

# **City of Richmond, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# City of Richmond, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and Members  
of the City Council  
City of Richmond, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Richmond, Michigan (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts 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.

To the Honorable Mayor and Members  
of the City Council  
City of Richmond, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

August 13, 2008

# City of Richmond, Michigan

## Management's Discussion and Analysis

Our discussion and analysis of the City of Richmond, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with City's financial statements which follow.

### Financial Highlights

As discussed in further detail in the management's discussion and analysis, the following represent the most significant financial highlights for the year ended June 30, 2008:

- Tax revenues, the City of Richmond's largest single revenue source, totaled \$2.9 million in the General Fund this year, representing an increase of 4.6 percent from last fiscal year. This increase primarily reflects the growing tax base of the community as the City continues to realize considerable residential, industrial, and commercial development. The City's taxable value increased from \$197 million in 2006 to \$204 million in 2007. The taxable value of the City would have been greater if the Michigan constitutional amendment commonly known as "Proposal A" had not been enacted in 1994, resulting in a loss of potential revenue of more than \$684,000 in the 2007/2008 fiscal year, based upon the City tax levy of 16.6526 mills.
- State-shared revenue, a major source of revenue for the City's General Fund, continued its downward trend of the past several years. The City received \$464,865 in the 2007/2008 fiscal year, a reduction of \$11,260, or 2.4 percent, from last year and a reduction of \$219,842, or more than 32 percent, from 2001/2002 funding levels. This revenue reduction is masked by the increase in tax revenues resulting from a growing tax base. However, the serious impact of decreasing state-shared revenues will become more apparent as tax base growth slows. The City's proactive response to the decline in state-shared revenue is to closely monitor and continually evaluate General Fund revenue trends as well as expenditure trends, especially in the areas of personnel benefit costs and staffing levels and discretionary programming and capital projects, in order to achieve economies of scale, operational efficiencies, cost reductions, and justification for capital expenditures.
- Total long-term liabilities for governmental activities are \$964,041, a reduction of \$315,006, or 24.6 percent, from the previous year. This reduction reflects a continuing effort by the City Council and administration to maintain a "pay-as-you-go" basis for funding General Fund, Streets, and capital projects to minimize the need to incur additional debt. The City now sets aside an amount equal to 2 mills of the general operating tax levy for completion of its 20+ year street improvement program and reviews water and sewer rate structures annually to ensure an acceptable level of working capital is maintained, while providing the funding necessary to complete the utility capital improvement program.
- Total fund balance for the City's governmental funds decreased by approximately \$684,000, primarily as a result of significant infrastructure construction projects in the current year.

# City of Richmond, Michigan

## Management's Discussion and Analysis (Continued)

### Using this Annual Report

This annual report includes a series of financial statements. The statement of net assets and the statement of activities provide information about 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 activities are divided between governmental and business-type activities. Governmental activities include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds. Business-type activities include the Water and Sewer Funds.

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 the 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 City of Richmond as a Whole

The following table shows a condensed format of the net assets (in thousands of dollars) as of June 30, 2008 and 2007:

	Governmental		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Assets</b>						
Current assets	\$ 3,589	\$ 4,049	\$ 3,916	\$ 4,182	\$ 7,505	\$ 8,231
Noncurrent assets - Capital assets	7,482	6,655	16,862	15,083	24,344	21,738
Total assets	11,071	10,704	20,778	19,265	31,849	29,969
<b>Liabilities</b>						
Current liabilities	425	149	54	564	479	713
Long-term liabilities	964	1,279	2,936	981	3,900	2,260
Total liabilities	1,389	1,428	2,990	1,545	4,379	2,973
<b>Net Assets</b>						
Invested in capital assets - Net of related debt	6,721	5,566	13,965	14,102	20,686	19,668
Restricted	562	1,249	438	417	1,000	1,666
Unrestricted	2,399	2,461	3,385	3,201	5,784	5,662
Total net assets	<u>\$ 9,682</u>	<u>\$ 9,276</u>	<u>\$ 17,788</u>	<u>\$ 17,720</u>	<u>\$ 27,470</u>	<u>\$ 26,996</u>

# City of Richmond, Michigan

## Management's Discussion and Analysis (Continued)

The City's combined net assets for both governmental and business-type activities total \$27.5 million for fiscal year 2008. Net assets are further segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted for a specific purpose/use and invested in capital assets, total approximately \$21.7 million. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$5.8 million.

The following table shows the change in net assets for the years ended June 30, 2008 and 2007 (in thousands of dollars):

	Governmental		Business-type		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 982	\$ 644	\$ 1,788	\$ 1,787	\$ 2,770	\$ 2,431
Operating grants and contributions	404	645	-	-	404	645
Capital grants and contributions	-	-	4	487	4	487
General revenue:						
Property taxes	3,287	3,172	-	-	3,287	3,172
State-shared revenues	465	476	-	-	465	476
Interest	162	202	142	157	304	359
Franchise fees	68	61	-	-	68	61
Miscellaneous	24	339	-	-	24	339
Loss on disposal of capital assets	-	(5)	-	-	-	(5)
Transfers	27	20	(27)	(20)	-	-
Total revenue	5,419	5,554	1,907	2,411	7,326	7,965
<b>Program Expenses</b>						
General government	957	756	-	-	957	756
Public safety	1,847	1,792	-	-	1,847	1,792
Public works	1,354	975	-	-	1,354	975
Recreation and culture	700	699	-	-	700	699
Community development	127	91	-	-	127	91
Interest on long-term debt	29	43	-	-	29	43
Water and sewer	-	-	1,839	1,620	1,839	1,620
Total program expenses	5,014	4,356	1,839	1,620	6,853	5,976
<b>Change in Net Assets</b>	<b>\$ 405</b>	<b>\$ 1,198</b>	<b>\$ 68</b>	<b>\$ 791</b>	<b>\$ 473</b>	<b>\$ 1,989</b>

# **City of Richmond, Michigan**

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

### **Governmental Activities**

Governmental activities are those activities (such as public safety or health and human services) provided to the constituents of the City and supported by financing from property taxes and state-shared revenues.

The cost of providing services for governmental activities was approximately \$5.0 million for fiscal year 2008. Additionally, revenues for governmental activities totaled approximately \$5.4 million, which netted to an increase in net assets for the year of approximately \$406,000. This indicates that the users of today's services paid more than the full costs of operations during the year ended June 30, 2008.

### **Business-type Activities**

Business-type activities are those that are financed primarily by charges for services or user fees. The City's business-type activities consist of the Water and Sewer Funds; these types of operations are most similar to private businesses.

### **The City's Funds**

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. This includes the General Fund, Major Streets Special Revenue Fund, Water Fund, and Sewer Fund. The other nonmajor governmental funds are consolidated and reported under the column with that heading. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages and restricted revenues from grants or fees.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$1,074,000 in 2008. The General Fund is supported primarily by property taxes and state-shared revenue.

### **Budgetary Highlights**

Over the course of the year, the City administration and City Council monitor the budget, and if necessary, amend the budget to take into account unanticipated events that occur during the year. As previously stated, fund balances related to the City's governmental funds decreased approximately \$684,000. During the year ended June 30, 2008, there was a significant budget amendment in the Major Streets Fund to increase budgeted highways and streets expenditures by approximately \$733,000 for completion of the South Forest construction project.

# **City of Richmond, Michigan**

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

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

#### **Capital Assets**

At the end of fiscal year 2008, the City had \$24.3 million invested in capital assets (land, buildings, equipment, vehicles, and water and sewer lines). These assets are necessary to carry out the day-to-day operations of the City.

#### **Long-term Debt**

The City's total bonded indebtedness as of June 30, 2008 is approximately \$3.7 million. Of this amount, \$3.3 million represents a general obligation bond, \$330,000 represents capital lease obligations, and \$75,000 represents a special assessment bond.

### **Economic Factors and Next Year's Budgets and Rates**

The national economy is demonstrating strong indications of recovery during 2007 and 2008. However, Michigan's fiscal crisis is entering its eighth year. State revenues are at their lowest since 1970. A majority of these reductions were self-inflicted. Enacted state tax cuts have eroded the State's ability to generate revenue; the State's fiscal reserves are depleted, and the state economic rebound is lagging behind the national recovery. During fiscal year 2007 and into 2008, the City anticipates level funding in state-shared revenues and grants. To date, these revenue reductions have been masked because of our growth and increased property tax revenues. To ensure sustainability of our operations, the City is closely monitoring reserve balances, revenues, and expenditures.

