

**CITY  
OF  
ADRIAN**

CITY OF ADRIAN, MICHIGAN  
STATEMENT OF NET ASSETS  
JUNE 30, 2010  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2009

|  | Primary Government         |                             |                       |                       | Component Units                      |  |  |
|--|----------------------------|-----------------------------|-----------------------|-----------------------|--------------------------------------|--|--|
|  | Governmental<br>Activities | Business-Type<br>Activities | Totals                |                       | Downtown<br>Development<br>Authority | Local<br>Development<br>Finance<br>Authority | Brownfield<br>Redevelopment<br>Authority |
|  |                            |                             | 2010                  | 2009                  |                                      |  |  |
| <b>ASSETS:</b>   |                            |                             |                       |                       |                                      |  |  |
| Cash and cash equivalents                                      | \$ 3,523,687               | \$ 1,376,424                | \$ 4,900,111          | \$ 3,522,362          | \$ 394,421                           | \$ 72,367                                    | \$ 68,170                                |
| Investments  | 5,663,381                  | 249,831                     | 5,913,212             | 7,776,884             | 165,307                              | 132,473                                      | -  |
| Receivables (net of allowance for<br>Due from component units) | 553,005                    | 1,676,190                   | 2,229,195             | 2,478,568             | 11,776                               | -  | -  |
| Due from component units                                       | 45,984                     | 20,000                      | 65,984                | 12,831                | 10,781                               | -  | -  |
| Loan receivable - primary government                           | -                          | -                           | -                     | -                     | -                                    | 89,000                                       | -  |
| Due from other governments                                     | -                          | 71,800                      | 71,800                | 66,740                | -                                    | -  | -  |
| Internal balances  | 105,257                    | (105,257)                   | -                     | -                     | -                                    | -  | -  |
| Inventories  | 145,482                    | 174,111                     | 319,593               | 301,544               | -                                    | -  | -  |
| Prepaid expense  | 43,983                     | 10,814                      | 54,797                | 60,565                | -                                    | -  | -  |
| <b>Restricted assets:</b>                                      |                            |                             |                       |                       |                                      |  |  |
| <b>Current:</b>  |                            |                             |                       |                       |                                      |  |  |
| Cash and cash equivalents                                      | -                          | 969,678                     | 969,678               | 526,799               | -                                    | -  | -  |
| Investments  | -                          | 224,260                     | 224,260               | 655,023               | -                                    | -  | -  |
| <b>Noncurrent:</b>   |                            |                             |                       |                       |                                      |  |  |
| Cash and cash equivalents                                      | -                          | 801,391                     | 801,391               | 448,382               | -                                    | -  | -  |
| Investments  | -                          | 184,041                     | 184,041               | 100,000               | -                                    | -  | -  |
| <b>Capital assets (net of accumulated<br/>Land</b>             | 8,305,639                  | 1,385,346                   | 9,690,985             | 9,690,983             | 53,494                               | -  | -  |
| Land improvements  | 5,496,288                  | 937,783                     | 6,434,071             | 6,698,906             | 441,000                              | -  | -  |
| Buildings  | 8,867,307                  | 1,308,058                   | 10,175,365            | 5,327,469             | -                                    | -  | -  |
| Utility systems  | -                          | 51,430,653                  | 51,430,653            | 45,371,725            | -                                    | 749,800                                      | -  |
| Machinery, equipment, and furnishings                          | 2,360,750                  | 116,538                     | 2,477,288             | 3,001,765             | -                                    | -  | -  |
| Infrastructure   | 9,809,256                  | -                           | 9,809,256             | 8,412,522             | -                                    | -  | -  |
| Construction in progress                                       | -                          | -                           | -                     | 7,596,542             | -                                    | -  | -  |
| <b>Total assets</b>  | <b>\$ 44,920,019</b>       | <b>\$ 60,831,661</b>        | <b>\$ 105,751,680</b> | <b>\$ 102,049,610</b> | <b>\$ 1,076,779</b>                  | <b>\$ 1,043,640</b>                          | <b>\$ 68,170</b>                         |

|  | PRIMARY GOVERNMENT      |                          |                      |                      | Component Units   |                                |                               |                                    |
|--|-------------------------|--------------------------|----------------------|----------------------|-------------------|--------------------------------|-------------------------------|------------------------------------|
|  | Governmental Activities | Business-Type Activities | Totals               | 2010                 | 2009              | Local                          |                               |                                    |
|  |                         |                          |                      |                      |                   | Downtown Development Authority | Development Finance Authority | Brownfield Redevelopment Authority |
| <b>LIABILITIES:</b>                            |                         |                          |                      |                      |                   |                                |                               |                                    |
| Accounts payable and other current liabilities | \$ 1,504,716            | \$ 179,277               | \$ 1,683,993         | \$ 1,693,176         | \$ 162,829        | \$ 2,287                       | \$ -                          |                                    |
| Accrued interest payable                       | 241,431                 | -                        | 241,431              | 121,248              | 10,240            | -                              | -                             |                                    |
| Due to primary government                      | -                       | -                        | -                    | -                    | 33,831            | 32,153                         | -                             |                                    |
| Due to component unit                          | -                       | -                        | -                    | -                    | -                 | -                              | 10,781                        |                                    |
| Due to other governments                       | -                       | 26,613                   | 26,613               | 6,390                | -                 | -                              | -                             |                                    |
| Unearned revenue                               | 106,759                 | -                        | 106,759              | 94,858               | -                 | -                              | -                             |                                    |
| Liabilities paid from restricted assets        | -                       | 154,009                  | 154,009              | 158,071              | -                 | -                              | -                             |                                    |
| <b>Noncurrent liabilities:</b>                 |                         |                          |                      |                      |                   |                                |                               |                                    |
| Due within one year                            | 200,000                 | 1,484,671                | 1,684,671            | 2,915,323            | 80,000            | -                              | -                             |                                    |
| Due in more than one year                      | 7,275,988               | 25,142,652               | 32,418,640           | 29,117,223           | 80,000            | 1,887                          | -                             |                                    |
| <b>Total liabilities</b>                       | <b>9,328,894</b>        | <b>26,987,222</b>        | <b>36,316,116</b>    | <b>34,106,289</b>    | <b>366,900</b>    | <b>36,327</b>                  | <b>10,781</b>                 |                                    |
| <b>NET ASSETS:</b>                             |                         |                          |                      |                      |                   |                                |                               |                                    |
| Invested in capital assets, net related debt   | 27,799,240              | 29,232,995               | 57,032,235           | 54,700,870           | 334,494           | 749,800                        | \$ -                          |                                    |
| <b>Restricted for:</b>                         |                         |                          |                      |                      |                   |                                |                               |                                    |
| Public safety                                  | 211,079                 | -                        | 211,079              | 203,686              | -                 | -                              | -                             |                                    |
| Community development                          | 172,114                 | -                        | 172,114              | 80,101               | -                 | -                              | -                             |                                    |
| Highways and streets                           | 1,561,797               | -                        | 1,561,797            | 1,165,181            | -                 | -                              | -                             |                                    |
| Debt service                                   | -                       | 1,925,361                | 1,925,361            | 1,112,269            | 8,772             | -                              | -                             |                                    |
| Parks and beautification                       | 4,714                   | -                        | 4,714                | 1,210                | -                 | -                              | -                             |                                    |
| Downtown Development                           | -                       | -                        | -                    | -                    | 366,613           | -                              | -                             |                                    |
| Brownfield Redevelopment                       | -                       | -                        | -                    | -                    | -                 | -                              | 57,389                        |                                    |
| LDFA   | -                       | -                        | -                    | -                    | -                 | 257,513                        | -                             |                                    |
| <b>Endowment:</b>                              |                         |                          |                      |                      |                   |                                |                               |                                    |
| Expendable                                     | 549,226                 | -                        | 549,226              | 607,625              | -                 | -                              | -                             |                                    |
| Nonexpendable                                  | 111,005                 | -                        | 111,005              | 111,005              | -                 | -                              | -                             |                                    |
| Perpetual care - nonexpendable                 | 904,136                 | -                        | 904,136              | 837,860              | -                 | -                              | -                             |                                    |
| Public purposes                                | 597,776                 | -                        | 597,776              | 652,124              | -                 | -                              | -                             |                                    |
| Other purposes                                 | 181,966                 | -                        | 181,966              | 173,761              | -                 | -                              | -                             |                                    |
| Unrestricted                                   | 3,498,072               | 2,686,083                | 6,184,155            | 8,297,629            | -                 | -                              | -                             |                                    |
| <b>Total net assets</b>                        | <b>\$ 35,591,125</b>    | <b>\$ 33,844,439</b>     | <b>\$ 69,435,564</b> | <b>\$ 67,943,321</b> | <b>\$ 709,879</b> | <b>\$ 1,007,313</b>            | <b>\$ 57,389</b>              |                                    |

