therein you will find specific breakout data for the General, Major and Local Streets, and Capital Acquisition Funds, which is shown under the "other nonmajor governmental funds" column. This column corresponds to pages 11 and 12 of the financial report.

The City's governmental revenues totaled \$4.4 million, with the largest revenue source being property taxes. Property tax revenues represent 65 percent of total governmental revenue. This percentage of total revenues has been relatively consistent over the past several fiscal years.

Our next largest single source of revenue is state-shared revenues. These revenues total \$.4 million. As has been previously mentioned, this source of revenue continues to decline as the State of Michigan addresses its financial shortfalls.

# City of Lathrup Village, Michigan

## Management's Discussion and Analysis (Continued)

The charges for services category, referred to as "other revenues" in our budget, is a listing of many other smaller revenue sources. Combined with the cell tower lease revenue, which is included in the other revenue category, the total for these revenues is \$.27 million.

Finally, the operating grants and contributions total \$301,507 and reflect Act 51 funds for our major and local streets. Act 51 funding has been fairly stable over the past four fiscal years. We are unaware of any significant changes at the state level that will negatively affect this revenue in the near future.

Typical of other communities in the area, a heavier reliance on property taxes will continue to pressure our tax base. The flattening of our revenues, being nearly 100 percent developed, and coupled with the limitations on property tax growth due to Proposal A and Headlee, requires us to be cautious as we move forward.

Total governmental expenditures for the City totaled \$3.9 million. Revenues exceeded expenditures by \$.5 million.

From an overall perspective, despite anticipated flattening revenues and expected expenditures that are growing at a faster pace than revenues, we continue to remain in good financial standing. The budgetary reductions implemented as a part of the last few years have aided us in this effort. Since we are a service provider, the majority of our expenditures are for personnel. Therefore it is imperative we maintain an open and cooperative spirit with our employee unions and continually review the cost of doing business in order to provide services in a cost-effective manner.

### **Business Activities**

The City's business-type activity consists of the Water and Sewer Fund. We provide water as a part of the Southeastern Oakland County Water Authority (SOCWA), which in turn purchases water from the Detroit Water and Sewerage Department. Sewage treatment is provided through the Evergreen-Farmington sewage disposal system through the Oakland County Drain Commission, which is a customer of the Detroit Water and Sewerage Department.

System revenues are provided primarily through the fees paid by consumers based on actual metered water usage. Also, within this fund is the debt service millage for the retirement of bonds for the construction of Phase II Abatement projects undertaken by the City in the late 1980s.

The business-type activity revenues totaled approximately \$1.97 million. Of this \$1.97 million, \$1.22 million was from water and sewer rates, and \$.58 million was from debt service millage. Taking expenditures into consideration totaling \$1.54 million, there was a positive net asset increase of \$.43 million.

# **City of Lathrup Village, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Assets and Debt Administration**

At the end of fiscal year 2006-2007, the City has \$21.5 million invested in a wide range of capital assets, including land, buildings, equipment, roads, and water and sewer lines. This is the third year that such reporting has occurred with such specificity and is attributable to GASB 34 requirements.

Debt of \$1.7 million is related to the Segment II sewer projects of the late 1980s and the building improvements made in 1996. Debt service for the Evergreen-Farmington Phase II projects will be retired in 2010 and the building bonds will be retired in 2012. Depending on the work that will be required on our sanitary sewers (as required by the MDEQ), it could be prudent to review possible sale of bonds to finance work if needed. This could coincide with the retirement of existing bonds.

### **General Fund Budgetary Highlights**

Over the course of the fiscal year, the City administration and City Council monitor and, if necessary, amend the budget to prevent expenditures in excess of budget as required by the State of Michigan Budget Act. The audited numbers included \$30,440 more revenue than the final amended budget and \$253,434 more than the original budget, \$31,363 less in expenditures than the final amended budget, and \$3,606 more than the original budget.

From a General Fund revenue perspective, the City received more revenue than anticipated. The additional primary increases in revenue came from the following revenues: District Court fines - \$109,221, cell tower revenue - \$25,585, other revenue - \$25,299, sidewalk revenue - \$20,846, and interest - \$15,855.

It has been the City's history of monitoring the revenue and expenditure reports on a monthly basis to track the unfolding of each fiscal year. Expenditures have been allowed to grow provided that the revenues are available to support them. This approach has benefited the City from many different perspectives. It has allowed us to rebuild our financial position, pay for one-time large scale projects with cash, and provided the opportunity for the retooling of our operations.

# **City of Lathrup Village, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Economic Factors and the Future**

There are several economic factors that will continue to challenge the City. These include potential state revenue-sharing cuts, health insurance increases, pension costs, pre-funding of retiree health care (GASB 45), our overall millage rate, and state laws limiting the growth in property taxes. The 1978 Headlee Amendment and Proposal A passed in 1993 both limit growth to the rate of inflation. Headlee requires a rollback in the overall millage rate if total property values grow at a rate higher than inflation and Proposal A limits increases in individual property tax assessments to the rate of inflation.

Because we are a service provider, the majority of our costs are personnel related. As these costs increase, in part due to health care cost increases and general cost increases in our numerous service contracts, we continue to rely on our tax base to maintain services. We were very fortunate in receiving 4.75 new mills from our voters in 2003. Two of these mills were immediately put into an annual street resurfacing program. The remaining mills have been held in reserve to fund future cost increases.

Other factors that may/will affect our future finances include the final fate of state-shared revenues, the Michigan Department of Environmental Quality's decisions relative to our sanitary sewer system, the future of storm water management, and infrastructure investments. It is my sincere hope we can continue to put off any major sanitary sewer expenditures until after our current Evergreen Farmington sewer debt is retired in 2010. Thanks in part go to the Oakland County/Federal Grant of nearly \$1 million for sewer repairs.

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

This financial report is intended to provide 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 questions about this report or need additional information, please contact the City's treasurer at 248.557.2600, ext. 227.