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

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

# City of Richmond, Michigan

## Statement of Net Assets June 30, 2008

	Primary Government			Component Unit - Tax Increment Finance Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 3,410,540	\$ 2,991,099	\$ 6,401,639	\$ 3,064,701
Receivables:				
Special assessments	47,694	34,257	81,951	-
Customers	-	431,945	431,945	-
Other governmental units	88,812	16,019	104,831	258,120
Prepaid items	41,955	5,845	47,800	-
Restricted cash and cash equivalents (Notes 3 and 7)	-	437,579	437,579	-
Capital assets (Note 4):				
Assets not being depreciated	150,637	298,670	449,307	11,325
Assets being depreciated - Net	<u>7,330,982</u>	<u>16,563,132</u>	<u>23,894,114</u>	<u>1,952,198</u>
Total assets	11,070,620	20,778,546	31,849,166	5,286,344
<b>Liabilities</b>				
Accounts payable	359,267	54,253	413,520	15,650
Accrued and other liabilities	64,876	-	64,876	-
Noncurrent liabilities (Note 6):				
Due within one year	514,306	142,929	657,235	280,000
Due in more than one year	<u>449,735</u>	<u>2,793,459</u>	<u>3,243,194</u>	<u>-</u>
Total liabilities	<u>1,388,184</u>	<u>2,990,641</u>	<u>4,378,825</u>	<u>295,650</u>
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	6,721,264	13,964,996	20,686,260	1,683,523
Restricted:				
Library endowments	52,628	-	52,628	-
Streets and highways	386,943	-	386,943	-
Debt service	75,800	-	75,800	-
Capital improvements	47,026	437,579	484,605	-
Unrestricted	<u>2,398,775</u>	<u>3,385,330</u>	<u>5,784,105</u>	<u>3,307,171</u>
Total net assets	<u>\$ 9,682,436</u>	<u>\$ 17,787,905</u>	<u>\$ 27,470,341</u>	<u>\$ 4,990,694</u>

# City of Richmond, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Governmental activities:				
General government	\$ 956,681	\$ 11,190	\$ -	\$ -
Public safety	1,846,516	365,054	-	-
Public works	1,354,132	412,714	363,770	-
Recreation and culture	699,952	159,439	7,129	-
Community development	126,471	34,022	33,386	-
Interest on long-term debt	29,333	-	-	-
Total governmental activities	5,013,085	982,419	404,285	-
Business-type activities:				
Water	743,124	742,781	-	1,800
Sewer	1,096,163	1,045,278	-	2,214
Total business-type activities	1,839,287	1,788,059	-	4,014
Total	<u>\$ 6,852,372</u>	<u>\$ 2,770,478</u>	<u>\$ 404,285</u>	<u>\$ 4,014</u>
Component unit - Tax Increment Finance Authority	<u>\$ 316,576</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,781</u>

General revenues:

Property taxes  
 State-shared revenues  
 Interest  
 Franchise fees  
 Miscellaneous

Transfers

Total general revenues and transfers

**Change in Net Assets**

**Net Assets** - Beginning of year

**Net Assets** - End of year

**Statement of Activities  
Year Ended June 30, 2008**

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business-type Activities	Total	Component Unit - Tax Increment Finance Authority
\$ (945,491)	\$ -	\$ (945,491)	\$ -
(1,481,462)	-	(1,481,462)	-
(577,648)	-	(577,648)	-
(533,384)	-	(533,384)	-
(59,063)	-	(59,063)	-
(29,333)	-	(29,333)	-
(3,626,381)	-	(3,626,381)	-
-	1,457	1,457	-
-	(48,671)	(48,671)	-
-	(47,214)	(47,214)	-
(3,626,381)	(47,214)	(3,673,595)	-
-	-	-	(235,795)
3,287,029	-	3,287,029	1,151,707
464,865	-	464,865	-
162,079	142,246	304,325	124,621
67,724	-	67,724	-
24,034	-	24,034	-
27,025	(27,025)	-	-
4,032,756	115,221	4,147,977	1,276,328
406,375	68,007	474,382	1,040,533
9,276,061	17,719,898	26,995,959	3,950,161
<b>\$ 9,682,436</b>	<b>\$ 17,787,905</b>	<b>\$ 27,470,341</b>	<b>\$ 4,990,694</b>

# City of Richmond, Michigan

## Governmental Funds Balance Sheet June 30, 2008

	Major Funds		Other	Total
	General Fund	Special Revenue Fund - Major Streets	Nonmajor Governmental Funds	
<b>Assets</b>				
Cash and cash equivalents (Note 3)	\$ 1,692,860	\$ 435,792	\$ 1,281,888	\$ 3,410,540
Accounts receivable - Special assessments	-	-	47,694	47,694
Due from other governmental units	66,436	16,159	6,217	88,812
Prepaid expenses and other assets	40,223	-	1,732	41,955
Total assets	<u>\$ 1,799,519</u>	<u>\$ 451,951</u>	<u>\$ 1,337,531</u>	<u>\$ 3,589,001</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 63,120	\$ 229,836	\$ 66,311	\$ 359,267
Accrued and other liabilities	59,742	-	-	59,742
Deferred revenue (Note 8)	-	-	47,694	47,694
Total liabilities	122,862	229,836	114,005	466,703
<b>Fund Balances</b>				
Reserved - Library endowments	-	-	52,628	52,628
Unreserved, reported in:				
General Fund	1,676,657	-	-	1,676,657
Special Revenue Funds	-	222,115	376,010	598,125
Debt Service Funds	-	-	29,558	29,558
Capital Projects Funds	-	-	765,330	765,330
Total fund balances	<u>1,676,657</u>	<u>222,115</u>	<u>1,223,526</u>	<u>3,122,298</u>
Total liabilities and fund balances	<u>\$ 1,799,519</u>	<u>\$ 451,951</u>	<u>\$ 1,337,531</u>	<u>\$ 3,589,001</u>

# City of Richmond, Michigan

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets June 30, 2008

<b>Total Fund Balances of Governmental Funds</b>	\$ 3,122,298
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	7,481,619
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds and capital leases payable	(760,355)
Accrued interest payable	(5,134)
Compensated absences	(203,686)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	<u>47,694</u>
<b>Net Assets of Governmental Activities</b>	<b><u>\$ 9,682,436</u></b>

# City of Richmond, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	Major Funds			Total Governmental Funds
	General Fund	Special Revenue Fund - Major Streets	Other Nonmajor Governmental Funds	
<b>Revenue</b>				
Property taxes	\$ 2,910,215	\$ -	\$ 376,813	\$ 3,287,028
Special assessments	-	-	17,495	17,495
Federal sources	-	-	26,020	26,020
State sources	482,908	254,395	84,443	821,746
Charges for services	607,591	-	284,826	892,417
Interest and rent	85,067	13,507	66,801	165,375
Fines and forfeitures	62,173	-	-	62,173
Donations	9,489	-	4,460	13,949
Licenses and permits	90,779	-	-	90,779
Other	34,711	1,757	30,989	67,457
Total revenue	4,282,933	269,659	891,847	5,444,439
<b>Expenditures</b>				
Current:				
General government	592,070	-	-	592,070
Highways and streets	-	1,416,978	103,470	1,520,448
Public service	-	-	195,266	195,266
Public safety	1,554,284	-	264,560	1,818,844
Public works	636,099	-	-	636,099
Recreation and culture	335,661	-	403,732	739,393
Health and welfare	1,199	-	-	1,199
Capital outlay	-	-	41,770	41,770
Debt service:				
Principal retirement	179,432	-	401,020	580,452
Interest and fiscal charges	-	-	30,400	30,400
Total expenditures	3,298,745	1,416,978	1,440,218	6,155,941
<b>Excess of Revenue Over (Under) Expenditures</b>	984,188	(1,147,319)	(548,371)	(711,502)
<b>Other Financing Sources (Uses)</b>				
Transfers in (Note 5)	26,569	490,000	965,987	1,482,556
Transfers out (Note 5)	(898,962)	(40,000)	(516,569)	(1,455,531)
Total other financing sources (uses)	(872,393)	450,000	449,418	27,025
<b>Net Change in Fund Balances</b>	111,795	(697,319)	(98,953)	(684,477)
<b>Fund Balances - Beginning of year</b>	1,564,862	919,434	1,322,479	3,806,775
<b>Fund Balances - End of year</b>	<u>\$ 1,676,657</u>	<u>\$ 222,115</u>	<u>\$ 1,223,526</u>	<u>\$ 3,122,298</u>