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN  
STATEMENT OF ACTIVITIES  
FOR FISCAL YEAR ENDED JUNE 30, 2010  
WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2009

| Functions/Programs                      | Program Revenues     |                      |                                    |                                  | Primary Government      |                          |                        |                        | Component Units                |                                     |                                    |
|---|----------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|------------------------|------------------------|--------------------------------|-------------------------------------|------------------------------------|
|   | Expenses             | Charges For Services | Operating Grants And Contributions | Capital Grants And Contributions | Governmental Activities | Business-Type Activities | Totals                 |                        | Downtown Development Authority | Local Development Finance Authority | Brownfield Redevelopment Authority |
|   |                      |                      |                                    |                                  |                         |                          | 2010                   | 2009                   |                                |                                     |                                    |
| <b>Primary government:</b>              |                      |                      |                                    |                                  |                         |                          |                        |                        |                                |                                     |                                    |
| Governmental activities:                |                      |                      |                                    |                                  |                         |                          |                        |                        |                                |                                     |                                    |
| General government                      | \$ 2,309,265         | \$ 1,926,263         | \$ -                               | \$ -                             | \$ (383,002)            | \$ -                     | \$ (383,002)           | \$ (1,673,086)         | \$ -                           | \$ -                                | \$ -                               |
| Public safety                           | 5,152,144            | 476,735              | -                                  | 59,745                           | (4,615,664)             | -                        | (4,615,664)            | (4,100,585)            | -                              | -                                   | -                                  |
| Public works                            | 1,247,332            | 34,850               | -                                  | -                                | (1,212,482)             | -                        | (1,212,482)            | (1,033,325)            | -                              | -                                   | -                                  |
| Culture and recreation                  | 3,506,682            | 325,839              | 622,959                            | -                                | (2,557,884)             | -                        | (2,557,884)            | (2,985,944)            | -                              | -                                   | -                                  |
| Community Beautification & Improvements | 1,208,425            | 147,253              | 36,467                             | 845,913                          | (178,792)               | -                        | (178,792)              | (2,087,669)            | -                              | -                                   | -                                  |
| Community/economic development          | 368,582              | 193,285              | -                                  | -                                | (175,297)               | -                        | (175,297)              | (71,592)               | -                              | -                                   | -                                  |
| Highways, streets, and bridges          | 1,332,172            | 75,081               | -                                  | -                                | (1,257,111)             | -                        | (1,257,111)            | (718,662)              | -                              | -                                   | -                                  |
| Interest on long term debt              | 232,140              | -                    | -                                  | -                                | (232,140)               | -                        | (232,140)              | (148,061)              | -                              | -                                   | -                                  |
| <b>Total governmental activities</b>    | <b>15,356,742</b>    | <b>3,179,286</b>     | <b>659,426</b>                     | <b>905,658</b>                   | <b>(10,612,372)</b>     | <b>-</b>                 | <b>(10,612,372)</b>    | <b>(12,818,924)</b>    | <b>-</b>                       | <b>-</b>                            | <b>-</b>                           |
| <b>Business-type activities:</b>        |                      |                      |                                    |                                  |                         |                          |                        |                        |                                |                                     |                                    |
| Wastewater system                       | 3,917,578            | 4,216,015            | -                                  | -                                | -                       | 298,437                  | 298,437                | (300,027)              | -                              | -                                   | -                                  |
| Water system                            | 3,152,628            | 3,522,588            | -                                  | -                                | -                       | 369,960                  | 369,960                | 246,132                | -                              | -                                   | -                                  |
| Dial-A-Ride system                      | 514,754              | 85,764               | 239,672                            | -                                | (189,298)               | -                        | (189,298)              | 411,271                | -                              | -                                   | -                                  |
| Automobile parking system               | 82,711               | 67,553               | 10,000                             | -                                | (5,158)                 | (5,158)                  | (5,158)                | (31,985)               | -                              | -                                   | -                                  |
| Storm water utility                     | 250,987              | 244,327              | -                                  | -                                | (6,660)                 | (6,660)                  | (6,660)                | 74,604                 | -                              | -                                   | -                                  |
| <b>Total business-type activities</b>   | <b>7,918,658</b>     | <b>8,136,267</b>     | <b>249,672</b>                     | <b>-</b>                         | <b>467,281</b>          | <b>467,281</b>           | <b>467,281</b>         | <b>399,995</b>         | <b>-</b>                       | <b>-</b>                            | <b>-</b>                           |
| <b>Total primary government</b>         | <b>\$ 23,275,400</b> | <b>\$ 11,315,553</b> | <b>\$ 909,098</b>                  | <b>\$ 905,658</b>                | <b>\$ (10,612,372)</b>  | <b>\$ 467,281</b>        | <b>\$ (10,145,091)</b> | <b>\$ (12,418,929)</b> | <b>\$ -</b>                    | <b>\$ -</b>                         | <b>\$ -</b>                        |

|  | Program Revenues  |                      |                                    |                                  |                         | Primary Government       |                   |                   |                                | Component Units                     |                                    |  |
|--|-------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|-------------------|-------------------|--------------------------------|-------------------------------------|------------------------------------|--|
|  | Expenses          | Charges For Services | Operating Grants And Contributions | Capital Grants And Contributions | Governmental Activities | Business-Type Activities | Totals            |                   | Downtown Development Authority | Local Development Finance Authority | Brownfield Redevelopment Authority |  |
|  |                   |                      |                                    |                                  |                         |                          | 2010              | 2009              |                                |                                     |                                    |  |
| <b>Component Units:</b>                                      |                   |                      |                                    |                                  |                         |                          |                   |                   |                                |                                     |                                    |  |
| Downtown Development Authority                               | \$ 228,841        | \$ -                 | \$ -                               | \$ -                             | \$ -                    | \$ -                     | \$ -              | \$ 228,841        | \$ -                           | \$ -                                | \$ -                               |  |
| Local Development Finance Authority                          | 126,933           | -                    | -                                  | -                                | -                       | -                        | -                 | -                 | 126,933                        | -                                   | -                                  |  |
| Brownfield Redevelopment Authority                           | -                 | -                    | -                                  | -                                | -                       | -                        | -                 | -                 | -                              | -                                   | -                                  |  |
| <b>Total component units</b>                                 | <b>\$ 355,774</b> | <b>\$ -</b>          | <b>\$ -</b>                        | <b>\$ -</b>                      | <b>\$ -</b>             | <b>\$ -</b>              | <b>\$ -</b>       | <b>\$ 228,841</b> | <b>\$ 126,933</b>              | <b>\$ -</b>                         | <b>\$ -</b>                        |  |
| <b>General Revenues:</b>                                     |                   |                      |                                    |                                  |                         |                          |                   |                   |                                |                                     |                                    |  |
| Property taxes   |                   |                      |                                    |                                  | \$ 7,519,378            | \$ -                     | \$ 7,519,378      | \$ 7,435,559      | \$ 60,748                      | \$ 18,575                           |                                    |  |
| Sales tax  |                   |                      |                                    |                                  | 1,994,094               |                          | 1,994,094         | 2,338,104         |                                |                                     |                                    |  |
| Motor vehicle fuel tax                                       |                   |                      |                                    |                                  | 1,313,704               |                          | 1,313,704         | 1,475,865         |                                |                                     |                                    |  |
| Grants and contributions not restricted to specific programs |                   |                      |                                    |                                  | 13,032                  |                          | 13,032            | 13,307            | 3,975                          |                                     |                                    |  |
| Unrestricted investment earnings                             |                   |                      |                                    |                                  | 246,828                 | 47,025                   | 293,853           | 418,908           | 551                            | 216                                 |                                    |  |
| Contributions  |                   |                      |                                    |                                  | 204,641                 |                          | 204,641           | 256,547           |                                |                                     |                                    |  |
| Sale of property   |                   |                      |                                    |                                  | (114,827)               | 298,632                  | 183,805           |                   | 45,600                         |                                     |                                    |  |
| Transfers  |                   |                      |                                    |                                  |                         | 114,827                  | 114,827           |                   |                                | (10,781)                            |                                    |  |
| <b>Total general revenues and transfers</b>                  |                   |                      |                                    |                                  | <b>11,176,850</b>       | <b>460,484</b>           | <b>11,637,334</b> | <b>11,938,290</b> | <b>110,874</b>                 | <b>8,010</b>                        |                                    |  |
| Change in net assets   |                   |                      |                                    |                                  | 564,478                 | 927,765                  | 1,492,243         | (480,639)         | 95,161                         | (16,059)                            | 8,010                              |  |
| Net assets – beginning of year                               |                   |                      |                                    |                                  | 35,026,647              | 32,916,674               | 67,943,321        | 68,423,960        | 614,718                        | 1,023,372                           | 49,379                             |  |
| Net assets – end of year                                     |                   |                      |                                    |                                  | \$ 35,591,125           | \$ 33,844,439            | \$ 69,435,564     | \$ 67,943,321     | \$ 709,879                     | \$ 1,007,313                        | \$ 57,389                          |  |