# City of Lathrup Village, Michigan

## Statement of Net Assets June 30, 2007

	Primary Government			Component Unit -
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash and investments (Note 3)	\$ 2,794,922	\$ 859,833	\$ 3,654,755	\$ 567,854
Receivables:				
Customers	-	552,305	552,305	-
Special assessment	51,279	-	51,279	-
Due from component unit (Note 5)	6,780	-	6,780	-
Due from other governmental units	239,215	-	239,215	-
Due from primary government (Note 5)	-	-	-	98,007
Internal balances	397,804	(397,804)	-	-
Prepaid expenses and other assets	58,116	-	58,116	-
Bond issuance costs - Net of \$196,000 accumulated amortization (Note 1)	-	84,000	84,000	-
Capital assets - Net (Note 4):				
Nondepreciable capital assets	12,647,454	-	12,647,454	-
Depreciable capital assets - Net	<u>1,680,438</u>	<u>7,176,126</u>	<u>8,856,564</u>	<u>-</u>
Total assets	17,876,008	8,274,460	26,150,468	665,861
<b>Liabilities</b>				
Accounts payable	101,698	140,768	242,466	1,672
Accrued and other liabilities	207,512	11,420	218,932	-
Due to component unit (Note 5)	98,007	-	98,007	-
Due to primary government (Note 5)	-	-	-	6,780
Noncurrent liabilities (Note 6):				
Due within one year	135,000	541,509	676,509	-
Due in more than one year	<u>190,318</u>	<u>959,843</u>	<u>1,150,161</u>	<u>-</u>
Total liabilities	<u>732,535</u>	<u>1,653,540</u>	<u>2,386,075</u>	<u>8,452</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	14,112,892	5,674,774	19,787,666	-
Restricted:				
Construction code activity (Note 2)	69,439	-	69,439	-
Streets and highways	810,184	-	810,184	-
Water and sewer capital	121,969	-	121,969	-
Water and Sewer - Restricted for debt payments	-	407,154	407,154	-
Unrestricted	<u>2,028,989</u>	<u>538,992</u>	<u>2,567,981</u>	<u>657,409</u>
Total net assets	<u>\$ 17,143,473</u>	<u>\$ 6,620,920</u>	<u>\$ 23,764,393</u>	<u>\$ 657,409</u>

# City of Lathrup Village, Michigan

## Statement of Activities Year Ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government			
			Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total		
Primary government:								
Governmental activities:								
General government	\$ 1,258,700	\$ 304,816	\$ 11,824	\$ -	\$ (942,060)	\$ -	\$ (942,060)	\$ -
Public safety	1,658,122	151,618	-	-	(1,506,504)	-	(1,506,504)	-
Public works	850,416	42,212	289,683	29,341	(489,180)	-	(489,180)	-
Recreation and culture	108,197	46,016	-	-	(62,181)	-	(62,181)	-
Interest on long-term debt	13,044	-	-	-	(13,044)	-	(13,044)	-
Total governmental activities	3,888,479	544,662	301,507	29,341	(3,012,969)	-	(3,012,969)	-
Business-type activities - Water and sewer	1,543,102	1,223,023	-	-	-	(320,079)	(320,079)	-
Total primary government	<u>\$ 5,431,581</u>	<u>\$ 1,767,685</u>	<u>\$ 301,507</u>	<u>\$ 29,341</u>	(3,012,969)	(320,079)	(3,333,048)	-
Component unit - Downtown Development Authority								
	<u>\$ 121,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	-	-	-	(121,549)
General revenues:								
Property taxes					2,998,379	587,992	3,586,371	220,809
State-shared revenues					385,835	-	385,835	-
Unrestricted investment earnings					187,162	35,762	222,924	29,415
Cell tower fees					95,896	-	95,896	-
Miscellaneous					19,425	4,069	23,494	-
Transfers					(122,185)	122,185	-	-
Total general revenues and transfers					<u>3,564,512</u>	<u>750,008</u>	<u>4,314,520</u>	<u>250,224</u>
<b>Change in Net Assets</b>					551,543	429,929	981,472	128,675
<b>Net Assets - Beginning of year</b>					<u>16,591,930</u>	<u>6,190,991</u>	<u>22,782,921</u>	<u>528,734</u>
<b>Net Assets - End of year</b>					<u>\$ 17,143,473</u>	<u>\$ 6,620,920</u>	<u>\$ 23,764,393</u>	<u>\$ 657,409</u>

# City of Lathrup Village, Michigan

## Governmental Funds Balance Sheet June 30, 2007

	Major Special Revenue Funds				Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	Capital Acquisition Fund	
<b>Assets</b>					
Cash and investments (Note 3)	\$ 1,662,314	\$ 1,105,356	\$ -	\$ 333,901	\$ 3,101,571
Special assessment receivable	-	-	51,279	-	51,279
Due from other governmental units	122,100	32,331	22,012	-	176,443
Prepaid expenses and other assets	58,116	-	-	-	58,116
Due from other funds (Note 5)	482,352	178,991	578,019	379,425	1,618,787
Total assets	<b>\$ 2,324,882</b>	<b>\$ 1,316,678</b>	<b>\$ 651,310</b>	<b>\$ 713,326</b>	<b>\$ 5,006,196</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 50,316	\$ 4,180	\$ 306,819	\$ 47,032	\$ 408,347
Accrued and other liabilities	201,912	1,357	1,223	-	204,492
Due to other funds (Note 5)	167,329	683,911	109,035	260,708	1,220,983
Due to component unit (Note 5)	98,007	-	-	-	98,007
Deferred revenue (Note 1)	-	-	51,279	-	51,279
Total liabilities	517,564	689,448	468,356	307,740	1,983,108
<b>Fund Balances</b>					
Reserved for construction code activity (Note 2)	69,439	-	-	-	69,439
Reserved for water and sewer capital purchases	-	-	-	121,969	121,969
Unreserved - Designated for road construction	1,070,977	-	-	-	1,070,977
Unreserved, reported in:					
General Fund	666,902	-	-	-	666,902
Special Revenue Funds	-	627,230	182,954	283,617	1,093,801
Total fund balances	1,807,318	627,230	182,954	405,586	3,023,088
Total liabilities and fund balances	<b>\$ 2,324,882</b>	<b>\$ 1,316,678</b>	<b>\$ 651,310</b>	<b>\$ 713,326</b>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					14,327,892
State-shared revenue receivable to be collected next fiscal year, relating to State's sales tax year					69,552
Certain revenues were deferred and are expected to be collected over several years, and are not available to pay for current year expenditures					51,279
Accrued interest payable on long-term debt is not due and payable in the current period and is not reported in the funds					(3,020)
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(215,000)
Compensated absences are not due and payable in the current period and are not reported in the funds					(110,318)
Net assets of governmental activities					<b>\$ 17,143,473</b>