# City of Richmond, Michigan

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## **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, 2008**

**Net Change in Fund Balances of Governmental Funds** \$ (684,477)

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 allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	1,063,442
Depreciation expense	(345,003)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	437,137
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Interest expense is recorded when incurred in the statement of activities	1,067
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Compensated absence liabilities are recorded when earned in the statement of activities	(13,779)
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Rental revenue is recorded in the funds when earned and available; it is recorded as revenue when earned in the government-wide statements	(34,517)
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Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the government-wide statements	<u>(17,495)</u>
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**Change in Net Assets of Governmental Activities** **\$ 406,375**

# City of Richmond, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2008

	Major Enterprise Funds		Total
	Water	Sewer	
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 409,124	\$ 2,581,975	\$ 2,991,099
Receivables:			
Special assessments	-	11,419	11,419
Customers	187,425	244,520	431,945
Due from State	-	16,019	16,019
Prepaid items	5,845	-	5,845
Total current assets	602,394	2,853,933	3,456,327
Noncurrent assets:			
Special assessments - Long-term portion	-	22,838	22,838
Restricted cash and cash equivalents (Note 7)	-	437,579	437,579
Capital assets (Note 4):			
Capital assets not being depreciated	270,611	28,059	298,670
Capital assets being depreciated - Net	5,244,038	11,319,094	16,563,132
Total noncurrent assets	5,514,649	11,807,570	17,322,219
Total assets	6,117,043	14,661,503	20,778,546
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	22,437	31,816	54,253
Current portion of long-term liabilities (Note 6)	8,624	134,305	142,929
Total current liabilities	31,061	166,121	197,182
Long-term liabilities (Note 6)	15,869	2,777,590	2,793,459
Total liabilities	46,930	2,943,711	2,990,641
<b>Net Assets</b>			
Invested in capital assets	5,514,649	8,450,347	13,964,996
Restricted (Note 7)	-	437,579	437,579
Unrestricted	555,464	2,829,866	3,385,330
Total net assets	<u>\$ 6,070,113</u>	<u>\$ 11,717,792</u>	<u>\$ 17,787,905</u>

# City of Richmond, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2008

	Major Enterprise Funds		Total
	Water	Sewer	
<b>Operating Revenue</b>			
Usage fees	\$ 726,654	\$ 1,018,154	\$ 1,744,808
Tap-in fees	35	105	140
Penalties	10,165	14,264	24,429
Charges for services	2,636	-	2,636
Miscellaneous	3,291	12,755	16,046
Total operating revenue	742,781	1,045,278	1,788,059
<b>Operating Expenses</b>			
Administration	103,863	122,697	226,560
Infrastructure maintenance	67,395	-	67,395
Water production	117,629	-	117,629
Water system	300,322	-	300,322
Depreciation	150,715	313,721	464,436
Sewer treatment plant	-	376,415	376,415
Sewer system	-	169,184	169,184
Total operating expenses	739,924	982,017	1,721,941
<b>Operating Income</b>	2,857	63,261	66,118
<b>Nonoperating Revenue (Expenses)</b>			
Interest income	26,792	115,454	142,246
Connection fees	1,800	2,214	4,014
Refund of state grant	-	(87,932)	(87,932)
Interest expense	(3,200)	(26,214)	(29,414)
Total nonoperating revenue	25,392	3,522	28,914
<b>Income - Before operating transfers</b>	28,249	66,783	95,032
<b>Other Financing Sources (Uses)</b>			
Transfers in (Note 5)	19,740	-	19,740
Transfers out (Note 5)	-	(46,765)	(46,765)
Total other financing sources (uses)	19,740	(46,765)	(27,025)
<b>Net Change in Net Assets</b>	47,989	20,018	68,007
<b>Net Assets - Beginning of year</b>	6,022,124	11,697,774	17,719,898
<b>Net Assets - End of year</b>	<u>\$ 6,070,113</u>	<u>\$ 11,717,792</u>	<u>\$ 17,787,905</u>

# City of Richmond, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Major Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers and other funds	\$ 760,162	\$ 1,340,257	\$ 2,100,419
Payments to suppliers, employees, and other funds	(571,369)	(1,156,310)	(1,727,679)
Net cash provided by operating activities	188,793	183,947	372,740
<b>Cash Flows from Noncapital Financing Activities</b>			
Operating transfers in	19,740	-	19,740
Operating transfers out	-	(46,765)	(46,765)
Net cash provided by (used in) noncapital financing activities	19,740	(46,765)	(27,025)
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds from the issuance of long-term debt	-	2,152,620	2,152,620
Principal and interest paid on capital debt	(109,850)	(156,214)	(266,064)
Collection of customer assessments (principal and interest)	-	16,557	16,557
Refund of state grants	-	(87,932)	(87,932)
Purchase of capital assets	(547,651)	(1,696,075)	(2,243,726)
Contributed capital from tap-in fees	1,800	2,214	4,014
Net cash (used in) provided by capital and related financing activities	(655,701)	231,170	(424,531)
<b>Cash Flows from Investing Activities - Interest received on investments</b>			
	26,792	115,454	142,246
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(420,376)	483,806	63,430
<b>Cash and Cash Equivalents - Beginning of year</b>	829,500	2,535,748	3,365,248
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 409,124</b>	<b>\$ 3,019,554</b>	<b>\$ 3,428,678</b>
<b>Statement of Net Assets Classification of Cash and Cash Equivalents</b>			
Cash and cash equivalents	\$ 409,124	\$ 2,581,975	\$ 2,991,099
Restricted assets	-	437,579	437,579
Total	<b>\$ 409,124</b>	<b>\$ 3,019,554</b>	<b>\$ 3,428,678</b>
<b>Reconciliation of Operating Income to Net Cash from Operating Activities</b>			
Operating income	\$ 2,857	\$ 63,261	\$ 66,118
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	150,715	313,721	464,436
Changes in assets and liabilities:			
Customer receivables	17,381	13,914	31,295
Due from state	-	281,065	281,065
Accounts payable	16,051	(489,381)	(473,330)
Accrued liabilities	1,789	1,367	3,156
Net cash provided by operating activities	<b>\$ 188,793</b>	<b>\$ 183,947</b>	<b>\$ 372,740</b>

# City of Richmond, Michigan

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## Fiduciary Funds Statement of Assets and Liabilities June 30, 2008

	<u>Trust and Agency Fund</u>
<b>Assets</b>	
Cash (Note 3)	\$ 11,300
Taxes receivable	<u>481</u>
Total assets	<u><u>\$ 11,781</u></u>
<b>Liabilities - Accrued and other liabilities</b>	<u><u>\$ 11,781</u></u>

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

The accounting policies of the City of Richmond, 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:

### **Reporting Entity**

The City is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

**Discretely Presented Component Units** - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- a. The Tax Increment Finance Authority was created to promote capital expansion within the City. The Authority's governing body is selected by the City Council. In addition, the Authority's budget is subject to approval by the City Council. There are no separately issued financial statements for the Tax Increment Finance Authority.
- b. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation was inactive during 2008 and has no assets or liabilities.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

### **Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial 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. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become 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. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

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

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

The City reports the following major funds:

### **Governmental Funds**

- 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.
- The Major Streets Special Revenue Fund accounts for the activities related to major street construction.

### **Business-type Funds**

- The Water Fund accounts for the results of operations that provide water services to citizens and is financed by a user charge for the provision of those services.
- The Sewer Fund accounts for the results of operations that provide sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following funds:

**Special Revenue Funds** - Special Revenue Funds account for the revenues and expenditures related to major streets, local streets, fire department, housing and urban development, mausoleum, cemetery, parks and recreation, and parking.

**Debt Service Funds** - Debt Service Funds account for the debt retirement activity of the governmental activities of the City for the general obligations, special assessment, and street improvements projects of the City.