**CITY OF ADRIAN, MICHIGAN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2009**

|   | General             | Major<br>Streets  | Local<br>Streets    | Fee<br>Estate     | Other<br>Governmental<br>Funds | Totals<br>Governmental Funds |                      |
|---|---------------------|-------------------|---------------------|-------------------|--------------------------------|------------------------------|----------------------|
|   |                     |                   |                     |                   |                                | 2010                         | 2009                 |
| <b>ASSETS:</b>                            |                     |                   |                     |                   |                                |                              |                      |
| Cash and cash equivalents                 | \$ 820              | \$ 492,114        | \$ 623,992          | \$ -              | \$ 1,239,604                   | \$ 2,356,530                 | \$ 1,726,387         |
| Investments                               | 4,093,325           | 56,303            |                     |                   | 1,513,753                      | 5,663,381                    | 7,776,884            |
| <b>Receivables:</b>                       |                     |                   |                     |                   |                                |                              |                      |
| Accounts                                  | 116,169             | 76,661            | 23,402              | 209,976           | 45,249                         | 471,457                      | 707,125              |
| Loans                                     |                     |                   |                     |                   | 71,306                         | 71,306                       | 79,620               |
| Due from other funds                      | 191,074             |                   | 414,000             |                   | 23,850                         | 628,924                      | 312,750              |
| Due from component units                  | 1,353               |                   |                     |                   | 43,695                         | 45,048                       | 1,811                |
| <b>Inventories:</b>                       |                     |                   |                     |                   |                                |                              |                      |
| Land held for resale, at cost             |                     |                   |                     |                   | 7,499                          | 7,499                        | 7,499                |
| Supplies at cost                          | 137,983             |                   |                     |                   | -                              | 137,983                      | 129,986              |
| Prepaid cost                              | 43,983              |                   |                     |                   | -                              | 43,983                       | 43,775               |
| <b>Total assets</b>                       | <b>\$ 4,584,707</b> | <b>\$ 625,078</b> | <b>\$ 1,061,394</b> | <b>\$ 209,976</b> | <b>\$ 2,944,956</b>            | <b>\$ 9,426,111</b>          | <b>\$ 10,785,837</b> |
| <b>LIABILITIES:</b>                       |                     |                   |                     |                   |                                |                              |                      |
| Vouchers payable                          | \$ 801,387          | \$ 11,228         | \$ 133,293          | \$ 195,904        | \$ 10,814                      | \$ 1,152,626                 | \$ 1,316,057         |
| Accrued liabilities                       | 330,800             | 708               | 1,045               | 9,358             | 3,903                          | 345,814                      | 298,560              |
| Due to other funds                        | 29,948              | 17,918            | 53,138              |                   | 453,103                        | 554,107                      | 236,461              |
| Unearned revenue                          | 62,766              |                   |                     |                   | 43,993                         | 106,759                      | 94,858               |
| <b>Total liabilities</b>                  | <b>1,224,901</b>    | <b>29,854</b>     | <b>187,476</b>      | <b>205,262</b>    | <b>511,813</b>                 | <b>2,159,306</b>             | <b>1,945,936</b>     |
| <b>FUND BALANCES:</b>                     |                     |                   |                     |                   |                                |                              |                      |
| <b>Nonspendable:</b>                      |                     |                   |                     |                   |                                |                              |                      |
| Inventories and prepaids                  | 181,966             |                   |                     |                   |                                | 181,966                      | 173,761              |
| <b>Restricted for:</b>                    |                     |                   |                     |                   |                                |                              |                      |
| Perpetual care                            |                     |                   |                     |                   | 904,136                        | 904,136                      | 837,860              |
| Endowment                                 |                     |                   |                     |                   | 111,005                        | 111,005                      | 111,005              |
| Streets                                   |                     | (1) 595,224       | (1) 873,918         |                   | 92,655                         | 1,561,797                    | 1,165,181            |
| Parks and beautification                  |                     |                   |                     | 4,714             |                                | 4,714                        | 1,210                |
| Community Development                     |                     |                   |                     |                   | 172,114                        | 172,114                      | 169,101              |
| Public purpose                            |                     |                   |                     |                   | 597,776                        | 597,776                      | 652,124              |
| Public safety                             |                     |                   |                     |                   | 211,079                        | 211,079                      | 203,686              |
| <b>Committed to:</b>                      |                     |                   |                     |                   |                                |                              |                      |
| Vibrant Cities                            |                     |                   |                     |                   | 76,994                         | 76,994                       | 846,160              |
| <b>Assigned to:</b>                       |                     |                   |                     |                   |                                |                              |                      |
| Economic development                      |                     |                   |                     |                   | 267,384                        | 267,384                      | 240,179              |
| Encumbrances                              | 1,464,996           |                   |                     |                   |                                | 1,464,996                    | 341,359              |
| Designated purpose (Note 1C)              | 646,000             |                   |                     |                   |                                | 646,000                      | 3,301,000            |
| <b>Unassigned</b>                         | <b>1,066,844</b>    |                   |                     |                   |                                | <b>1,066,844</b>             | <b>797,275</b>       |
| <b>Total fund balances</b>                | <b>3,359,806</b>    | <b>595,224</b>    | <b>873,918</b>      | <b>4,714</b>      | <b>2,433,143</b>               | <b>7,266,805</b>             | <b>8,839,901</b>     |
| <b>Total liabilities and fund balance</b> | <b>\$ 4,584,707</b> | <b>\$ 625,078</b> | <b>\$ 1,061,394</b> | <b>\$ 209,976</b> | <b>\$ 2,944,956</b>            | <b>\$ 9,426,111</b>          | <b>\$ 10,785,837</b> |

(1) - Includes encumbrances of \$121,589 in Major Street and \$282,793 in Local Street

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010 AND 2009**

|   | <u>2010</u>          | <u>2009</u>          |
|---|----------------------|----------------------|
| 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, therefore, are not reported in the governmental funds.  | \$ 34,839,240        | \$ 29,271,307        |
| Accrued interest payable on long term debt is recognized in governmental funds when paid and not when accrued.  | (241,431)            | (121,248)            |
| Long-term portion of accrued sick and vacation pay liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.  | (435,989)            | (383,653)            |
| Bond and loan indebtedness are recognized in the governmental funds when paid and not when accrued.   | (7,040,000)          | (3,690,906)          |
| Internal Service Funds (Information Technology Fund and Fire Dept. Motor Pool) are used by management to charge the costs of management information systems to individual funds and to maintain vehicles. The assets and liabilities of the Internal Service Funds are included in governmental activities in the statement of net assets. Note - capital assets for the internal service funds of \$995,193 are shown in the capital asset figure above. | <u>1,202,500</u>     | <u>1,111,246</u>     |
| Net differences   | 28,324,320           | 26,186,746           |
| Total fund balance in governmental funds  | <u>7,266,805</u>     | <u>8,839,901</u>     |
| Total net assets of governmental activities   | <u>\$ 35,591,125</u> | <u>\$ 35,026,647</u> |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR FISCAL YEAR ENDED JUNE 30, 2010**  
**WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2009**

|   | General             | Major<br>Streets  | Local<br>Streets  | Fee<br>Estate   | Other<br>Governmental<br>Funds | Totals<br>Governmental Funds |                     |
|---|---------------------|-------------------|-------------------|-----------------|--------------------------------|------------------------------|---------------------|
|   |                     |                   |                   |                 |                                | 2010                         | 2009                |
| <b>REVENUES:</b>  |                     |                   |                   |                 |                                |                              |                     |
| Taxes   | \$ 6,900,165        | \$                | \$                | \$              | \$ 460,929                     | \$ 7,361,094                 | \$ 7,272,733        |
| Other tax related revenue                               | 158,284             |                   |                   |                 |                                | 158,284                      | 166,306             |
| Licenses and permits                                    | 153,604             |                   |                   |                 |                                | 153,604                      | 213,850             |
| Intergovernmental – federal                             | 82,435              |                   |                   |                 | 987,730                        | 1,070,165                    | 308,354             |
| Intergovernmental – state                               | 2,078,171           | 950,309           | 363,395           |                 | -                              | 3,391,875                    | 3,901,233           |
| Charges for services                                    | 107,171             |                   |                   |                 |                                | 107,171                      | 95,353              |
| Use and admission charges                               | 323,539             |                   |                   |                 |                                | 323,539                      | 344,634             |
| Fines and fees  | 220,477             |                   |                   |                 |                                | 220,477                      | 252,170             |
| Investment earnings                                     | 124,825             | 132               |                   |                 | 121,871                        | 246,828                      | 349,155             |
| Fee Trust – for beautification                          |                     |                   |                   | 679,871         |                                | 679,871                      | 930,354             |
| Other   | 580,675             | 34,785            |                   | 2,833           | 180,408                        | 798,701                      | 919,222             |
| Special assessments                                     |                     |                   | 40,276            |                 |                                | 40,276                       | 256,986             |
| Contribution from DDA                                   |                     |                   |                   |                 | 2,000                          | 2,000                        | 2,000               |
| Contribution from LDFA - GAIDC                          |                     |                   |                   |                 | 31,000                         | 31,000                       | 31,000              |
| Public contributions                                    |                     |                   |                   |                 | 171,641                        | 171,641                      | 223,547             |
| Administrative fees                                     |                     |                   |                   |                 | 50,818                         | 50,818                       | 42,786              |
| <b>Total revenues</b>                                   | <b>10,729,346</b>   | <b>985,226</b>    | <b>403,671</b>    | <b>682,704</b>  | <b>2,006,397</b>               | <b>14,807,344</b>            | <b>15,309,683</b>   |
| <b>EXPENDITURES:</b>                                    |                     |                   |                   |                 |                                |                              |                     |
| <b>Current:</b>   |                     |                   |                   |                 |                                |                              |                     |
| General government                                      | 3,802,109           | -                 | -                 | -               | -                              | 3,802,109                    | 1,968,765           |
| Public safety   | 7,667,849           | -                 | -                 | -               | 148,351                        | 7,816,200                    | 5,080,182           |
| Public works  | 1,188,337           | -                 | -                 | -               | -                              | 1,188,337                    | 1,034,618           |
| Culture and recreation                                  | 4,720,439           | -                 | -                 | -               | -                              | 4,720,439                    | 3,940,940           |
| Community Beautification and<br>Improvements            | 1,406,996           | -                 | -                 | 679,200         | 1,835,465                      | 3,921,661                    | 2,292,647           |
| Community/Economic<br>Development                       | -                   | -                 | -                 | -               | 366,419                        | 366,419                      | 277,056             |
| Highways, streets, and bridges                          | -                   | 598,473           | 736,597           | -               | -                              | 1,335,070                    | 2,307,354           |
| <b>Debt Service:</b>                                    |                     |                   |                   |                 |                                |                              |                     |
| Principal retirement                                    | -                   | -                 | -                 | -               | -                              | -                            | 209,957             |
| Interest and fiscal charges                             | 111,957             | -                 | -                 | -               | -                              | 111,957                      | 67,272              |
| <b>Total expenditures</b>                               | <b>18,897,687</b>   | <b>598,473</b>    | <b>736,597</b>    | <b>679,200</b>  | <b>2,350,235</b>               | <b>23,262,192</b>            | <b>17,178,791</b>   |
| Excess (deficiency) of revenues<br>(under) expenditures | (8,168,341)         | 386,753           | (332,926)         | 3,504           | (343,838)                      | (8,454,848)                  | (1,869,108)         |
| <b>Other financing sources (uses):</b>                  |                     |                   |                   |                 |                                |                              |                     |
| Transfers in  | 724,200             | -                 | 610,000           | -               | 120,000                        | 1,454,200                    | 678,465             |
| Transfers out   | (814,827)           | (270,000)         | -                 | -               | (493,000)                      | (1,577,827)                  | (784,580)           |
| Issuance of Debt  | 7,005,379           | -                 | -                 | -               | -                              | 7,005,379                    | 774,369             |
| <b>Total other financing sources</b>                    | <b>6,914,752</b>    | <b>(270,000)</b>  | <b>610,000</b>    | <b>-</b>        | <b>(373,000)</b>               | <b>6,881,752</b>             | <b>668,254</b>      |
| <b>Net change in fund balance</b>                       | <b>(1,253,589)</b>  | <b>116,753</b>    | <b>277,074</b>    | <b>3,504</b>    | <b>(716,838)</b>               | <b>(1,573,096)</b>           | <b>(1,200,864)</b>  |
| Fund balances at beginning<br>of year                   | 4,613,395           | 478,471           | 596,844           | 1,210           | 3,149,981                      | 8,839,901                    | 10,040,765          |
| <b>Fund balances at end of year</b>                     | <b>\$ 3,359,806</b> | <b>\$ 595,224</b> | <b>\$ 873,918</b> | <b>\$ 4,714</b> | <b>\$ 2,433,143</b>            | <b>\$ 7,266,805</b>          | <b>\$ 8,839,901</b> |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN  
RECONCILIATION TO THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