# City of Lathrup Village, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	Major Special Revenue Funds				Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	Capital Acquisition Fund	
<b>Revenue</b>					
Property taxes	\$ 2,998,379	\$ -	\$ -	\$ -	\$ 2,998,379
Licenses and permits	173,324	-	-	-	173,324
Federal grants	3,863	-	-	-	3,863
State-shared revenues and grants	399,731	196,914	92,769	-	689,414
Special assessment revenue	-	-	29,341	-	29,341
Fines and forfeitures	142,920	-	-	-	142,920
Interest and rentals	183,096	54,826	4,531	15,950	258,403
Cell tower	95,896	-	-	-	95,896
Other	172,318	-	3,992	-	176,310
<b>Total revenue</b>	<b>4,169,527</b>	<b>251,740</b>	<b>130,633</b>	<b>15,950</b>	<b>4,567,850</b>
<b>Expenditures - Current</b>					
Government services	410,887	-	-	-	410,887
Public safety	1,683,085	-	-	-	1,683,085
Public works	455,678	139,757	513,104	-	1,108,539
Administration	433,552	-	-	-	433,552
Recreation and culture	141,312	-	-	-	141,312
Buildings and grounds	210,000	-	-	-	210,000
Capital outlay	-	-	-	277,017	277,017
<b>Total expenditures</b>	<b>3,334,514</b>	<b>139,757</b>	<b>513,104</b>	<b>277,017</b>	<b>4,264,392</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>835,013</b>	<b>111,983</b>	<b>(382,471)</b>	<b>(261,067)</b>	<b>303,458</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in (Note 5)	-	-	530,702	121,969	652,671
Transfers out (Note 5)	(708,185)	(58,117)	(8,554)	-	(774,856)
<b>Total other financing sources (uses)</b>	<b>(708,185)</b>	<b>(58,117)</b>	<b>522,148</b>	<b>121,969</b>	<b>(122,185)</b>
<b>Net Change in Fund Balances</b>	<b>126,828</b>	<b>53,866</b>	<b>139,677</b>	<b>(139,098)</b>	<b>181,273</b>
<b>Fund Balances - Beginning of year</b>	<b>1,680,490</b>	<b>573,364</b>	<b>43,277</b>	<b>544,684</b>	<b>2,841,815</b>
<b>Fund Balances - End of year</b>	<b>\$ 1,807,318</b>	<b>\$ 627,230</b>	<b>\$ 182,954</b>	<b>\$ 405,586</b>	<b>\$ 3,023,088</b>

# City of Lathrup Village, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 181,273</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are recorded as capital assets	597,022
Governmental funds allocate the cost of capital assets over their estimated useful lives as depreciation	(244,551)
Proceeds from the sale of capital assets reported as revenue in the governmental funds; the statement of activities record a gain or loss included in general government expense	(900)
Certain revenues reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year	(33,295)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	35,000
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the fund	464
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>16,530</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 551,543</u></u></b>

# City of Lathrup Village, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2007

	Major Enterprise Fund - Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and investments (Note 3)	\$ 859,833
Receivables - Net	552,305
Total current assets	1,412,138
Noncurrent assets:	
Bond issuance costs - Net of \$196,000 accumulated amortization (Note 1)	84,000
Depreciable capital assets - Net (Note 4)	7,176,126
Total noncurrent assets	7,260,126
Total assets	8,672,264
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	140,768
Accrued and other liabilities	11,420
Due to other funds (Note 5)	397,804
Current portion of long-term debt (Note 6)	541,509
Total current liabilities	1,091,501
Noncurrent liabilities - Long-term debt - Net of current portion (Note 6)	959,843
Total liabilities	2,051,344
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	5,674,774
Restricted for debt payments	407,154
Unrestricted	538,992
Total net assets	<b>\$ 6,620,920</b>

# City of Lathrup Village, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Major Enterprise Fund - Water and Sewer Fund
<b>Operating Revenue</b>	
Sale of water	\$ 564,626
Sewage disposal charges	543,176
Meter charge revenue	39,793
Industrial surcharge	28,209
Penalties	45,682
Total operating revenue	1,221,486
<b>Operating Expenses</b>	
Cost of water	273,742
Cost of sewage disposal	356,432
Industrial surcharge	25,661
Operation and maintenance	533,336
General and administrative	36,885
Depreciation and amortization	264,283
Total operating expenses	1,490,339
<b>Operating Loss</b>	(268,853)
<b>Nonoperating Revenue (Expense)</b>	
Property taxes	587,992
Interest income and other	41,368
Interest expense	(52,763)
Total nonoperating revenue	576,597
<b>Income - Before operating transfers</b>	307,744
<b>Operating Transfers In</b> (Note 5)	158,685
<b>Operating Transfers Out</b> (Note 5)	(36,500)
<b>Change in Net Assets</b>	429,929
<b>Net Assets - Beginning of year</b>	6,190,991
<b>Net Assets - End of year</b>	\$ 6,620,920

# City of Lathrup Village, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Major Enterprise Fund - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 1,108,874
Payments to suppliers	(963,459)
Payments to employees	(222,952)
Other payments	<u>(360,081)</u>
Net cash used in operating activities	(437,618)
<b>Cash Flows from Noncapital Financing Activities</b>	
Operating transfers from other funds	158,685
Operating transfers to other funds	<u>(36,500)</u>
Net cash provided by noncapital financing activities	122,185
<b>Cash Flows from Capital and Related Financing Activities</b>	
Proceeds from property tax levy	587,992
Purchase of capital assets	(82,839)
Principal and interest paid on capital debt	<u>(622,565)</u>
Net cash used in capital and related financing activities	(117,412)
<b>Cash Flows from Investing Activities</b>	
Interest earnings	41,368
Sales of investment securities	<u>386,643</u>
Net cash provided by investing activities	<u>428,011</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(4,834)
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>12,292</u>
<b>Cash and Cash Equivalents - End of year</b>	<b><u>\$ 7,458</u></b>
<b>Statement of Net Assets Classification of Cash and Cash Equivalents</b>	
Cash and investments	\$ 859,833
Less amounts classified as investments	<u>(852,375)</u>
Total cash and cash equivalents	<b><u>\$ 7,458</u></b>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (268,853)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	264,283
Changes in assets and liabilities:	
Receivables	(112,612)
Due from/to other funds	(361,186)
Accounts payable	39,645
Accrued and other liabilities	<u>1,105</u>
Net cash used in operating activities	<b><u>\$ (437,618)</u></b>

**Noncash Investing, Capital, and Financing Activities** - During the year ended June 30, 2007, there were no noncash investing, capital, or financing activities.