**Capital Projects Funds** - Capital Projects Funds account for the development of capital facilities and equipment other than those financed by the operation of a proprietary fund. These projects include vehicle and repairs, equipment replacement, special assessments, and street improvements.

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

**Agency Funds** - Agency Funds are used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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.

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 government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

When an expense has been incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize 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 revenue and 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.

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

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

**Cash and Cash Equivalents** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value, based on quoted market prices, or estimated fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due 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."

**Property Taxes** - Properties are assessed as of December 31. The related property taxes are billed on July 1 and become a lien on December 1 of the following year. These taxes are due on September 30 with the final collection date of February 28 before they are added to the county tax rolls.

The 2007 taxable valuation of the City totaled \$204.4 million (a portion of which is captured by the TIFA). Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	\$ 16.6526	\$ 2,793,126
Debt	<u>1.8300</u>	<u>374,626</u>
Total	<u>\$ 18.4826</u>	<u>\$ 3,167,752</u>

These amounts are recognized in the respective General and Debt Service Funds financial statements as tax revenue.

**Noncurrent Receivables** - Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

**Inventories and Prepaid Items** - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally, expenditures are not divided between years by the recording of prepaid expenses.

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

**Capital Assets** - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), 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 \$5,000 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.

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

Buildings	30-50 years
Vehicles and equipment	5-40 years
Utility systems	50 years
Infrastructure - Roads	25 years

**Compensated Absences** - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it comes due for payment, generally when time is taken off or employees terminate.

**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.

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

**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.

**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 healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Other accounting policies are disclosed in other notes to the financial statements.

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

**Budgetary Information** - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds.

The City adopts its budget on a departmental basis, which is in accordance with the State’s legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

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

- Prior to the first regular board meeting in April, the City manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

## **Note 2 - Stewardship, Compliance, and Accountability (Continued)**

- A public hearing is conducted to obtain taxpayer comments.
- Prior to the second Monday in June, the budget is legally adopted by the City Council through adoption of the appropriation ordinance.
- The City manager is authorized to transfer budgeted amounts within the budgetary centers (activity); however, any revisions that alter the total expenditure of any budgetary center (activity) must be approved by the City Council.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The City did not have significant expenditure budget variances.

## **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 City is also 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 three 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 adopted an investment policy in accordance with state law.

The City has designated six banks for the deposit of local unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the investment options as allowed under the state statutory authority as listed above.

The City's deposits and investment policies are in accordance with statutory authority.

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

The City's cash and investments are subject to two 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 June 30, 2008, the City had \$727,450 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City also holds bank deposits on behalf of its component unit. At June 30, 2008, the City had \$1,360,054 of component unit bank deposits that were uninsured and uncollateralized. The City and its component unit believe that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and its component unit evaluate each financial institution with which they deposit funds and assess 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 and its component unit have no investment policy that would further limit their investment choices. As of June 30, 2008, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
<b>Primary Government</b>			
Bank investment pool	\$ 5,233,055	Not rated	Not rated
Bank investment pool	148,536	AAA	Moody's
<b>Component Unit</b>			
Bank investment pool	389,124	Not rated	Not rated
Bank investment pool	1,802,945	Not rated	Not rated

### Note 4 - Capital Assets

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

Governmental Activities	Balance			Balance June 30, 2008
	July 1, 2007	Additions	Transfers	
Capital assets not being depreciated:				
Land	\$ 120,000	\$ -	\$ -	\$ 120,000
CIP	56,456	876,333	(902,152)	30,637
Subtotal	176,456	876,333	(902,152)	150,637
Capital assets being depreciated:				
Buildings	4,433,928	43,637	-	4,477,565
Infrastructure	1,519,329	70,549	902,152	2,492,030
Vehicles and equipment	3,424,755	181,275	-	3,606,030
Subtotal	9,378,012	295,461	902,152	10,575,625
Accumulated depreciation:				
Buildings	996,198	74,443	-	1,070,641
Infrastructure	175,542	13,420	-	188,962
Vehicles and equipment	1,727,900	257,140	-	1,985,040
Subtotal	2,899,640	345,003	-	3,244,643
Net capital assets being depreciated	6,478,372	(49,542)	902,152	7,330,982
Net capital assets	\$ 6,654,828	\$ 826,791	\$ -	\$ 7,481,619
Capital assets not being depreciated:				
Land	\$ 157,042	\$ -	\$ -	\$ 157,042
CIP	1,604,123	2,204,277	(3,666,772)	141,628
Subtotal	1,761,165	2,204,277	(3,666,772)	298,670
Capital assets being depreciated:				
Buildings	9,461,476	20,574	-	9,482,050
Utility systems	9,982,908	-	3,666,772	13,649,680
Vehicles and equipment	668,456	18,875	-	687,331
Subtotal	20,112,840	39,449	3,666,772	23,819,061
Accumulated depreciation:				
Buildings	3,140,320	90,368	-	3,230,688
Utility systems	3,394,078	276,597	-	3,670,675
Vehicles and equipment	257,095	97,471	-	354,566
Subtotal	6,791,493	464,436	-	7,255,929
Net capital assets being depreciated	13,321,347	(424,987)	3,666,772	16,563,132
Net capital assets	\$ 15,082,512	\$ 1,779,290	\$ -	\$ 16,861,802

### Note 4 - Capital Assets (Continued)

Capital asset activity of the City's component unit was as follows:

Component Unit Activities	Balance	Additions	Disposals	Balance
	July 1, 2007			June 30, 2008
Capital assets not being depreciated -				
Construction in progress	\$ 11,325	\$ -	\$ -	\$ 11,325
Capital assets being depreciated:				
Buildings	40,888	37,270	-	78,158
Infrastructure	1,780,013	21,429	-	1,801,442
Land improvements	-	158,219	-	158,219
Furniture and fixtures	11,865	18,586	-	30,451
Subtotal	1,832,766	235,504	-	2,068,270
Accumulated depreciation:				
Buildings	14,711	21,449	-	36,160
Infrastructure	36,678	31,874	-	68,552
Land Improvements	-	2,260	-	2,260
Furniture and fixtures	4,807	4,293	-	9,100
Subtotal	56,196	59,876	-	116,072
Net capital assets being depreciated	1,776,570	175,628	-	1,952,198
Net capital assets	<u>\$ 1,787,895</u>	<u>\$ 175,628</u>	<u>\$ -</u>	<u>\$ 1,963,523</u>

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

Governmental activities:	
General government	\$ 225,376
Public safety	83,419
Public works	13,647
Recreation and culture	22,561
Total governmental activities	<u>\$ 345,003</u>
Business-type activities:	
Water lines	\$ 150,715
Sewer lines	313,721
Total business-type activities	<u>\$ 464,436</u>

### Note 5 - Interfund Transfers

Interfund balances represent routine and temporary cash flow assistance.

Fund Transferred From	Fund Transferred To	Amount
<b>Interfund Transfers</b>		
Governmental funds:		
General Fund	Nonmajor governmental funds	\$ 898,962
Major Streets Fund	Nonmajor governmental funds	40,000
Nonmajor governmental funds	General Fund	26,569
	Major Streets Fund	<u>490,000</u>
	Total nonmajor governmental funds	<u>516,569</u>
	Total operating transfers out from governmental funds	1,455,531
Business-type fund -		
Sewer Fund	Water Fund	19,740
	Nonmajor governmental funds	<u>27,025</u>
	Total operating transfers out from business-type funds	<u>46,765</u>
	Total operating transfers out	<u>\$ 1,502,296</u>

Transfers provided funding for capital projects, capital acquisitions, and program services in accordance with budgetary authorizations.

### 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. City contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received.

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

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$46,000 of special assessments receivable in the future reported in the Special Assessment District Fund; the amount of receivables delinquent at June 30, 2008 is not significant. In addition, there is approximately \$20,000 set aside in the Special Assessment District Fund for repayment of these bonds. Under Michigan law, the City is secondarily liable for payment of these bonds.