|   | 2010              | 2009                  |
|---|-------------------|-----------------------|
| Amounts reported for governmental activities in the statement of revenues, expenditures and changes in fund balances are different because:   |                   |                       |
| Net change in fund balance –  | \$ (1,573,096)    | \$ (1,200,864)        |
| Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. (Total capital outlay \$7,686,591 net of disposals \$248,433 less depreciation of \$1,870,225.)   | 5,567,933         | 1,903,230             |
| Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds – net effect on recognizing personal property taxes.   | -                 | (3,480)               |
| This issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. |                   |                       |
| Note proceeds   | (7,040,000)       | (2,043,000)           |
| Less: Principal repayment   | <u>3,358,463</u>  | <u>209,957</u>        |
| Net   | (3,681,537)       | (2,252,957)           |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in funds.  |                   |                       |
| Accrued interest – net effect   | (120,183)         | (80,789)              |
| Accrued long-term sick and vacation – net effect  | (50,097)          | (33,420)              |
| Internal Service Funds are used by management to charge costs of management information systems to individual funds and to maintain vehicles. Note - depreciation related to internal service funds of \$192,607 shown in depreciation figure above.  | <u>421,458</u>    | <u>191,864</u>        |
| Change in net assets in governmental activities   | <u>\$ 564,478</u> | <u>\$ (1,476,416)</u> |

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 3)  
CITY OF ADRIAN, MICHIGAN  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 2010

|                                    | <u>Budgeted Amounts</u> |                   | <u>Actual</u>     | <u>Variance with</u>  |
|------------------------------------|-------------------------|-------------------|-------------------|-----------------------|
|                                    | <u>Original</u>         | <u>Final</u>      |                   | <u>Final Budget -</u> |
| <b>REVENUES:</b>                   |                         |                   |                   |                       |
| Taxes                              | \$ 6,909,531            | \$ 6,912,531      | \$ 6,900,165      | \$ (12,366)           |
| Other tax related revenue          | 101,000                 | 93,000            | 158,284           | 65,284                |
| Licenses and permits               | 257,450                 | 146,450           | 153,604           | 7,154                 |
| Intergovernmental                  | 2,378,674               | 2,119,690         | 2,160,606         | 40,916                |
| Charges for services               | 85,200                  | 90,200            | 107,171           | 16,971                |
| Uses and admission charges         | 335,431                 | 335,431           | 323,539           | (11,892)              |
| Fines and fees                     | 246,500                 | 206,000           | 220,477           | 14,477                |
| Investment earnings                | 200,000                 | 120,000           | 124,825           | 4,825                 |
| Miscellaneous                      | 1,861,356               | 4,631,903         | 580,675           | (4,051,228)           |
| Total revenues                     | <u>12,375,142</u>       | <u>14,655,205</u> | <u>10,729,346</u> | <u>(3,925,859)</u>    |
| <b>EXPENDITURES:</b>               |                         |                   |                   |                       |
| <b>Current:</b>                    |                         |                   |                   |                       |
| <b>General Government:</b>         |                         |                   |                   |                       |
| City Commission                    | 155,624                 | 130,902           | 106,349           | 24,553                |
| City Administrator                 | 2,676,875               | 1,569,877         | 1,982,347         | (412,470)             |
| Election Department                | 23,200                  | 23,200            | 13,419            | 9,781                 |
| Finance Department                 | 385,896                 | 581,635           | 578,030           | 3,605                 |
| City Assessor                      | 136,371                 | 169,442           | 134,127           | 35,315                |
| City Attorney                      | 170,739                 | 170,169           | 166,309           | 3,860                 |
| City Clerk                         | 90,929                  | 90,664            | 93,129            | (2,465)               |
| Human Resources                    | 186,649                 | 197,401           | 132,000           | 65,401                |
| City Hall                          | 182,500                 | 182,500           | 188,931           | (6,431)               |
| Cemetery                           | 407,686                 | 423,579           | 407,468           | 16,111                |
| Total general government           | <u>4,416,469</u>        | <u>3,539,369</u>  | <u>3,802,109</u>  | <u>(262,740)</u>      |
| <b>Public Safety:</b>              |                         |                   |                   |                       |
| Police Department                  | 5,856,224               | 5,833,445         | 5,572,980         | 260,465               |
| Fire Department                    | 1,726,961               | 1,724,133         | 1,677,378         | 46,755                |
| Inspection Department              | 391,131                 | 409,819           | 417,491           | (7,672)               |
| Total public safety                | <u>7,974,316</u>        | <u>7,967,397</u>  | <u>7,667,849</u>  | <u>299,548</u>        |
| Total expenditures carried forward | <u>12,390,785</u>       | <u>11,506,766</u> | <u>11,469,958</u> | <u>36,808</u>         |

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 3)  
CITY OF ADRIAN, MICHIGAN  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 2010

|   | <u>Budgeted Amounts</u> |                    | <u>Actual</u>      | <u>Variance with</u>  |
|---|-------------------------|--------------------|--------------------|-----------------------|
|   | <u>Original</u>         | <u>Final</u>       |                    | <u>Final Budget -</u> |
| Total expenditures carried forward                        | \$ 12,390,785           | \$ 11,506,766      | \$ 11,469,958      | \$ 36,808             |
| <b>Public Works:</b>                                      |                         |                    |                    |                       |
| Department of Public Works                                | 468,438                 | 346,326            | 232,414            | 113,912               |
| Stores - Central Supply                                   |                         | -                  | (12,839)           | 12,839                |
| Motor Vehicle Pool  | -                       | 15,383             | 15,325             | 58                    |
| Engineering   | 101,322                 | 137,249            | 110,194            | 27,055                |
| Street Lighting   | 153,000                 | 153,000            | 171,571            | (18,571)              |
| Waste Collection and Disposal                             | 720,500                 | 720,500            | 671,672            | 48,828                |
| Total public works  | <u>1,443,260</u>        | <u>1,372,458</u>   | <u>1,188,337</u>   | <u>184,121</u>        |
| <b>Culture and Recreation:</b>                            |                         |                    |                    |                       |
| Recreation Department                                     | 1,041,471               | 1,142,986          | 1,044,594          | 98,392                |
| Adrian Area Little League                                 | 33,300                  | 33,300             | 30,936             | 2,364                 |
| Parks and Forestry Garage                                 | 19,340                  | 20,203             | 17,044             | 3,159                 |
| Parks and Forestry Department                             | 1,680,799               | 2,372,193          | 2,027,265          | 344,928               |
| Parks and Forestry – Heritage                             | 139,402                 | 140,753            | 147,624            | (6,871)               |
| Library   | 1,594,938               | 1,655,403          | 1,452,976          | 202,427               |
| Total culture and recreation                              | <u>4,509,250</u>        | <u>5,364,838</u>   | <u>4,720,439</u>   | <u>644,399</u>        |
| <b>Community Beautification and Improvements:</b>         |                         |                    |                    |                       |
| Planning Commission                                       | 78,500                  | 13,775             | 10,540             | 3,235                 |
| Other Projects  | 58,550                  | 2,612,145          | 1,376,456          | 1,235,689             |
| Other   | 27,556                  | 472,669            | 20,000             | 452,669               |
| Total other services                                      | <u>164,606</u>          | <u>3,098,589</u>   | <u>1,406,996</u>   | <u>1,691,593</u>      |
| <b>Debt Service:</b>                                      |                         |                    |                    |                       |
| Interest  | 500,000                 | 111,257            | 111,957            | (700)                 |
| Total debt service  | <u>500,000</u>          | <u>111,257</u>     | <u>111,957</u>     | <u>(700)</u>          |
| Total expenditures  | <u>19,007,901</u>       | <u>21,453,908</u>  | <u>18,897,687</u>  | <u>2,556,221</u>      |
| Excess (deficiency) of revenues over (under) expenditures | <u>(6,632,759)</u>      | <u>(6,798,703)</u> | <u>(8,168,341)</u> | <u>(1,369,638)</u>    |

The notes to the financial statements are an integral part of this statement.