# City of Lathrup Village, Michigan

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## Notes to Financial Statements June 30, 2007

### Note I - Summary of Significant Accounting Policies

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

#### **Reporting Entity**

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

**Blended Component Unit** - The Lathrup Village Building Authority is governed by a commission that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

**Discretely Presented Component Unit** - The Downtown Development Authority (DDA) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of eight individuals, is selected by the mayor with City Council approval. In addition, the DDA's budget is subject to approval by the City.

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

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

## **Note 1 - Summary of Significant Accounting Policies (Continued)**

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund 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. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

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

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

**Capital Acquisition Fund** - The Capital Acquisition Fund accounts for the systematic replacement of equipment and provides funding for other capital projects. Funding is provided primarily through transfers in from other funds of the City.

The City reports the following major proprietary fund:

**Enterprise Fund - Water and Sewer Fund** - The Water and Sewer Fund is used to account for the results of operations that provide water and sewer services to citizens that are financed primarily by a user charge for the provision of those services.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

# City of Lathrup Village, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 1 - Summary of Significant Accounting Policies (Continued)

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Properties are assessed as of December 31. The related property taxes are billed and become a lien on the following July 1 and are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The City's 2006 tax is levied and collectible on July 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled \$182 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 14.5823 mills for operating purposes, 1.5258 mills for refuse services, and 3.2500 mills for drains. This resulted in approximately \$2,523,000 for operating, approximately \$264,000 for refuse services, and approximately \$588,000 for drains. These amounts are recognized in the respective General and Water and Sewer Funds financial statements as tax revenue.

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

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

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

**Receivables and Payables** - In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that are 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.” All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Inventories and Prepaid Items** - Inventories in the Enterprise Fund are valued at cost, on a first-in, first-out basis. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Bond Issuance Costs** - The City has capitalized costs associated with the issuance of long-term debt of the Enterprise Fund. These costs are being amortized over the life of the bonds using the effective interest rate method.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings and building improvements	80 years
Infrastructure	10 to 50 years
Machinery, equipment, and vehicles	1 to 25 years
Utility system	50 years

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

**Compensated Absences (Vacation and Sick Leave)** - The City does not permit employees to accumulate earned but unused vacation pay benefits. There is a liability for unpaid accumulated sick leave since the City has a policy to pay out 50 percent of accumulated sick time when employees separate from service with the City. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

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

**Construction Code Fees** - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2006		\$	70,913
Current year building permit revenue			62,164
Related expenses:			
Direct costs	\$	33,653	
Estimated indirect costs		<u>29,985</u>	<u>63,638</u>
Current year shortfall			<u>(1,474)</u>
Cumulative surplus at June 30, 2007		\$	<u><u>69,439</u></u>

### Note 3 - Deposits and Investments

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

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts, commercial paper, and CDs, but not the remainder of state statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 3 - Deposits and Investments (Continued)

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

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$427,630 of bank deposits (certificates of deposit, checking and savings accounts), of which \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

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

Investment	Fair Value	Rating	Rating Organization
Primary government:			
Bank investment pool - MBIA	\$ 617,807	AAA-VI	Fitch's
Bank investment pool - Bank One	1,829,771	AAA	Moody's
Sweep account	872,003	AAA	Moody's
Component unit - Bank investment			
pool - Bank One	567,854	AAA	Moody's

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 244,734	\$ -	\$ -	\$ 244,734
Right-of-ways	12,402,720	-	-	12,402,720
Subtotal	12,647,454	-	-	12,647,454
Capital assets being depreciated:				
Infrastructure	5,957,767	316,658	-	6,274,425
Buildings	556,300	89,445	-	645,745
Machinery, equipment, and vehicles	1,100,204	190,919	(98,946)	1,192,177
Subtotal	7,614,271	597,022	(98,946)	8,112,347
Accumulated depreciation:				
Infrastructure	5,234,383	147,621	-	5,382,004
Buildings	226,739	15,204	-	241,943
Machinery, equipment, and vehicles	824,282	81,726	(98,046)	807,962
Subtotal	6,285,404	244,551	(98,046)	6,431,909
Net capital assets being depreciated	1,328,867	352,471	(900)	1,680,438
Net governmental activities capital assets	\$ 13,976,321	\$ 352,471	\$ (900)	\$ 14,327,892
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Construction in progress	\$ 228,693	\$ -	\$ (228,693)	\$ -
Capital assets being depreciated:				
Utility system	10,573,660	311,532	-	10,885,192
Machinery and equipment	177,221	-	-	177,221
Vehicles	30,166	-	-	30,166
Subtotal	10,781,047	311,532	-	11,092,579
Accumulated depreciation:				
Utility system	3,518,197	228,994	-	3,747,191
Machinery and equipment	131,807	7,289	-	139,096
Vehicles	30,166	-	-	30,166
Subtotal	3,680,170	236,283	-	3,916,453
Net capital assets being depreciated	7,100,877	75,249	-	7,176,126
Net business-type capital assets	\$ 7,329,570	\$ 75,249	\$ (228,693)	\$ 7,176,126

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 4 - Capital Assets (Continued)