Long-term obligation activity for governmental activities is summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
Bond obligations:						
General obligation bond -						
1995 Road Bond:						
Amount of issue - \$3,065,000						
Maturing through 2009	4.75%	\$ 705,000	\$ -	\$ (350,000)	\$ 355,000	\$ 355,000
Special Assessment Bonds -						
2001 Special Assessments Bonds -						
33 Mile Road:						
Amount of issue - \$228,000	4.583%-					
Maturing through 2011	4.70%	100,000	-	(25,000)	75,000	25,000
Total bond obligations		805,000	-	(375,000)	430,000	380,000
Capital lease obligations:						
Community Center:						
Amount of issue - \$365,405						
Maturing through 2018	0%	284,140	-	(26,020)	258,120	26,020
Ford Motor Credit Company:						
Amount of issue - \$108,352						
Maturing through 2010	6.10%	-	108,352	(36,117)	72,235	36,117
Total capital lease obligations		284,140	108,352	(62,137)	330,355	62,137
Total bond and lease obligations		1,089,140	108,352	(437,137)	760,355	442,137
Other long-term obligations - Compensated absences						
		189,907	13,779	-	203,686	72,169
Total governmental activities		\$ 1,279,047	\$ 122,131	\$ (437,137)	\$ 964,041	\$ 514,306

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

Long-term obligation activity for business-type activities is summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
General obligation bonds - 2007 Sewage Disposal System Revolving Loan: Amount of issue - \$3,040,000 - Net of \$143,194 not drawn down as of June 30, 2007 Maturing through 2027	1.625 %	\$ 874,186	\$ 2,152,620	\$ (130,000)	\$ 2,896,806	\$ 129,436
Capital lease obligation - Arsenic Removal Plant: Amount of issue - \$328,162 Maturing through 2008	3%	106,650	-	(106,650)	-	-
Total bond and lease obligations		980,836	2,152,620	(236,650)	2,896,806	129,436
Other long-term obligations - Compensated absences		36,426	3,156	-	39,582	13,493
Total business-type activities		<u>\$ 1,017,262</u>	<u>\$ 2,155,776</u>	<u>\$ (236,650)</u>	<u>\$ 2,936,388</u>	<u>\$ 142,929</u>

Long-term obligation activity for the component unit is summarized as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Component Unit Debt</b>						
1995 Development Bond Series A: Amount of issue - \$1,200,000 Maturing through 2009	6.30%	\$ 265,000	\$ -	\$ (135,000)	\$ 130,000	\$ 130,000
1995 Development Bond Series B: Amount of issue - \$1,275,000 Maturing through 2009	6.30%	295,000	-	(145,000)	150,000	150,000
Total component unit debt		<u>\$ 560,000</u>	<u>\$ -</u>	<u>\$ (280,000)</u>	<u>\$ 280,000</u>	<u>\$ 280,000</u>

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

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

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 380,000	\$ 11,869	\$ 391,869	\$ 280,000	\$ 8,820	\$ 288,820
2010	25,000	2,325	27,325	-	-	-
2011	25,000	1,175	26,175	-	-	-
Total	<u>\$ 430,000</u>	<u>\$ 15,369</u>	<u>\$ 445,369</u>	<u>\$ 280,000</u>	<u>\$ 8,820</u>	<u>\$ 288,820</u>

	Business Activities		
	Principal	Interest	Total
2009	\$ 129,436	\$ 47,083	\$ 176,519
2010	134,414	44,980	179,394
2011	134,414	42,795	177,209
2012	139,392	40,611	180,003
2013	139,392	38,345	177,737
2014-2018	736,788	156,701	893,489
2019-2023	796,528	95,137	891,665
2024-2027	<u>686,442</u>	<u>28,072</u>	<u>714,514</u>
Total	<u>\$ 2,896,806</u>	<u>\$ 493,724</u>	<u>\$ 3,390,530</u>

**Interest** - The City incurred approximately \$85,000 of interest for the year ended June 30, 2008.

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

**Capital Lease** - The City has entered into three lease agreements as the lessee for financing the purchase of a community center and an arsenic removal facility from the Tax Increment Financing Authority and for the purchase of vehicles from a credit company. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending June 30	Governmental Activities
2009	\$ 66,171
2010	64,214
2011	26,020
2012	26,020
2013	26,020
2014-2018	<u>128,020</u>
Total minimum lease payments	336,465
Less amount representing interest	<u>6,110</u>
Present value	<u><u>\$ 330,355</u></u>

### Note 7 - Restricted Assets

Restricted assets at June 30, 2008 consist of cash and cash equivalents that are restricted for future capital needs for the sewer treatment plant as required by the Environmental Protection Agency regulations. Net assets have been restricted for capital improvement related to this requirement.

### Note 8 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the deferred revenue relates to special assessment receivables that are unavailable to liquidate liabilities of the current period.

### Note 9 - Commitments

The City entered into an agreement with Lenox Township for the purchase of land to be paid for by property taxes levied on the assessed value of the land. This agreement was modified during the year ended June 30, 1999. The modified agreement requires annual payments through September 1, 2018 totaling 3.6 mills of the total assessed value of the area purchased. The City paid \$143,315 during the year ended June 30, 2008, when the assessed value of the area was approximately \$39,810,000.

During the year ended June 30, 2008, the City will pay approximately \$145,000, based on an estimated assessed value of \$40,410,000. Future installment payments have been estimated assuming inflationary increases of 3 percent.

The annual payment requirements to service the agreement as of June 30, 2008 are as follows:

2009	\$ 145,476
2010	149,841
2011	154,336
2012	158,966
2013	163,735
2014-2018	895,370
2019	<u>195,508</u>
Total	<u>\$ 1,863,232</u>

### Note 10 - 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 property loss, torts, errors and omissions, and medical benefit claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four 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.

### Note 11 - Defined Contribution Pension Plan

The City provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by council resolution, the City contributes 10 percent of employees' gross earnings and employees have to contribute at least 5 percent. In accordance with these requirements, the City contributed \$188,218 during the current year, and employees contributed \$104,361.

### Note 12 - State Construction Code Act

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provision of the Act, the City adopted this accounting treatment effective January 1, 2000. Activity for the year ended June 30, 2008 was as follows:

<b>Accumulated Expenditures Over Revenue - July 1, 2007</b>	<b>\$ (84,728)</b>
2007-2008 building department activity:	
Current year revenue	21,845
Current year expenditures	<u>68,682</u>
Excess of expenditures over revenues	<u>(46,837)</u>
<b>Accumulated Expenditures Over Revenue - June 30, 2008</b>	<b><u>\$ (131,565)</u></b>

## **Required Supplemental Information**

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# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Budget
<b>Revenue</b>				
<b>Property Taxes</b>				
Real and personal property taxes	\$ 2,869,922	\$ 2,867,947	\$ 2,880,646	\$ 12,699
Interest, penalties, and other	22,800	22,800	29,569	6,769
Total property taxes	2,892,722	2,890,747	2,910,215	19,468
<b>Licenses and Permits</b>				
Building permits	28,000	8,000	8,523	523
Electrical and plumbing permits	23,000	10,000	8,748	(1,252)
Cable television franchise fee	56,500	56,500	67,744	11,244
Other	14,996	5,996	5,764	(232)
Total licenses and permits	122,496	80,496	90,779	10,283
<b>State Sources</b>				
Revenue-sharing	473,171	473,171	464,865	(8,306)
Library	3,600	3,600	7,129	3,529
State grants	8,000	8,000	7,366	(634)
Liquor license fees	3,000	3,000	3,548	548
Total state sources	487,771	487,771	482,908	(4,863)
<b>Charges for Services</b>				
Trash collection	242,887	246,421	247,251	830
Fees	14,241	12,600	16,028	3,428
Rentals	316,978	356,101	344,312	(11,789)
Total charges for services	574,106	615,122	607,591	(7,531)

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Budget
<b>Revenue</b> (Continued)				
<b>Fines and Forfeitures</b>				
Traffic fines and penalties	\$ 36,000	\$ 36,000	\$ 30,850	\$ (5,150)
Library fines	32,000	32,000	31,323	(677)
Total fines and forfeitures	68,000	68,000	62,173	(5,827)
<b>Donations</b>	3,200	3,200	9,489	6,289
<b>Interest</b>	50,000	75,000	85,067	10,067
<b>Other Revenue</b>	23,300	25,100	34,711	9,611
Total revenue	4,221,595	4,245,436	4,282,933	37,497
<b>Other Financing Sources - Operating transfers in</b>	26,569	26,569	26,569	-
Total revenue and other financing sources	4,248,164	4,272,005	4,309,502	37,497