(PAGE 3 OF 3)  
 CITY OF ADRIAN, MICHIGAN  
 GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
 BUDGET AND ACTUAL  
 FOR FISCAL YEAR ENDED JUNE 30, 2010

|  | <u>Budgeted Amounts</u> |                     | <u>Actual</u>       | <u>Variance with<br/>Final Budget -<br/>Positive</u> |
|--|-------------------------|---------------------|---------------------|--|
|  | <u>Original</u>         | <u>Final</u>        |                     |  |
| <b>Other financing sources (uses):</b> |                         |                     |                     |  |
| Issuance of debt                       | \$ 7,115,957            | \$ 7,005,957        | \$ 7,005,379        | (578)  |
| Transfers in                           | 321,200                 | 613,200             | 724,200             | 111,000  |
| Transfers out                          | (804,398)               | (820,454)           | (814,827)           | 5,627  |
| Total other financing sources (uses)   | <u>6,632,759</u>        | <u>6,798,703</u>    | <u>6,914,752</u>    | <u>116,049</u>                                       |
| Net change in fund balance             | -                       | -                   | (1,253,589)         | (1,253,589)  |
| Fund balance at beginning of year      | <u>4,613,395</u>        | <u>4,613,395</u>    | <u>4,613,395</u>    | -  |
| Fund balance at end of year            | <u>\$ 4,613,395</u>     | <u>\$ 4,613,395</u> | <u>\$ 3,359,806</u> | <u>\$ (1,253,589)</u>                                |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**MAJOR STREETS SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR FISCAL YEAR ENDED JUNE 30, 2010**

|  | <u>Budgeted Amounts</u> |                   | <u>Actual Amounts</u> | <u>Variance with<br/>Final Budget -<br/>Positive</u> |
|--|-------------------------|-------------------|-----------------------|--|
|  | <u>Original</u>         | <u>Final</u>      |                       |  |
| <b>REVENUES:</b>   |                         |                   |                       |  |
| Intergovernmental – state                                    | \$ 1,010,000            | \$ 1,210,000      | \$ 950,309            | \$ (259,691)   |
| Investment earnings  | 10,000                  | 5,000             | 132                   | (4,868)  |
| Other  | 1,446,875               | 184,147           | 34,785                | (149,362)  |
| Total revenues   | <u>2,466,875</u>        | <u>1,399,147</u>  | <u>985,226</u>        | <u>(413,921)</u>                                     |
| <b>EXPENDITURES:</b>   |                         |                   |                       |  |
| <b>Highways, streets, and bridges:</b>                       |                         |                   |                       |  |
| Street construction  | 1,408,350               | 311,861           | 56,036                | 255,825  |
| Routine maintenance – streets                                | 205,050                 | 205,050           | 140,948               | 64,102   |
| Routine maintenance – bridges                                | 13,500                  | 13,500            | 7,073                 | 6,427  |
| Maintenance – State trunklines                               | 55,978                  | 55,978            | 35,526                | 20,452   |
| Traffic service  | 135,500                 | 135,898           | 62,786                | 73,112   |
| Winter maintenance   | 76,000                  | 76,000            | 87,800                | (11,800)   |
| Administration   | 35,860                  | 35,860            | 34,860                | 1,000  |
| Non-motorized transportation                                 | 58,800                  | 58,800            | 19,212                | 39,588   |
| Other  | 227,837                 | 136,200           | 154,232               | (18,032)   |
| Total expenditures   | <u>2,216,875</u>        | <u>1,029,147</u>  | <u>598,473</u>        | <u>430,674</u>                                       |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>250,000</u>          | <u>370,000</u>    | <u>386,753</u>        | <u>16,753</u>  |
| <b>Other financing sources (uses):</b>                       |                         |                   |                       |  |
| Transfers out  | <u>(250,000)</u>        | <u>(370,000)</u>  | <u>(270,000)</u>      | <u>100,000</u>                                       |
| Total other financing sources (uses)                         | <u>(250,000)</u>        | <u>(370,000)</u>  | <u>(270,000)</u>      | <u>100,000</u>                                       |
| Net change in fund balance                                   | -                       | -                 | 116,753               | 116,753  |
| Fund balance at beginning of year                            | <u>478,471</u>          | <u>478,471</u>    | <u>478,471</u>        | <u>-</u>   |
| Fund balance at end of year                                  | <u>\$ 478,471</u>       | <u>\$ 478,471</u> | <u>\$ 595,224</u>     | <u>\$ 116,753</u>                                    |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**LOCAL STREETS SPECIAL REVENUE FUND**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR FISCAL YEAR ENDED JUNE 30, 2010**

|  | <u>Budgeted Amounts</u> |                   | <u>Actual Amounts</u> | <u>Variance with</u>       |
|--|-------------------------|-------------------|-----------------------|----------------------------|
|  | <u>Original</u>         | <u>Final</u>      |                       | <u>Final Budget -</u>      |
|  |                         |                   |                       | <u>Positive (Negative)</u> |
| <b>REVENUES:</b>   |                         |                   |                       |                            |
| Intergovernmental – state                                    | \$ 380,000              | \$ 320,000        | \$ 363,395            | \$ 43,395                  |
| Special assessment   | 113,998                 | 113,998           | 40,276                | (73,722)                   |
| Investment earnings  | 2,000                   | 2,000             | -                     | (2,000)                    |
| Other  | 44,909                  | 237,616           | -                     | (237,616)                  |
| Total revenues   | <u>540,907</u>          | <u>673,614</u>    | <u>403,671</u>        | <u>(269,943)</u>           |
| <b>EXPENDITURES:</b>   |                         |                   |                       |                            |
| <b>Highways, streets, and bridges:</b>                       |                         |                   |                       |                            |
| Sidewalks  | 44,500                  | 44,500            | 8,260                 | 36,240                     |
| Street construction  | 606,445                 | 663,755           | 371,711               | 292,044                    |
| Rehabilitation - alleys                                      | 75,000                  | 150,000           | 65,516                | 84,484                     |
| Routine maintenance – streets                                | 390,700                 | 390,700           | 170,463               | 220,237                    |
| Routine maintenance – bridges                                | 1,000                   | 1,000             | -                     | 1,000                      |
| Traffic service  | 37,500                  | 37,897            | 22,637                | 15,260                     |
| Winter maintenance   | 60,510                  | 60,510            | 58,150                | 2,360                      |
| Administration   | 39,860                  | 39,860            | 39,860                | -                          |
| Total expenditures   | <u>1,255,515</u>        | <u>1,388,222</u>  | <u>736,597</u>        | <u>651,625</u>             |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>(714,608)</u>        | <u>(714,608)</u>  | <u>(332,926)</u>      | <u>381,682</u>             |
| <b>Other financing sources (uses):</b>                       |                         |                   |                       |                            |
| Transfers in   | <u>714,608</u>          | <u>714,608</u>    | <u>610,000</u>        | <u>(104,608)</u>           |
| Total other financing sources (uses)                         | <u>714,608</u>          | <u>714,608</u>    | <u>610,000</u>        | <u>(104,608)</u>           |
| Net change in fund balance                                   | -                       | -                 | 277,074               | 277,074                    |
| Fund balance at beginning of year                            | <u>596,844</u>          | <u>596,844</u>    | <u>596,844</u>        | <u>-</u>                   |
| Fund balance at end of year                                  | <u>\$ 596,844</u>       | <u>\$ 596,844</u> | <u>\$ 873,918</u>     | <u>\$ 277,074</u>          |

The notes to the financial statement are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN  
FEE ESTATE SPECIAL REVENUE FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR FISCAL YEAR ENDED JUNE 30, 2010**

|  | <u>Budgeted Amounts</u> |                 | <u>Actual</u>   | <u>Variance with<br/>Final Budget -<br/>Positive</u> |
|--|-------------------------|-----------------|-----------------|--|
|  | <u>Original</u>         | <u>Final</u>    |                 |  |
| <b>REVENUES:</b>   |                         |                 |                 |  |
| Donations - Fee Estate                                       | \$ 700,000              | \$ 700,000      | \$ 679,871      | \$ (20,129)  |
| Investment earnings  | 50                      | 50              | -               | (50)   |
| Other  | 8                       | 6,533           | 2,833           | (3,700)  |
| Total revenues   | <u>700,058</u>          | <u>706,583</u>  | <u>682,704</u>  | <u>(23,879)</u>                                      |
| <b>EXPENDITURES:</b>   |                         |                 |                 |  |
| Maintenance - beautification                                 | <u>700,058</u>          | <u>706,583</u>  | <u>679,200</u>  | <u>27,383</u>  |
| Total expenditures   | <u>700,058</u>          | <u>706,583</u>  | <u>679,200</u>  | <u>27,383</u>  |
| Excess (deficiency) of revenues<br>over (under) expenditures | -                       | -               | 3,504           | 3,504  |
| Fund balance at beginning of year                            | <u>1,210</u>            | <u>1,210</u>    | <u>1,210</u>    | <u>-</u>   |
| Fund balance at end of year                                  | <u>\$ 1,210</u>         | <u>\$ 1,210</u> | <u>\$ 4,714</u> | <u>\$ 3,504</u>                                      |