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

Governmental activities:		
General government		\$ 28,542
Public safety		23,656
Public works		178,856
Recreation and culture		<u>13,497</u>
Total governmental activities		<u>\$ 244,551</u>
Business-type activities - Water and sewer		<u>\$ 236,283</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Local Streets Fund	\$ 22,577
	Capital Acquisition Fund	260,708
	Water and Sewer Fund	<u>199,067</u>
	Total General Fund	482,352
Major Streets Fund	General Fund	167,329
	Water and Sewer Fund	<u>11,662</u>
	Total Major Streets Fund	178,991
Local Streets Fund	Major Streets Fund	572,446
	Water and Sewer Fund	<u>5,573</u>
	Total Local Streets Fund	578,019
Capital Acquisition Fund	Major Streets Fund	111,465
	Local Streets Fund	86,458
	Water and Sewer Fund	<u>181,502</u>
	Total Capital Acquisition Fund	<u>379,425</u>
	Total	<u>\$ 1,618,787</u>

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
<b>Due to/from Primary Government and Component Units</b>		
Component unit - DDA	Primary government - General	<u>\$ 98,007</u>
Primary government - Local Streets Fund	Component unit - DDA	<u>\$ 6,780</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	\$ 486,000
	Capital Acquisition Fund	63,500
	Water and Sewer Fund	<u>158,685</u>
	Total General Fund	708,185
Major Streets Fund	Local Streets Fund	44,702
	Capital Acquisition Fund	<u>13,415</u>
	Total Major Streets Fund	58,117
Local Streets Fund	Capital Acquisition Fund	<u>8,554</u>
	Subtotal from governmental funds	774,856
Water and Sewer Fund	Capital Acquisition Fund	<u>36,500</u>
	Total	<u>\$ 811,356</u>

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund to the Local Streets Fund and Water and Sewer Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfer from the Water and Sewer Fund to the Capital Acquisition Fund represents the City setting aside money for the future purchase of water and sewer capital assets. The transfer from the General Fund, Major Streets Fund, and Local Streets Fund to the Capital Acquisition Fund represents the City setting aside resources for the purchase of governmental fund capital assets.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds:					
Building Authority Bond:					
Amount of issue: \$450,000	5.00% -				
Maturing through 2012	5.80%	\$ 250,000	\$ (35,000)	\$ 215,000	\$ 35,000
Other long-term obligations -					
Accumulated employee benefit		<u>126,848</u>	<u>(16,530)</u>	<u>110,318</u>	<u>100,000</u>
Total governmental activities		<u>\$ 376,848</u>	<u>\$ (51,530)</u>	<u>\$ 325,318</u>	<u>\$ 135,000</u>
<b>Business-type Activities</b>					
County contract obligation:					
Amount of issue: \$6,075,000	3.65% -				
Maturing through 2010	4.10%	\$ 2,025,000	\$ (545,000)	\$ 1,480,000	\$ 535,000
County contract obligation:					
Amount of issue: \$54,091	1.943%				
Maturing through 2010		<u>26,987</u>	<u>(5,635)</u>	<u>21,352</u>	<u>6,509</u>
Total business-type activities		<u>\$ 2,051,987</u>	<u>\$ (550,635)</u>	<u>\$ 1,501,352</u>	<u>\$ 541,509</u>

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 6 - Long-term Debt (Continued)

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

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 35,000	\$ 11,135	\$ 46,135	\$ 541,509	\$ 50,255	\$ 591,764
2009	40,000	9,090	49,090	627,286	26,591	653,877
2010	40,000	6,870	46,870	332,557	6,927	339,484
2011	50,000	4,325	54,325	-	-	-
2012	50,000	1,450	51,450	-	-	-
Total	<u>\$ 215,000</u>	<u>\$ 32,870</u>	<u>\$ 247,870</u>	<u>\$ 1,501,352</u>	<u>\$ 83,773</u>	<u>\$ 1,585,125</u>

Subsequent to year end, the City issued General Obligation Limited Tax Bonds. The bonds were issued on August 15, 2007 and the total bond obligation is \$995,000. The bonds were issued to fund sewer repairs which will be incurred over the next three years.

### Note 7 - Risk Management

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

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

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Defined Benefit Pension Plan

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

**Funding Policy** - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 3 percent of the first \$4,200 of gross wages and 5 percent thereafter for nonunion employees and police and 6 percent of gross wages for employees covered under the Municipal Association of Public Employees contract.

**Annual Pension Cost** - For the year ended June 30, 2007, the City's annual pension cost of \$86,603 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.90 percent per year depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year annually after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is amortized over a period of 30 years.

	Fiscal Year Ended June 30		
	2007	2006	2005
Annual pension costs (APC)	\$ 86,603	\$ 85,673	\$ 56,120
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

# City of Lathrup Village, Michigan

## Notes to Financial Statements June 30, 2007

### Note 8 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2006	2005	2004
Actuarial value of asset	\$ 5,249,771	\$ 4,968,513	\$ 4,797,216
Actuarial accrued liability (AAL)			
(entry age)	\$ 5,827,646	\$ 5,569,000	\$ 5,290,500
Underfunded AAL	\$ (577,875)	\$ (600,487)	\$ (493,284)
Funded ratio	90.08%	89.22%	90.68%
Covered payroll	\$ 984,077	\$ 1,016,734	\$ 1,145,040

### Note 9 - Other Postemployment Benefits

The City provides health care to all full-time employees upon retirement, in accordance with labor contracts. Currently, six retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant's dependents. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; this totaled approximately \$34,000. These benefits are paid annually from the General Fund.

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

# City of Lathrup Village, Michigan

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## Notes to Financial Statements June 30, 2007

### Note 10 - Joint Venture

The City is a member of Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 12 municipalities in Oakland County. The Authority provides refuse disposal services for the benefit of member municipalities. The City appoints one member to the joint venture's governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$92,000 related to payments to the Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

The City is a member of Southeastern Oakland County Water Authority (the "Water Authority"), which consists of 11 municipalities in Oakland County. The City purchases water from the Water Authority. The City appoints one member to the joint venture's governing board, which approves the annual budget. The participating communities provide annual funding for its operations. During the current year, the City expensed approximately \$274,000 related to payments to the Water Authority. The City is unaware of any circumstances that would cause any significant additional financial benefit or burden to the participating governments in the near future. Complete financial statements for the Water Authority can be obtained from the administrative offices at 3910 Webster, Royal Oak, MI 48073.