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Budget
<b>Expenditures</b>				
<b>General Government</b>				
City Council	\$ 35,915	\$ 38,215	\$ 35,401	\$ 2,814
Cable television	56,000	56,000	21,991	34,009
City manager	113,984	122,234	115,350	6,884
Elections	17,173	17,173	10,265	6,908
Assessor	48,461	48,461	37,866	10,595
Attorney	37,100	33,800	27,435	6,365
Clerk	95,711	95,711	90,795	4,916
Board of Review	2,580	2,580	1,750	830
Zoning Board of Appeals	1,330	1,330	156	1,174
Treasurer	69,755	71,355	69,298	2,057
Building and grounds	88,261	78,261	66,041	12,220
Building and grounds - Police	144,834	142,175	115,722	26,453
Total general government	711,104	707,295	592,070	115,225
<b>Public Safety</b>				
Police	1,055,085	1,062,294	1,073,773	(11,479)
Civil defense/emergency preparedness	6,000	14,675	10,229	4,446
Traffic and safety	39,045	37,545	21,264	16,281
Communications	265,692	262,642	253,726	8,916
Building code enforcement	116,805	116,805	68,682	48,123
Planning	76,143	76,143	74,587	1,556
Public service director	52,026	52,026	52,023	3
Total public safety	1,610,796	1,622,130	1,554,284	67,846
<b>Public Works</b>				
Department of Public Works	688,749	711,250	308,768	402,482
Street lighting	88,000	88,000	90,051	(2,051)
Refuse collection and disposal	238,710	238,710	237,280	1,430
Total public works	1,015,459	1,037,960	636,099	401,861

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Budget
<b>Expenditures</b> (Continued)				
<b>Health and Welfare</b> - Economic development	\$ 4,650	\$ 4,650	\$ 1,199	\$ 3,451
<b>Recreation and Cultural</b> - Library	381,861	368,186	335,661	32,525
<b>Debt Service</b> - Principal	181,093	181,093	179,432	1,661
Total expenditures	3,904,963	3,921,314	3,298,745	622,569
<b>Other Uses</b> - Operating transfers out	893,354	907,048	898,962	8,086
Total expenditures and other uses	4,798,317	4,828,362	4,197,707	630,655
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	(550,153)	(556,357)	111,795	668,152
<b>Fund Balance</b> - July 1, 2007	1,564,862	1,564,862	1,564,862	-
<b>Fund Balance</b> - June 30, 2008	<u>\$ 1,014,709</u>	<u>\$ 1,008,505</u>	<u>\$ 1,676,657</u>	<u>\$ 668,152</u>

# City of Richmond, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Budget
<b><u>Revenue</u></b>				
<b>State Sources - State grants</b>	\$ 373,609	\$ 259,109	\$ 254,395	\$ (4,714)
<b>Interest</b>	8,000	13,000	13,507	507
<b>Other Revenue</b>	-	1,068	1,757	689
Total revenue	381,609	273,177	269,659	(3,518)
<b>Other Financing Sources - Operating transfers in</b>	490,000	490,000	490,000	-
Total revenue and other financing sources	871,609	763,177	759,659	(3,518)
<b><u>Expenditures</u></b>				
<b>Highways and Streets</b>				
Capital improvements	644,314	1,377,259	1,210,235	167,024
Routine maintenance	67,153	74,029	74,425	(396)
Traffic services	38,009	35,339	25,300	10,039
Winter maintenance	43,224	97,706	98,006	(300)
Administration	8,891	8,891	9,012	(121)
Total highways and streets	801,591	1,593,224	1,416,978	176,246
<b>Other Uses - Operating transfers out</b>	40,000	40,000	40,000	-
Total highways and streets and other uses	841,591	1,633,224	1,456,978	176,246
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses</b>	30,018	(870,047)	(697,319)	172,728
<b>Fund Balance - July 1, 2007</b>	919,434	919,434	919,434	-
<b>Fund Balance - June 30, 2008</b>	<b>\$ 949,452</b>	<b>\$ 49,387</b>	<b>\$ 222,115</b>	<b>\$ 172,728</b>

## **Other Supplemental Information**

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# City of Richmond, Michigan

	Nonmajor Special Revenue Funds			
	Local Streets	Fire Department	Housing and Urban Development	Mausoleum
<b>Assets</b>				
Cash and cash equivalents	\$ 162,515	\$ 96,076	\$ -	\$ 57,389
Accounts receivable - Special assessments	-	-	-	-
Due from other governmental units	6,217	-	-	-
Prepaid expenses and other assets	-	-	-	-
Total assets	<u>\$ 168,732</u>	<u>\$ 96,076</u>	<u>\$ -</u>	<u>\$ 57,389</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 3,904	\$ 39,335	\$ -	\$ -
Deferred revenue	-	-	-	-
Total liabilities	3,904	39,335	-	-
<b>Fund Balances</b>				
Reserved	-	-	-	-
Unreserved	164,828	56,741	-	57,389
Total fund balances	<u>164,828</u>	<u>56,741</u>	<u>-</u>	<u>57,389</u>
Total liabilities and fund balances	<u>\$ 168,732</u>	<u>\$ 96,076</u>	<u>\$ -</u>	<u>\$ 57,389</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2008**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Street Improvements	Special Assessment
\$ 62,954	\$ 54,860	\$ 578	\$ 9,611	\$ 19,947
-	-	-	-	46,242
-	-	-	-	-
-	1,732	-	-	-
<b><u>\$ 62,954</u></b>	<b><u>\$ 56,592</u></b>	<b><u>\$ 578</u></b>	<b><u>\$ 9,611</u></b>	<b><u>\$ 66,189</u></b>
\$ 3,464	\$ 19,608	\$ -	\$ -	\$ -
-	-	-	-	46,242
3,464	19,608	-	-	46,242
-	-	-	-	-
59,490	36,984	578	9,611	19,947
59,490	36,984	578	9,611	19,947
<b><u>\$ 62,954</u></b>	<b><u>\$ 56,592</u></b>	<b><u>\$ 578</u></b>	<b><u>\$ 9,611</u></b>	<b><u>\$ 66,189</u></b>

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# City of Richmond, Michigan

	Nonmajor Capital Projects Funds			
	Vehicle and Repairs	WWTP Equipment Replacement	Street Improvement	Sidewalk Assistance
<b>Assets</b>				
Cash and cash equivalents	\$ 132,447	\$ 508,486	\$ 77,371	\$ 47,026
Accounts receivable - Special assessments	-	-	-	1,452
Due from other governmental units	-	-	-	-
Deferred revenue	-	-	-	-
Total assets	<u>\$ 132,447</u>	<u>\$ 508,486</u>	<u>\$ 77,371</u>	<u>\$ 48,478</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	1,452
Total liabilities	-	-	-	1,452
<b>Fund Balances</b>				
Reserved	-	-	-	-
Unreserved	132,447	508,486	77,371	47,026
Total fund balances	<u>132,447</u>	<u>508,486</u>	<u>77,371</u>	<u>47,026</u>
Total liabilities and fund balances	<u>\$ 132,447</u>	<u>\$ 508,486</u>	<u>\$ 77,371</u>	<u>\$ 48,478</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds (Continued)  
June 30, 2008**

<u>Nonmajor Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Library Endowment</u>	
\$ 52,628	\$ 1,281,888
-	47,694
-	6,217
-	1,732
<u>\$ 52,628</u>	<u>\$ 1,337,531</u>
\$ -	\$ 66,311
-	47,694
-	114,005
52,628	52,628
-	1,170,898
<u>52,628</u>	<u>1,223,526</u>
<u>\$ 52,628</u>	<u>\$ 1,337,531</u>