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)  
 CITY OF ADRIAN, MICHIGAN  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2010  
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009

|   | <u>Business-Type Activities - Enterprise Funds</u> |                      |                              |                                 | <u>Governmental Activities</u> |                               |
|---|--|----------------------|------------------------------|---------------------------------|--------------------------------|-------------------------------|
|   | <u>Wastewater System</u>                           | <u>Water System</u>  | <u>Other Enterprise Fund</u> | <u>Totals Proprietary Funds</u> |                                | <u>Internal Service Funds</u> |
|   |  |                      |                              | <u>2010</u>                     | <u>2009</u>                    |                               |
| <b>ASSETS:</b>  |  |                      |                              |                                 |                                |                               |
| <b>Current assets:</b>                                      |  |                      |                              |                                 |                                |                               |
| Cash and cash equivalents                                   | \$ -   | \$ 751,413           | \$ 625,011                   | \$ 1,376,424                    | \$ 702,172                     | \$ 1,167,157                  |
| Investments   | 249,831  | -                    | -                            | 249,831                         | -                              | -                             |
| <b>Receivables:</b>   |  |                      |                              |                                 |                                |                               |
| Accounts  | 611,029  | 516,884              | 634                          | 1,128,547                       | 1,068,011                      | 10,243                        |
| Special assessments   | -  | 22,629               | 456,513                      | 479,142                         | 491,670                        | -                             |
| Deferred assessments  | 68,501   | -                    | -                            | 68,501                          | 91,130                         | -                             |
| State of Michigan – SRF                                     | -  | -                    | -                            | -                               | 41,012                         | -                             |
| Due from other funds  | -  | 98                   | 6,000                        | 6,098                           | 35,400                         | 30,440                        |
| Due from other governments                                  | -  | -                    | 71,800                       | 71,800                          | 66,740                         | -                             |
| Due from component unit                                     | -  | -                    | 20,000                       | 20,000                          | 10,000                         | 936                           |
| Inventories   | -  | 153,221              | 20,890                       | 174,111                         | 164,059                        | -                             |
| Prepaid expense   | 3,399  | 7,415                | -                            | 10,814                          | 16,790                         | -                             |
|   | <u>932,760</u>                                     | <u>1,451,660</u>     | <u>1,200,848</u>             | <u>3,585,268</u>                | <u>2,686,984</u>               | <u>1,208,776</u>              |
| <b>Restricted assets available for current liabilities:</b> |  |                      |                              |                                 |                                |                               |
| Customer deposit – cash                                     | -  | 17,355               | -                            | 17,355                          | 15,330                         | -                             |
| Bond interest and redemption account - investment           | -  | 224,260              | -                            | 224,260                         | 655,023                        | -                             |
| Bond interest and redemption account – cash                 | 673,436  | 278,887              | -                            | 952,323                         | 511,469                        | -                             |
| Total current assets  | <u>1,606,196</u>                                   | <u>1,972,162</u>     | <u>1,200,848</u>             | <u>4,779,206</u>                | <u>3,868,806</u>               | <u>1,208,776</u>              |
| <b>Noncurrent assets:</b>                                   |  |                      |                              |                                 |                                |                               |
| <b>Restricted investments:</b>                              |  |                      |                              |                                 |                                |                               |
| Bond reserve - cash   | 323,723  | 377,668              | -                            | 701,391                         | 448,382                        | -                             |
| Bond reserve - investment                                   | 184,041  | -                    | -                            | 184,041                         | -                              | -                             |
| Replacement account – cash                                  | -  | 100,000              | -                            | 100,000                         | 100,000                        | -                             |
| Total noncurrent restricted assets                          | <u>507,764</u>                                     | <u>477,668</u>       | <u>-</u>                     | <u>985,432</u>                  | <u>548,382</u>                 | <u>-</u>                      |
| <b>Capital assets:</b>                                      |  |                      |                              |                                 |                                |                               |
| Land  | 163,164  | 560,814              | 661,368                      | 1,385,346                       | 1,385,346                      | -                             |
| Building  | -  | -                    | 1,373,271                    | 1,373,271                       | 1,373,271                      | -                             |
| Utility systems   | 47,512,314   | 30,913,151           | 2,380,243                    | 80,805,708                      | 72,749,315                     | -                             |
| Land improvements   | -  | -                    | 1,582,008                    | 1,582,008                       | 1,582,008                      | -                             |
| Equipment   | -  | -                    | 697,127                      | 697,127                         | 697,127                        | 3,147,359                     |
| Less: accumulated depreciation                              | (18,714,392)                                       | (9,518,164)          | (2,432,526)                  | (30,665,082)                    | (28,555,004)                   | (2,152,166)                   |
| Construction in progress                                    | -  | -                    | -                            | -                               | 7,596,542                      | -                             |
| Net capital assets  | <u>28,961,086</u>                                  | <u>21,955,801</u>    | <u>4,261,491</u>             | <u>55,178,378</u>               | <u>56,828,605</u>              | <u>995,193</u>                |
| Total noncurrent assets                                     | <u>29,468,850</u>                                  | <u>22,433,469</u>    | <u>4,261,491</u>             | <u>56,163,810</u>               | <u>57,376,987</u>              | <u>995,193</u>                |
| Total assets  | <u>\$ 31,075,046</u>                               | <u>\$ 24,405,631</u> | <u>\$ 5,462,339</u>          | <u>\$ 60,943,016</u>            | <u>\$ 61,245,793</u>           | <u>\$ 2,203,969</u>           |

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)  
 CITY OF ADRIAN, MICHIGAN  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2010  
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009

|  | Business-Type Activities - Enterprise Funds |                      |                             |                           |                      | Governmental<br>Activities |
|--|---|----------------------|-----------------------------|---------------------------|----------------------|----------------------------|
|  | Wastewater<br>System                        | Water<br>System      | Other<br>Enterprise<br>Fund | Totals                    |                      | Internal<br>Service Funds  |
|  |   |                      |                             | Proprietary Funds<br>2010 | 2009                 |                            |
| <b>LIABILITIES:</b>  |   |                      |                             |                           |                      |                            |
| <b>Current liabilities:</b>                                    |   |                      |                             |                           |                      |                            |
| Vouchers payable   | \$ 96,726                                   | \$ 52,159            | \$ 5,872                    | \$ 154,757                | \$ 238,510           | \$ 2,761                   |
| Accrued liabilities  | 8,393                                       | 15,648               | 479                         | 24,520                    | 35,696               | 3,515                      |
| Due to other funds   | 21,330                                      | 37,510               | 52,515                      | 111,355                   | 130,658              | -                          |
| Due to other governments                                       | -   | -                    | 26,613                      | 26,613                    | 6,390                | -                          |
| Lease payable - current  | 68,794                                      | -                    | -                           | 68,794                    | 66,272               | -                          |
| Installment loan payable -current                              | 20,877                                      | -                    | -                           | 20,877                    | -                    | -                          |
| DWRF/SRF bonds   | 810,000                                     | 585,000              | -                           | 1,395,000                 | 1,045,000            | -                          |
|  | <u>1,026,120</u>                            | <u>690,317</u>       | <u>85,479</u>               | <u>1,801,916</u>          | <u>1,522,526</u>     | <u>6,276</u>               |
| <b>Current liabilities payable<br/>from restricted assets:</b> |   |                      |                             |                           |                      |                            |
| Customer deposits payable                                      | -   | 17,355               | -                           | 17,355                    | 15,330               | -                          |
| Accrued interest   | 73,436                                      | 63,218               | -                           | 136,654                   | 142,741              | -                          |
| Total current liabilities                                      | <u>1,099,556</u>                            | <u>770,890</u>       | <u>85,479</u>               | <u>1,955,925</u>          | <u>1,680,597</u>     | <u>6,276</u>               |
| <b>Noncurrent liabilities:</b>                                 |   |                      |                             |                           |                      |                            |
| Accrued sick and vacation pay                                  | 18,800                                      | 33,633               | -                           | 52,433                    | 51,658               | -                          |
| Lease payable  | 560,713                                     | -                    | -                           | 560,713                   | 629,507              | -                          |
| Installment loan payable                                       | 81,251                                      | -                    | -                           | 81,251                    | -                    | -                          |
| DWRF Bonds   | 6,290,000                                   | 10,786,717           | -                           | 17,076,717                | 18,200,459           | -                          |
| SRF Bonds  | 7,371,538                                   | -                    | -                           | 7,371,538                 | 7,766,898            | -                          |
| Total noncurrent liabilities                                   | <u>14,322,302</u>                           | <u>10,820,350</u>    | <u>-</u>                    | <u>25,142,652</u>         | <u>26,648,522</u>    | <u>-</u>                   |
| Total liabilities  | <u>15,421,858</u>                           | <u>11,591,240</u>    | <u>85,479</u>               | <u>27,098,577</u>         | <u>28,329,119</u>    | <u>6,276</u>               |
| <b>NET ASSETS:</b>   |   |                      |                             |                           |                      |                            |
| Invested in capital assets, net of<br>related debt             | 14,387,420                                  | 10,584,084           | 4,261,491                   | 29,232,995                | 29,120,469           | 995,193                    |
| Restricted for debt service                                    | 1,107,764                                   | 817,597              | -                           | 1,925,361                 | 1,112,269            | -                          |
| Restricted for replacement                                     | -   | 100,000              | -                           | 100,000                   | 100,000              | -                          |
| Unrestricted   | 158,004                                     | 1,312,710            | 1,115,369                   | 2,586,083                 | 2,583,936            | 1,202,500                  |
| Total net assets   | <u>\$ 15,653,188</u>                        | <u>\$ 12,814,391</u> | <u>\$ 5,376,860</u>         | <u>\$ 33,844,439</u>      | <u>\$ 32,916,674</u> | <u>\$ 2,197,693</u>        |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR FISCAL YEAR ENDED JUNE 30, 2010**  
**WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2009**