## **Required Supplemental Information**

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# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Amended Budget Favorable (Unfavorable)
<b>Revenue</b>				
<b>Property Taxes</b>				
City taxes	\$ 2,646,688	\$ 2,522,985	\$ 2,522,985	\$ -
Refuse collection taxes	276,933	264,178	264,178	-
Tax penalties	13,200	107,528	107,929	401
Tax administration fee	91,000	103,287	103,287	-
Total property taxes	3,027,821	2,997,978	2,998,379	401
<b>Licenses and Permits</b>				
Building permits	12,360	38,349	43,869	5,520
Electrical, heating, and plumbing	13,590	15,895	18,295	2,400
Cable television franchise fee	60,000	82,000	86,295	4,295
Other	14,665	22,377	24,865	2,488
Total licenses and permits	100,615	158,621	173,324	14,703
<b>Federal Sources - Community Development</b>				
Block Grant	6,300	3,863	3,863	-
<b>State Sources</b>				
State-shared revenue	397,419	397,419	390,578	(6,841)
State grants	3,382	5,971	9,153	3,182
Total state sources	400,801	403,390	399,731	(3,659)

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Amended Budget Favorable (Unfavorable)
<b>Revenue</b> (Continued)				
<b>Fines and Forfeitures</b> - District Court	\$ 33,699	\$ 108,500	\$ 142,920	\$ 34,420
<b>Interest and Rent</b>				
Interest	96,000	140,052	111,855	(28,197)
Rent	71,917	67,589	71,241	3,652
Total interest and rent	167,917	207,641	183,096	(24,545)
<b>Other Revenue</b>				
Recreation special programs	41,000	44,654	46,016	1,362
Insurance - Retirees' spouses	24,000	25,632	28,045	2,413
Sale of abandoned property	-	5,785	5,785	-
Police activity reimbursement	6,000	8,070	8,698	628
Sidewalk	7,000	26,100	27,846	1,746
Cell tower	70,311	93,688	95,896	2,208
Other	30,629	55,165	55,928	763
Total other revenue	178,940	259,094	268,214	9,120
Total revenue	3,916,093	4,139,087	4,169,527	30,440

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures</b>				
<b>Government Services</b>				
Property and liability insurance	\$ 53,999	\$ 50,211	\$ 50,211	\$ -
Unemployment insurance	8,751	8,751	5,914	2,837
Workers' compensation insurance	3,454	2,454	2,454	-
Office supplies	7,880	7,880	5,791	2,089
Tax tribunal	20,000	5,175	7,761	(2,586)
Building trade inspection	15,404	25,207	23,242	1,965
Cable television	43,076	46,800	47,460	(660)
Auditing and accounting	15,576	16,316	16,313	3
Government operations	31,607	31,607	31,653	(46)
Telephone	12,975	10,200	10,211	(11)
Vehicle	1,800	1,650	1,634	16
Community development	9,800	5,300	5,335	(35)
City planning	3,152	3,152	1,750	1,402
City beautification	2,679	2,679	2,025	654
Printing and postage	22,986	21,173	18,898	2,275
Library payment	168,142	168,142	168,142	-
Miscellaneous	20,724	14,200	12,093	2,107
Total government services	442,005	420,897	410,887	10,010
<b>Public Safety</b>				
Salaries:				
Full time	508,407	457,929	451,578	6,351
Part time	49,440	142,320	140,091	2,229
Employee taxes and benefits	282,874	295,151	296,433	(1,282)
Overtime salaries	45,000	71,878	80,745	(8,867)
Insurance:				
Property and liability	20,549	20,549	20,549	-
Unemployment insurance	5,834	5,834	3,046	2,788
Workers' compensation	21,995	18,579	18,579	-

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures</b> (Continued)				
<b>Public Safety</b> (Continued)				
Office supplies	\$ 7,215	\$ 9,006	\$ 8,349	\$ 657
Memberships and meetings	2,000	2,000	1,332	668
Police reserves	3,270	3,950	3,733	217
Civil defense and training	3,722	5,050	4,918	132
Firearms training	3,152	3,152	2,917	235
Crime prevention	8,690	9,300	10,160	(860)
Animal control	9,981	9,981	10,474	(493)
MJTC Grant	3,258	3,417	3,396	21
Fire service contract	546,811	546,811	546,811	-
Police uniforms and cleaning	12,000	6,776	6,855	(79)
Telephone	15,211	18,103	18,471	(368)
Radio communication	12,000	13,985	15,467	(1,482)
Equipment maintenance	3,000	2,800	2,713	87
Vehicle	25,416	31,824	33,924	(2,100)
Miscellaneous expenditures	6,200	2,700	2,544	156
Total public safety	1,596,025	1,681,095	1,683,085	(1,990)
<b>Department of Public Services</b>				
Salaries:				
Full time	37,618	46,167	42,497	3,670
Part time	12,095	9,991	9,991	-
Employee taxes and benefits	30,375	35,036	33,498	1,538
Office supplies	683	500	340	160
Equipment maintenance	37,102	27,500	27,764	(264)
Park maintenance	2,800	2,800	2,837	(37)
Sidewalk maintenance	8,231	59,855	59,829	26
Leaf collection	24,474	10,953	10,953	-
SOCRRA	112,571	91,942	93,732	(1,790)
Tringali contract	164,362	171,231	174,237	(3,006)
Total Department of Public Services	430,311	455,975	455,678	297