# City of Richmond, Michigan

	Nonmajor Special Revenue Funds			
	Local Streets	Fire Department	Housing and Urban Development	Mausoleum
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Federal sources	-	-	26,020	-
State sources	84,443	-	-	-
Charges for services	-	136,783	-	325
Interest	6,112	1,995	-	2,210
Donations	-	-	-	-
Other	312	3,128	-	-
<b>Total revenue</b>	<b>90,867</b>	<b>141,906</b>	<b>26,020</b>	<b>2,535</b>
<b>Expenditures</b>				
Current:				
Highways and streets	103,470	-	-	-
Public service	-	-	-	1,805
Public safety	-	264,560	-	-
Recreation and culture	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	26,020	-
Interest and fiscal charges	-	-	-	-
<b>Total expenditures</b>	<b>103,470</b>	<b>264,560</b>	<b>26,020</b>	<b>1,805</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(12,603)</b>	<b>(122,654)</b>	<b>-</b>	<b>730</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	40,000	148,878	-	-
Transfers out	-	(26,569)	-	-
<b>Total other financing sources (uses)</b>	<b>40,000</b>	<b>122,309</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>27,397</b>	<b>(345)</b>	<b>-</b>	<b>730</b>
<b>Fund Balances - Beginning of year</b>	<b>137,431</b>	<b>57,086</b>	<b>-</b>	<b>56,659</b>
<b>Fund Balances - End of year</b>	<b>\$ 164,828</b>	<b>\$ 56,741</b>	<b>\$ -</b>	<b>\$ 57,389</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2008**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Funds	
Cemetery	Parks and Recreation	Parking	Street Improvements	Special Assessment
\$ -	\$ -	\$ -	\$ 376,813	\$ -
-	-	-	-	16,563
-	-	-	-	-
-	-	-	-	-
33,316	114,380	22	-	-
5,127	937	-	800	4,202
-	4,460	-	-	-
-	4,499	-	-	-
<u>38,443</u>	<u>124,276</u>	<u>22</u>	<u>377,613</u>	<u>20,765</u>
-	-	-	-	-
193,461	-	-	-	-
-	-	-	-	-
-	403,732	-	-	-
-	-	-	-	-
-	-	-	350,000	25,000
-	-	-	25,575	4,825
<u>193,461</u>	<u>403,732</u>	<u>-</u>	<u>375,575</u>	<u>29,825</u>
(155,018)	(279,456)	22	2,038	(9,060)
49,000	316,440	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>49,000</u>	<u>316,440</u>	<u>-</u>	<u>-</u>	<u>-</u>
(106,018)	36,984	22	2,038	(9,060)
165,508	-	556	7,573	29,007
<u>\$ 59,490</u>	<u>\$ 36,984</u>	<u>\$ 578</u>	<u>\$ 9,611</u>	<u>\$ 19,947</u>

(Continued on next page)

# City of Richmond, Michigan

	Nonmajor Capital Projects Funds			
	Vehicle and Repairs	WWTP Equipment Replacement	Street Improvement	Sidewalk Assistance
<b>Revenue</b>				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	932
Federal sources	-	-	-	-
State sources	-	-	-	-
Charges for services	-	-	-	-
Interest	3,880	23,268	12,253	1,840
Donations	-	-	-	-
Other	1,050	-	22,000	-
Total revenue	4,930	23,268	34,253	2,772
<b>Expenditures</b>				
Current:				
Highways and streets	-	-	-	-
Public service	-	-	-	-
Public safety	-	-	-	-
Recreation and culture	-	-	-	-
Capital outlay	38,649	3,121	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	38,649	3,121	-	-
<b>Excess of Revenue Over (Under)</b>				
Expenditures	(33,719)	20,147	34,253	2,772
<b>Other Financing Sources (Uses)</b>				
Transfers in	54,064	27,025	330,580	-
Transfers out	-	-	(490,000)	-
Total other financing sources (uses)	54,064	27,025	(159,420)	-
<b>Net Change in Fund Balances</b>	20,345	47,172	(125,167)	2,772
<b>Fund Balances - Beginning of year</b>	112,102	461,314	202,538	44,254
<b>Fund Balances - End of year</b>	<b>\$ 132,447</b>	<b>\$ 508,486</b>	<b>\$ 77,371</b>	<b>\$ 47,026</b>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds (Continued)**  
**Year Ended June 30, 2008**

Nonmajor Permanent	Total Nonmajor Governmental Funds
Library Endowment	
\$ -	\$ 376,813
-	17,495
-	26,020
-	84,443
-	284,826
4,177	66,801
-	4,460
-	30,989
4,177	891,847
-	103,470
-	195,266
-	264,560
-	403,732
-	41,770
-	401,020
-	30,400
-	1,440,218
4,177	(548,371)
-	965,987
-	(516,569)
-	449,418
4,177	(98,953)
48,451	1,322,479
<b>\$ 52,628</b>	<b>\$ 1,223,526</b>

# **City of Richmond, Michigan**

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**Report to the City Council  
June 30, 2008**



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To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan  
68225 Main Street  
Richmond, MI 48062

We have recently completed our audit of the basic financial statements of the City of Richmond (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following:

- Letter of increased audit communications as prescribed by Statement on Auditing Standards (SAS) 112
- Letter of required audit communication, including a summary of unrecorded possible adjustments, as prescribed by SAS 114
- Other recommendations and informational comments which impact the City

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

*Plante & Moran, PLLC*

August 13, 2008



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## Report on Internal Control

August 13, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

Dear Mayor and Council Members:

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

August 13, 2008

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

We consider the following significant deficiencies, in the aggregate, to be material weaknesses:

- **Lack of Segregation of Duties** - Segregation of duties is an essential component of a sound system of internal controls. When job responsibilities are properly segregated, a system of "checks and balances" is created, thereby reducing the risk of intentional or unintentional errors and/or omissions in the accounting records. We noted the following areas that lack segregation of duties:

- **Payroll** - The treasurer has the ability to sign payroll checks, add new employees to the payroll system, update pay rates, print payroll checks, and post journal entries to the general ledger (which are only subject to limited review by a supervisor). Additionally, while the treasurer is the only person with access to the payroll software module, the city manager has access to the treasurer's password, which could lead to unauthorized access to the payroll system.

In order to strengthen controls in this area, the treasurer could be removed as an authorized check signer on this account or the payroll function could be performed by another person. In addition, segregating the payroll preparation function from the function of updating employee pay rates and creating new employees in the system would improve controls. We also recommend that employees with access to the payroll module should have passwords that are not known by other employees.

- **Wire Transfers** - The City makes use of electronic wire transfers to effect various transactions, including payroll. Currently, these transfers can be initiated and authorized by the treasurer without prior review or approval by a second individual. Though wire transfers are not used routinely, we encourage management to consider whether the supervisory review of monthly bank reconciliations provides sufficient control over electronic disbursements given the immediate nature of these transactions. We recommend implementing controls over wire transfers that would mirror or exceed those controls in place for traditional disbursements (approvals by various individuals, council review, etc.).
- **Bank Reconciliations** - The City's policy is to have a supervisory review of all bank reconciliations. During testing of cash, we noted that no supervisory review was performed for most of the year. We recommend that a supervisory review of bank reconciliations be performed timely and consistently throughout the year.

To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

August 13, 2008

- **Audit Journal Entries** - As a result of the auditing procedures performed, we detected and proposed the following significant audit adjustments. In all instances, the City posted the proposed journal entries to more accurately reflect the financial condition of the City at June 30, 2008.
  - **Special Assessment Receivables and Deferred Revenue** - As payments on special assessments are received throughout the year, the City records revenue for the amount collected but does not adjust the related accounts receivable and deferred revenue balances throughout the year. An audit adjustment was made to adjust the special assessment receivable and deferred revenue accounts to reflect payments received during the year.
  - **Debt Principal Payments** - In the TIFA, Water, and Sewer Funds, the City incorrectly recorded principal payments on capital leases and bonds as expenditures. These payments should have been reported as a reduction to long-term debt. This was corrected through an audit adjustment.
  - **State Revolving Fund Loan** - In the current year, the City continued to receive funding for a construction project from the State of Michigan in the form of a State Revolving Fund loan. The activity related to this project was improperly recorded as expenditures in the Water and Sewer Funds instead of as constructed assets. In addition, the reimbursements received from the State were improperly recorded as revenue instead of long-term debt. These items were corrected through audit adjustments. An audit adjustment was also made to record a receivable and related debt for a disbursement received from the State after year end that were earned prior to year end.
  - **Unbilled Receivables** - The City did not record accounts receivable and related revenue for water and sewer services used prior to June 30, 2008 but billed after year end. This was corrected through an audit adjustment.
  - **Capital Assets** - The City utilizes a capital asset module in order to maintain and depreciate the City's capital assets. During our testing of capital assets, we noted capital outlay expenditure accounts per the general ledger did not reconcile to the current year asset additions per the capital asset module. The City should consider performing a monthly review of assets recorded in the general ledger capital outlay accounts and compare this information to the assets included in the module. Performing this reconciliation on a monthly basis will ensure all assets are properly recorded in the module and depreciated accordingly.