|   | <b>Business-Type Activities - Enterprise Funds</b> |                      |                              |                                 |                     | <b>Governmental Activities</b> |
|---|--|----------------------|------------------------------|---------------------------------|---------------------|--------------------------------|
|   | <b>Wastewater System</b>                           | <b>Water System</b>  | <b>Other Enterprise Fund</b> | <b>Totals Proprietary Funds</b> |                     | <b>Internal Service Funds</b>  |
|   |  |                      |                              | <b>2010</b>                     | <b>2009</b>         |                                |
| <b>Operating revenues:</b>  |  |                      |                              |                                 |                     |                                |
| Charges for services  | \$ 4,147,020                                       | \$ 3,453,791         | \$ 357,524                   | \$ 7,958,335                    | \$ 7,544,432        | \$ 1,216,977                   |
| Special assessments   | -  | -                    | 37,357                       | 37,357                          | 25,253              | -                              |
| Miscellaneous revenues  | 68,995   | 68,797               | 2,783                        | 140,575                         | 109,291             | 11,726                         |
| <b>Total operating revenues</b>                                     | <b>4,216,015</b>                                   | <b>3,522,588</b>     | <b>397,664</b>               | <b>8,136,267</b>                | <b>7,678,976</b>    | <b>1,228,703</b>               |
| <b>Operating expenses:</b>  |  |                      |                              |                                 |                     |                                |
| Cost of services  | 2,257,806  | 2,257,514            | 712,037                      | 5,227,357                       | 5,510,479           | 816,045                        |
| Depreciation  | 1,338,321  | 635,343              | 136,415                      | 2,110,079                       | 2,029,117           | 192,607                        |
| <b>Total operating expenses</b>                                     | <b>3,596,127</b>                                   | <b>2,892,857</b>     | <b>848,452</b>               | <b>7,337,436</b>                | <b>7,539,596</b>    | <b>1,008,652</b>               |
| Operating income (loss)   | 619,888  | 629,731              | (450,788)                    | 798,831                         | 139,380             | 220,051                        |
| <b>Nonoperating revenues</b>  |  |                      |                              |                                 |                     |                                |
| <b>expenses:</b>  |  |                      |                              |                                 |                     |                                |
| Intergovernmental – state - operating                               | -  | -                    | 158,858                      | 158,858                         | 155,980             | -                              |
| Intergovernmental – State - maintenance reimbursement               | -  | -                    | 3,035                        | 3,035                           | 639                 | -                              |
| Intergovernmental – federal   | -  | -                    | 77,779                       | 77,779                          | 67,597              | -                              |
| Sale of property  | -  | 298,632              | -                            | 298,632                         | -                   | -                              |
| Interest revenue  | 6,036  | 8,354                | 32,635                       | 47,025                          | 69,753              | -                              |
| Interest expense  | (321,451)  | (259,771)            | -                            | (581,222)                       | (572,178)           | -                              |
| <b>Total nonoperating revenues (expenses)</b>                       | <b>(315,415)</b>                                   | <b>47,215</b>        | <b>272,307</b>               | <b>4,107</b>                    | <b>(278,209)</b>    | <b>-</b>                       |
| Income (loss) before contributions and transfers                    | 304,473  | 676,946              | (178,481)                    | 802,938                         | (138,829)           | 220,051                        |
| Contribution from Downtown Development Authority                    | -  | -                    | 10,000                       | 10,000                          | 10,000              | -                              |
| Capital contribution - grants                                       | -  | -                    | -                            | -                               | 548,591             | -                              |
| Capital contribution - local  | -  | -                    | -                            | -                               | 49,986              | -                              |
| Transfers in  | -  | -                    | 114,827                      | 114,827                         | 106,115             | 700,000                        |
| Transfers out   | -  | -                    | -                            | -                               | -                   | (691,200)                      |
| Change in net assets  | 304,473  | 676,946              | (53,654)                     | 927,765                         | 575,863             | 228,851                        |
| Total net assets – beginning of year                                | 15,348,715   | 12,137,445           | 5,430,514                    | 32,916,674                      | 32,340,811          | 1,427,621                      |
| Transfer book value of depreciable assets from General Fixed Assets | -  | -                    | -                            | -                               | -                   | 541,221                        |
| <b>Total net assets – end of year</b>                               | <b>\$ 15,653,188</b>                               | <b>\$ 12,814,391</b> | <b>\$ 5,376,860</b>          | <b>\$ 33,844,439</b>            | <b>\$32,916,674</b> | <b>\$ 2,197,693</b>            |

The notes to the financials statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR FISCAL YEAR ENDED JUNE 30, 2010**  
**WITH COMPARATIVE TOTALS FOR FISCAL YEAR ENDED JUNE 30, 2009**

|   | <u>Business-Type Activities - Enterprise Funds</u> |                         |                                      |   | <u>Governmental</u> |                                   |
|---|--|-------------------------|--------------------------------------|---|---------------------|-----------------------------------|
|   | <u>Wastewater<br/>System</u>                       | <u>Water<br/>System</u> | <u>Other<br/>Enterprise<br/>Fund</u> | <u>Totals</u><br><u>Proprietary Funds</u> |                     | <u>Internal<br/>Service Funds</u> |
|   |  |                         |                                      | <u>2010</u>                               | <u>2009</u>         |                                   |
| <b>Cash flows from operating activities:</b>                            |  |                         |                                      |   |                     |                                   |
| Cash received from customers  | \$ 4,160,332                                       | \$ 3,519,900            | \$ 416,826                           | \$8,097,058                               | \$ 7,471,408        | \$ 1,207,073                      |
| Cash paid to suppliers  | (1,532,293)  | (1,287,440)             | (344,034)                            | (3,163,767)                               | (3,947,488)         | (737,070)                         |
| Cash paid to employees  | (758,457)  | (1,015,187)             | (385,086)                            | (2,158,730)                               | (2,177,067)         | (75,245)                          |
| Net cash provided by (used in) operating activities                     | <u>1,869,582</u>                                   | <u>1,217,273</u>        | <u>(312,294)</u>                     | <u>2,774,561</u>                          | <u>1,346,853</u>    | <u>394,758</u>                    |
| <b>Cash flows from noncapital financing activities:</b>                 |  |                         |                                      |   |                     |                                   |
| Grant received – Federal  | -  | -                       | 51,474                               | 51,474                                    | 60,379              | -                                 |
| Grant received – State  | -  | -                       | 183,325                              | 183,325                                   | 157,743             | -                                 |
| Transfers from other funds  | -  | -                       | 109,294                              | 109,294                                   | 110,228             | 700,000                           |
| Transfers to other funds  | -  | -                       | -                                    | -   | -                   | (691,200)                         |
| Contribution from DDA/TIFA  | -  | -                       | 10,000                               | 10,000                                    | 10,000              | -                                 |
| Special assessment revenue provided to other funds                      | -  | -                       | (76,080)                             | (76,080)                                  | (320,820)           | -                                 |
| Net cash provided by noncapital financing activities                    | <u>-</u>   | <u>-</u>                | <u>278,013</u>                       | <u>278,013</u>                            | <u>17,530</u>       | <u>8,800</u>                      |
| <b>Cash flows from capital and related financing activities:</b>        |  |                         |                                      |   |                     |                                   |
| Acquisition and construction of capital assets                          | (196,647)  | (263,204)               | -                                    | (459,851)                                 | (3,395,887)         | (330,204)                         |
| Principal paid on lease   | (66,272)   | -                       | -                                    | (66,272)                                  | (59,021)            | -                                 |
| Grants received - Federal   | -  | -                       | 3,140                                | 3,140                                     | 640,113             | -                                 |
| Grants received - State   | -  | -                       | 35                                   | 35  | 160,028             | -                                 |
| Local funding - facility  | -  | -                       | -                                    | -   | 8,473               | -                                 |
| Capital asset purchases   | -  | -                       | -                                    | -   | (808,614)           | -                                 |
| Special assessments   | -  | -                       | 111,237                              | 111,237                                   | 246,123             | -                                 |
| Principal paid on DWRF Bonds  | (395,000)  | (570,000)               | -                                    | (965,000)                                 | (630,000)           | -                                 |
| Bond proceeds on DWRF Bonds   | -  | 227,270                 | -                                    | 227,270                                   | 2,564,761           | -                                 |
| Principal paid on SRF Bonds   | (395,000)  | -                       | -                                    | (395,000)                                 | (395,000)           | -                                 |
| Principal paid on installment loan                                      | (22,871)   | -                       | -                                    | (22,871)                                  | -                   | -                                 |
| Interest paid   | (325,383)  | (261,926)               | -                                    | (587,309)                                 | (540,029)           | -                                 |
| Bond proceeds – SRF Bonds   | 4,640  | -                       | -                                    | 4,640                                     | 186,024             | -                                 |
| Loan proceeds   | 124,999  | -                       | -                                    | 124,999                                   | -                   | -                                 |
| Sale of property  | -  | 298,632                 | -                                    | 298,632                                   | -                   | -                                 |
| Net cash provided by (used in) capital and related financing activities | <u>(1,271,534)</u>                                 | <u>(569,228)</u>        | <u>114,412</u>                       | <u>(1,726,350)</u>                        | <u>(2,023,029)</u>  | <u>(330,204)</u>                  |
| <b>Cash flows from investing activities:</b>                            |  |                         |                                      |   |                     |                                   |
| Investment securities purchased   | (5,223)  | 2,114                   | -                                    | (3,109)                                   | (105,217)           | -                                 |
| Proceeds on matured investment securities                               | -  | -                       | -                                    | -   | 450,202             | -                                 |
| Interest income   | 6,036  | 8,354                   | 32,635                               | 47,025                                    | 69,753              | -                                 |
| Net cash provided by investing activities                               | <u>813</u>   | <u>10,468</u>           | <u>32,635</u>                        | <u>43,916</u>                             | <u>414,738</u>      | <u>-</u>                          |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For Fiscal Year Ended June 30, 2010  
With Comparative Totals for Fiscal Year Ended June 30, 2010