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Expenditures</b> (Continued)				
<b>Administration</b>				
Salaries:				
Full time	\$ 235,186	\$ 237,855	\$ 237,856	\$ (1)
Part time	16,500	8,977	7,383	1,594
Employee taxes and benefits	125,928	118,000	99,576	18,424
Code enforcement:				
Legal	7,565	7,955	8,661	(706)
Elections	7,035	7,035	7,006	29
Data processing and assessments	37,505	33,640	33,138	502
Legal services	46,032	39,500	39,399	101
Board of Review	630	533	533	-
Total administration	476,381	453,495	433,552	19,943
<b>Recreation and Culture</b>				
Part-time salaries	17,420	22,323	22,681	(358)
Fringe benefits	2,467	2,492	2,835	(343)
Special programs	142,741	118,193	112,239	5,954
Bus transportation	5,532	3,557	3,557	-
Total recreation and culture	168,160	146,565	141,312	5,253
<b>Buildings and Grounds</b>				
Salaries - Full time	47,688	40,136	42,593	(2,457)
Employee taxes and benefits	19,784	17,706	17,437	269
Utilities	52,709	51,400	50,662	738
Building maintenance and repair	37,062	40,500	41,479	(979)
Building authority lease	48,935	48,508	48,508	-
Equipment maintenance	3,853	2,500	1,860	640
Parking lot and grounds	7,995	7,100	7,461	(361)
Total building and grounds	218,026	207,850	210,000	(2,150)
<b>Contingencies and Capital Fund</b>				
Total expenditures	708,185	708,185	708,185	-
Total expenditures	4,039,093	4,074,062	4,042,699	31,363
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(123,000)	65,025	126,828	61,803
<b>Fund Balance - Beginning of year</b>	1,680,490	1,680,490	1,680,490	-
<b>Fund Balance - End of year</b>	<u>\$ 1,557,490</u>	<u>\$ 1,745,515</u>	<u>\$ 1,807,318</u>	<u>\$ 61,803</u>

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2007

	Major Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
<b>Revenue</b>				
State-shared revenue	\$ 203,193	\$ 197,817	\$ 196,914	\$ (903)
Investment interest	16,088	16,088	54,826	38,738
Total revenue	219,281	213,905	251,740	37,835
<b>Expenditures</b>				
Salaries:				
Full time	35,829	32,727	30,702	2,025
Administration	4,235	4,310	4,310	-
Employee taxes and benefits	17,774	18,169	18,441	(272)
Audit and accounting	3,749	3,749	3,749	-
Public service building	12,360	12,360	12,003	357
Roads maintenance	19,669	19,669	19,136	533
Roadside maintenance	7,649	7,649	6,965	684
Traffic controls	30,000	30,000	29,793	207
Snow and ice removal	5,464	1,291	1,289	2
Forestry	11,330	11,730	11,730	-
Roadside parks	2,732	-	-	-
Administration and engineering	-	1,639	1,639	-
Transfers to other funds	58,117	58,117	58,117	-
Total expenditures	208,908	201,410	197,874	3,536
<b>Excess of Revenue Over Expenditures</b>	10,373	12,495	53,866	41,371
<b>Fund Balance - Beginning of year</b>	573,364	573,364	573,364	-
<b>Fund Balance - End of year</b>	<b>\$ 583,737</b>	<b>\$ 585,859</b>	<b>\$ 627,230</b>	<b>\$ 41,371</b>

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Local Streets Fund			Variance with Amended Budget Favorable (Unfavorable)
	Original Budget	Amended Budget	Actual	
<b>Revenue</b>				
State-shared revenue	\$ 99,207	\$ 99,207	\$ 92,769	\$ (6,438)
Special assessment revenue	-	27,071	29,341	2,270
Interest income	-	-	4,531	4,531
Miscellaneous revenue	-	-	3,992	3,992
Operating transfers from other funds	<u>530,702</u>	<u>530,702</u>	<u>530,702</u>	<u>-</u>
Total revenue	629,909	656,980	661,335	4,355
<b>Expenditures</b>				
Salaries:				
Full time	29,049	27,585	28,335	(750)
Administration	4,235	4,315	4,310	5
Employee taxes and benefits	16,195	18,060	18,316	(256)
Audit and accounting	2,758	2,758	2,758	-
Public service building	8,742	9,553	9,693	(140)
Roads maintenance	525,431	429,500	421,891	7,609
Roadside maintenance	7,649	7,649	3,904	3,745
Traffic controls	10,927	10,927	11,377	(450)
Snow and ice removal	5,464	1,292	1,290	2
Forestry	10,990	11,230	11,230	-
Operating transfers to other funds	<u>8,554</u>	<u>8,554</u>	<u>8,554</u>	<u>-</u>
Total expenditures	<u>629,994</u>	<u>531,423</u>	<u>521,658</u>	<u>9,765</u>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(85)	125,557	139,677	14,120
<b>Fund Balance - Beginning of year</b>	<u>43,277</u>	<u>43,277</u>	<u>43,277</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 43,192</b></u>	<u><b>\$ 168,834</b></u>	<u><b>\$ 182,954</b></u>	<u><b>\$ 14,120</b></u>

# City of Lathrup Village, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2007

	Capital Acquisition Fund			Variance with Amended Budget Favorable (Unfavorable)
	Original Budget	Amended Budget	Actual	
<b>Revenue</b>				
Interest income	\$ 5,000	\$ 5,000	\$ 15,949	\$ 10,949
Operating transfers from other funds	<u>121,969</u>	<u>121,969</u>	<u>121,969</u>	<u>-</u>
Total revenue	126,969	126,969	137,918	10,949
<b>Expenditures - Other</b>	<u>173,001</u>	<u>229,985</u>	<u>277,017</u>	<u>(47,032)</u>
<b>Excess of Expenditures Over Revenue</b>	(46,032)	(103,016)	(139,099)	(36,083)
<b>Fund Balance - Beginning of year</b>	<u>544,685</u>	<u>544,685</u>	<u>544,685</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 498,653</b></u>	<u><b>\$ 441,669</b></u>	<u><b>\$ 405,586</b></u>	<u><b>\$ (36,083)</b></u>

# City of Lathrup Village, Michigan

## Notes to Required Supplemental Information June 30, 2007

### Note 1 - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedules for the General and Major Special Revenue Funds are presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenue, expenditures, and changes in fund balances):

	General Fund		Major Streets Fund		Local Streets Fund		Capital Acquisition Fund	
	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 4,169,527	\$ 3,334,514	\$ 251,740	\$ 139,757	\$ 130,633	\$ 513,104	\$ 15,950	\$ 277,017
Operating transfers budgeted as revenue and expenditures	-	708,185	-	58,117	530,702	8,554	121,969	-
Amounts per budget statement	<u>\$ 4,169,527</u>	<u>\$ 4,042,699</u>	<u>\$ 251,740</u>	<u>\$ 197,874</u>	<u>\$ 661,335</u>	<u>\$ 521,658</u>	<u>\$ 137,919</u>	<u>\$ 277,017</u>

### Note 2 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).” All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

# City of Lathrup Village, Michigan

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## Notes to Required Supplemental Information June 30, 2007

### Note 2 - Budgetary Information (Continued)

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before the third Monday in April, the City shall submit to the City Council a recommended budget covering the next fiscal year.
2. A public hearing on the proposed budget shall be held before its final adoption at such time and place as the City Council shall direct.
3. The budget shall be adopted no later than the third Monday in May of each year.
4. The budget is adopted by department and fund on an activity basis. Subsequent amendments thereto shall be submitted from time to time by the City administrator for their consideration.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City did not incur any expenditures that were significantly in excess of the amounts budgeted.