We also noted that the total cost of the assets in the fixed asset module does not agree to the total cost of the assets recorded in the general ledger. This discrepancy has a potentially significant impact on the calculation of annual depreciation expense. We do not believe the potential error is material to the financial statements taken as a whole; however, the exact extent of the error cannot be known without performing a detailed reconciliation. We recommend the City perform this reconciliation on an annual basis.

To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

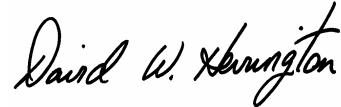
August 13, 2008

- **Fringe Benefit Expense** - During testing of fringe benefit expense, we noted the City recorded the July 2008 health insurance premium bill in the fiscal year ended June 30, 2008. This was corrected through an audit adjustment.
- **GASB No. 34** - No journal entries were posted by the City to prepare the government-wide (GASB 34) financial statements. The City requested assistance with proposing these entries. All GASB 34 transactions were corrected through audit adjustments.

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

Very truly yours,

**Plante & Moran, PLLC**



David W. Herrington



Jenny L. Cederstrom



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19176 Hall Road  
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## Results of the Audit

August 13, 2008

To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

We have audited the financial statements of City of Richmond for the year ended June 30, 2008 and have issued our report thereon dated August 13, 2008. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated July 14, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Richmond. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

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

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 16, 2008.



To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

August 13, 2008

## **Significant Audit Findings**

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

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

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

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

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. The financial statements do not include any estimates that we have deemed to be particularly sensitive.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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

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

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

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

All material audit adjustments proposed and posted as a result of our audit were communicated to you in our report on internal control (SAS 112 letter) dated August 13, 2008.

The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

To the Honorable Mayor and  
Members of the City Council  
City of Richmond, Michigan

August 13, 2008

***Disagreements with Management***

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

***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated August 13, 2008.

***Management's Consultations with Other Independent Accountants***

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

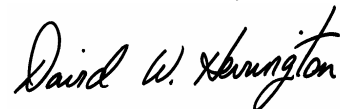
***Other Audit Findings or Issues***

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

This information is intended solely for the use of the mayor, members of the City Council, and management of the City of Richmond and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**



David W. Herrington



Jenny L. Cederstrom

To the Honorable Mayor and  
 Members of the City Council  
 City of Richmond, Michigan

August 13, 2008

Client: **City of Richmond**  
 Opinion Unit: **Business-type Activities**  
 Y/E: **6/30/2008**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record accrued interest related to SRF debt			\$ 11,771				\$ 11,771	\$ (11,771)
A2	To reduce SRF LTD and receivable from the State related to drawdown # 10 (amount reimbursed by the State was lower than the amount requested; information became available late in the audit)	\$ (15,892)			\$ (15,892)				
A3	To record capital asset for project expenditures recorded as an expense in a/c 591-900-818.000		\$ 67,751					(67,751)	67,751
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
		-	-	-	-	\$ -	\$ -	-	-
	Combined effect - Before income taxes	(15,892)	67,751	11,771	(15,892)	-	-	(55,980)	55,980
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ (15,892)</u>	<u>\$ 67,751</u>	<u>\$ 11,771</u>	<u>\$ (15,892)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (55,980)</u>	<u>\$ 55,980</u>

To the Honorable Mayor and  
 Members of the City Council  
 City of Richmond, Michigan

August 13, 2008

Client: **City of Richmond**  
 Opinion Unit: **Sewer Fund**  
 Y/E: **6/30/2008**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record accrued interest related to SRF debt			\$ 11,771				\$ 11,771	\$ (11,771)
A2	To reduce SRF LTD and receivable from the State related to drawdown #10 (amount reimbursed by the State was lower than the amount requested; information became available late in the audit)	\$ (15,892)			\$ (15,892)				
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
		-	-	-	-	\$ -	\$ -	-	-
	Combined effect - Before income taxes	(15,892)	-	11,771	(15,892)	-	-	11,771	(11,771)
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ (15,892)</u>	<u>\$ -</u>	<u>\$ 11,771</u>	<u>\$ (15,892)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,771</u>	<u>\$ (11,771)</u>

To the Honorable Mayor and  
 Members of the City Council  
 City of Richmond, Michigan

August 13, 2008

Client: **City of Richmond**  
 Opinion Unit: **Water Fund**  
 Y/E: **6/30/2008**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record capital asset for project expenditures recorded as an expense in a/c 591-900-818.000		\$ 67,751					\$ (67,751)	\$ 67,751
A2									
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
		\$ -	-	\$ -	\$ -	\$ -	\$ -	-	-
	Combined effect - Before income taxes	-	67,751	-	-	-	-	(67,751)	67,751
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	\$ -	\$ 67,751	\$ -	\$ -	\$ -	\$ -	\$ (67,751)	\$ 67,751

To the Honorable Mayor and  
 Members of the City Council  
 City of Richmond, Michigan

August 13, 2008

Client: **City of Richmond**  
 Opinion Unit: **Aggregate Discretely Presented Component Units**  
 Y/E: **6/30/2008**

**SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	To record accrued interest related to SRF debt			\$ 4,435				\$ 4,435	\$ (4,435)
A2									
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Combined effect - Before income taxes	-	-	4,435	-	-	-	4,435	(4,435)
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,435</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,435</u>	<u>\$ (4,435)</u>

## Other Recommendations

August 13, 2008

In an effort to assist with the City's efforts toward improved operational and financial health, we offer the following control recommendations and legislative accounting updates:

- **Internal Control Matters** - We noted the following internal control matters that are not considered to be significant deficiencies:
  - **Journal Entries** - The treasurer is responsible for preparing and posting journal entries into the general ledger software system. This accounting data is being processed with limited supervisory review. Currently, the city manager reviews a monthly general ledger report that includes a column for journal entries that were posted during the month; however, this does not include a review of the supporting documentation for the entries. To improve controls in this area, we recommend implementing procedures whereby the supervisory review of journal entries includes a review of the supporting documentation for significant or unusual entries.
  - **Capital Asset Disposal** - The City does not have a formal system in place to notify the finance department when a capital asset has been disposed of or has become impaired. We encourage the City to implement a formal system whereby the various departments submit a form or other communication indicating when a capital asset is disposed of or is impaired. This will help the treasurer maintain the accuracy of the capital asset module.
  - **Access to Check Stock** - The pre-numbered check stock is stored in a locked cabinet in the treasurer's office. Certain employees not authorized to access the check stock do have access to the key that unlocks the cabinet where the check stock is stored. In order to improve controls over the cash disbursement function, the check stock should be kept in a locked location with only authorized individuals having access to the check stock. In addition, a system should be established to sign out a numerical range of check stock when needed. This will hold authorized staff accountable for the check stock they have received.
  - **Review of Timesheets** - There are procedures in place for a supervisory review of all timesheets; however, we noted instances in which the supervisor did not sign off to indicate review and approval. We recommend that the supervisor sign all timesheets in order to create documentation that the review was performed.

- o **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 intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree healthcare benefits are budgeted will not change, unless you begin funding the benefits (as discussed below, there are incentives to begin funding the benefits).

The new pronouncement will require a valuation of the obligation to provide retiree healthcare 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 under-funding must be reported as a liability on the government-wide statement of net assets. This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. The statement will be effective for the City’s fiscal year ending June 30, 2010.

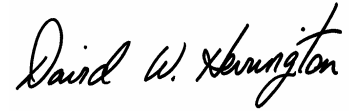
Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months’ lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year’s contribution. Therefore, funding the contribution will actually reduce your long-term cost.

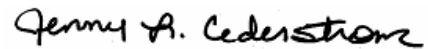
This communication is intended solely for the information and use of management, the mayor, members of the City Council, and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink that reads "David W. Herrington". The signature is written in a cursive style with a large initial 'D'.

David W. Herrington

A handwritten signature in black ink that reads "Jenny L. Cederstrom". The signature is written in a cursive style with a large initial 'J'.

Jenny L. Cederstrom