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September 10, 2007

To the Honorable Mayor and  
Members of the City Council  
City of Lathrup Village  
27400 Southfield Road  
Lathrup Village, MI 48076

Dear Mayor and Council Members:

We have recently completed the audit of the basic financial statements of the City of Lathrup Village for the year ended June 30, 2007. In addition to our audit report, we offer the following comments and recommendations for your consideration:

### **Upcoming Reporting Changes**

As discussed in last year's letter, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. Since the City has less than 100 participants, this valuation will not need to be performed by an actuary. This statement is effective for the City's fiscal year ending June 30, 2009.

We are aware that the City has taken the initial steps to implementing the latest GASB requirement and received a preliminary analysis of its estimated liability by an insurance expert. This is an important first step that many other communities have not yet taken. The City should use its preliminary analysis and determine if there is a need to set up a separate Trust Fund under PA 149 of 1999. This would allow for the investment of designated funds in accordance with the Pension Act and allow for the potential of a greater return on the related investments.

## State-shared Revenue

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The magnitude of the State's deficit has become even more pronounced after the State's January and May 2007 revenue estimating conferences. According to economists, Michigan is still approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors on further changes to Michigan's tax structure continue to circulate around Lansing as the legislature continues their work on the State's fiscal year 2007/2008 budget and solving the estimated \$1.8 billion deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments.

While the debate is in process and all indications point to a very busy September for the Legislature, there still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$96,000 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

We will continue to update the City as developments occur.

### **Property Tax Legislation**

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.

- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

### **Personal Property Tax**

Over the last seven years, the State’s personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in WPW Acquisition Co. vs. City of Troy ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State’s tax structure discussions. Personal property taxes are a significant revenue source to many local governments. If the State’s new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor’s tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

### **New Cable Franchise Legislation**

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the “Uniform Video Services Local Franchise Act” which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

It is expected that local governments will receive their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

## **Act 51**

**Surplus Transfer** - Public Act 51 has been modified to allow local governments to transfer monies from their Major Roads Fund to their Local Roads Fund if an excess exists. As a condition of the transfer, the amended law requires that certain conditions be met including the adoption of an asset management process for the Major and Local Roads systems. It is important to note that these provisions sunset December 31, 2008. Without an extension of this provision, a transfer from the Major Roads Fund to the Local Roads Fund can only be done to the extent that local revenues exist in the Major Roads Fund. There is also currently legislation proposed that would allow for the combination of the Major Roads Fund and the Local Roads Fund if certain conditions are met.

**Annual Transfer** - The City currently only transfers approximately 23 percent of the Act 51 funds received from the State by the Major Roads Fund on an annual basis to the Local Roads Fund. If additional funds are needed in the Local Roads Fund, additional amounts up to 100 percent of the Major Roads Act 51 revenue may be transferred from the Major Roads Fund. In order to transfer more than 50 percent of the funds, the City would need to adopt a resolution with a copy to the Michigan Department of Transportation setting forth all of the following:

- a) A list of the major streets in the City
- b) A statement that the City is adequately maintaining its major streets
- c) The dollar amount of the transfer
- d) The local streets to be funded with the transfer

### **Statements on Auditing Standards No. 112**

New auditing rules, effective December 31, 2006, have resulted in some changes in the communications that we are required to provide following our audit. These rules require us to more formally communicate matters we note about your accounting procedures and internal controls. While we have always provided our observations in these areas as part of our audit, we are now required to tell you about more items than we may have in the past and to communicate them in writing.

The new auditing standard (Statement on Auditing Standards No. 112, referred to as SAS 112) requires us to inform you about any matters noted in your accounting procedures or internal controls that the new standard defines as a "significant deficiency." The new threshold for a significant deficiency is a low one - a significant deficiency is any flaw that creates more than a remote risk of errors in your financial statements that could matter to a user of the statements. Matters that may be immaterial to the financial statements still may be classified by the new auditing standard as a significant deficiency.

We are also required to communicate these matters to more people. In the past, we have sometimes provided comments of this nature as part of a draft meeting with management. Only material internal control issues have been included in our letter. Under these new rules, we are obligated to communicate these matters in writing to all individuals involved in overseeing strategic direction and accountability for your operations, including the administrator and the council members in addition to our communications with management. This communication is intended to comply with the requirements of the new auditing standards.

In planning and performing our audit for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The following control deficiencies were noted during our audit:

- The City does not have a detailed ledger that agrees to the water and sewer receivable recorded on the general ledger. The City has been working with its vendor for several years to fix this issue. The City reconciles the general ledger activity monthly to the billing register and cash receipt registers to ensure the general ledger amount is correct. In order to resolve this issue, the City has indicated that it will be switching operating systems starting in the next fiscal year. In the future, we do not expect this to be an ongoing problem.
- Currently, the City does not have a system in place to record the delinquent personal property tax receivables at year end. While this adjustment is not likely to be significant, we recommend that the City implement a system to record and appropriately adjust the delinquent receivable on a regular basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. The following significant deficiency was noted during our audit:

- In the current year, the City recorded all items related to the DEQ environmental compliance work as an expense on the general ledger. During the audit, we noted that a significant amount of those expenses related to items that should have been capitalized as assets. We recommend that the City implement a procedure in which they review these expense accounts for items that are capital in nature and record them as such in the general ledger.

To the Honorable Mayor and  
Members of the City Council  
City of Lathrup Village

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September 10, 2007

We would like to thank the Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver



Pamela L. Hill