|   | <u>Business-Type Activities - Enterprise Funds</u> |                     |                              |                                 | <u>Governmental</u> |                               |
|---|--|---------------------|------------------------------|---------------------------------|---------------------|-------------------------------|
|   | <u>Wastewater System</u>                           | <u>Water System</u> | <u>Other Enterprise Fund</u> | <u>Totals Proprietary Funds</u> |                     | <u>Internal Service Funds</u> |
|   |  |                     |                              | 2010                            | 2009                |                               |
| Net increase (decrease) in cash and cash equivalents  | \$ 598,861   | \$ 658,513          | \$ 112,766                   | \$1,370,140                     | \$ (243,908)        | \$ 73,354                     |
| Cash and cash equivalents at beginning of year (including \$398,298 and \$576,883 for the Waste System and the Water System Utility Funds, respectively reported in Restricted Funds) | 398,298  | 766,810             | 512,245                      | 1,677,353                       | 1,921,261           | 1,093,803                     |
| Cash and cash equivalents at end of year (including \$997,159 and \$673,910 for the Wastewater System and the Water System Funds, respectively reported in Restricted Funds)          | <u>\$ 997,159</u>                                  | <u>\$1,425,323</u>  | <u>\$ 625,011</u>            | <u>\$3,047,493</u>              | <u>\$ 1,677,353</u> | <u>\$ 1,167,157</u>           |

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES**

|   |                     |                    |                     |                    |                     |                   |
|---|---------------------|--------------------|---------------------|--------------------|---------------------|-------------------|
| Operating income (loss)   | \$ 619,888          | \$ 629,731         | \$ (450,788)        | \$ 798,831         | \$ 139,380          | \$ 220,051        |
| <b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b> |                     |                    |                     |                    |                     |                   |
| Depreciation  | 1,338,321           | 635,343            | 136,414             | 2,110,078          | 2,029,117           | 192,607           |
| <b>Change in assets and liabilities:</b>  |                     |                    |                     |                    |                     |                   |
| (Increase) decrease in accounts receivable  | (55,683)            | (4,615)            | (238)               | (60,536)           | (222,724)           | (10,243)          |
| (Increase) decrease in due from other funds   | -                   | (98)               | 19,400              | 19,302             | 6,409               | (11,554)          |
| (Increase) decrease in due from component unit  | -                   | -                  | -                   | -                  | -                   | 167               |
| (Increase) decrease in inventories  | -                   | 10,838             | (20,890)            | (10,052)           | 31,951              | -                 |
| (Increase) decrease in prepaid expense  | 312                 | 1,021              | 4,643               | 5,976              | (5,979)             | -                 |
| Increase (decrease) in vouchers payable   | (18,217)            | (51,020)           | 2,345               | (66,892)           | (619,587)           | 2,620             |
| Increase (decrease) in due to County  | -                   | -                  | -                   | -                  | (153)               | -                 |
| Increase (decrease) in accrued payroll and liabilities  | (6,353)             | (3,548)            | (1,275)             | (11,176)           | 10,467              | 1,110             |
| Increase (decrease) in due to other funds   | (7,084)             | (4,781)            | (1,905)             | (13,770)           | 16,906              | -                 |
| Increase (decrease) in accrued sick and vacation  | (1,602)             | 2,377              | -                   | 775                | (42,792)            | -                 |
| Increase (decrease) in customer deposits  | -                   | 2,025              | -                   | 2,025              | 3,858               | -                 |
| Total adjustments   | <u>1,249,694</u>    | <u>587,542</u>     | <u>138,494</u>      | <u>1,975,730</u>   | <u>1,207,473</u>    | <u>174,707</u>    |
| Net cash provided by (used in) operating activities   | <u>\$ 1,869,582</u> | <u>\$1,217,273</u> | <u>\$ (312,294)</u> | <u>\$2,774,561</u> | <u>\$ 1,346,853</u> | <u>\$ 394,758</u> |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUNDS  
JUNE 30, 2010 AND 2009**

|                           | <b>2010</b> | <b>2009</b> |
|---------------------------|-------------|-------------|
| <b>ASSETS:</b>            |             |             |
| Cash and cash equivalents | \$ 392,734  | \$ 309,437  |
| Total assets              | \$ 392,734  | \$ 309,437  |
| <b>LIABILITIES:</b>       |             |             |
| Vouchers payable          | \$ 7,879    | \$ 9,442    |
| Due to other taxing units | 204,961     | 32,851      |
| Restricted deposits       | 179,894     | 267,144     |
| Total liabilities         | \$ 392,734  | \$ 309,437  |

The notes to the financial statements are an integral part of this statement.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Adrian, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**Reporting Entity**

The City of Adrian is a Michigan Municipal Corporation governed by an elected seven member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

**Discretely presented component units:**

Downtown Development Authority (DDA) was created as a separate legal entity under Public Act 197 of 1975 of the State of Michigan. The purpose of the DDA is to plan and develop the downtown area of the City and to attract new businesses and residents. The governing body of DDA is appointed by the City Commission for a fixed term. The City approves the annual budget and any capital projects of DDA. Prior approval by the City is needed on any taxation by DDA. And, the City's approval is needed for any borrowing done by DDA. The Downtown Development Authority is presented as a governmental fund type.

Another discretely presented component unit is the Local Development Finance Authority (LDFA) created under Public Act 281 of 1986 of the State of Michigan. The LDFA's purpose is to work toward the elimination of the causes of unemployment, underemployment and joblessness, and to promote economic growth in the City of Adrian. The City appoints the majority of the LDFA Board of Directors. The budget of the LDFA needs the City's approval. And, the main revenue source of LDFA which is tax increment financing is a financial burden to the City. The Local Development Finance Authority is presented as a governmental fund type.

A third discretely presented component unit is the Brownfield Redevelopment Authority (BRA), approved by the Adrian City Commission on February 5, 2001, but began capturing taxes for the first time in FY 2007-08. Under the authority of Public Act 381 of 1996, as amended (MCL125.2651), the Brownfield Redevelopment Program provides funding and tax incentives for the cleanup and redevelopment of contaminated, blighted, and functionally obsolete properties with the aim of making them economically viable. As part of the program, the Brownfield Redevelopment Financing Act allows Brownfield authorities created by local units of government to use tax increment financing to pay for certain "eligible activities" on eligible property. These "eligible activities" include such efforts as baseline environmental assessments, due care activities, and additional response activities. The City appoints all members of the BRA Board of Directors and the budget of the BRA requires City approval. The main revenue source of the BRA is derived from tax increment financing, which is a financial burden to the City. The BRA authority is presented as a governmental fund type.

Separate financial statements for each of the individual component units are not available.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements**

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

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

**C. Measurement focus, basis of accounting and financial statement presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes and State shared revenue are major sources of revenue which are considered to be susceptible to accrual. Property taxes for the City are levied July 1 of each year.

CITY OF ADRIAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The property taxes are recognized in the year levied.

State shared revenue (sales tax) received in July is accrued for proceeding year. Special assessment receivables are financed by the Capital Project Fund and are fully recognized when levied.

Fiduciary funds can be either trust funds or agency funds. Trust funds use the same economic resource measurement focus and accrual basis accounting as do proprietary funds. Agency funds report only assets and liabilities and these do not have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Amounts due from other governments, loans receivable, Fee funding, and services provided 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

**The government reports the following major governmental funds:**

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

The *Major Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The *Local Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The *Fee Estate Fund* is a Special Revenue Fund that receives funds from an outside trust that are restricted for city parks and beautification of city property.

The government reports the following major proprietary funds.

The *Wastewater System Fund* accounts for the acquisition, operation, and maintenance of the City's wastewater system.

The *Water System Fund* accounts for the acquisition, operation and maintenance of the City's water system.

Additionally, the government reports the following fund types:

The *Internal Service Funds* are *Information Technology Fund* and *Motor Vehicle Pool Fund*. The Information Technology Fund accounts for management information systems and services provided to other funds of the City on a cost reimbursement basis.

The *Motor Vehicle Pool Fund* accounts for maintenance repair and operation expense on vehicles and equipment used and rented by other funds. The money generated can be used for purchase of new equipment and vehicles.

CITY OF ADRIAN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The *Agency Funds* account for assets held by the City acting as an agent for individuals, private organizations, other governments, and/or other funds. There are three agency funds. The Payroll Reduction Fund handles the payment of City payroll deductions to third parties. The Property Tax Fund accounts for the collection and payment of property taxes billed and collected by the city. The Trust and Agency Fund accounts for monies received from various sources and are held by the City in a custodial or agent capacity.

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

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

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

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater and Water Enterprise Funds are charges to customers for sales and services. The Wastewater and Water Enterprise Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**E. Assets, liabilities, and net assets or equity.**

**1. Cash and investments**

Cash includes amounts in cash on hand, demand deposits, and may include short-term investments with a maturity date within three months of the date acquired by the government.

Investments include Money Market Accounts, Certificates of Deposit, U.S. Agencies Securities, Mutual Funds, and Corporate Bonds.

State statutes authorize the government to invest in Money Market Accounts and Certificates of Deposit, Obligations of the U.S. Treasury, Federal Agencies, Commercial Paper, Corporate Bonds, Repurchase Agreements, and State approved Investment Pools.

Investments are stated at fair value.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at June 30, 2010.

Personal property taxes receivable is shown net of an allowance for uncollectables.

Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is August 31. A lien on property occurs when property taxes are levied (July 1). On August 31, the bill becomes delinquent and penalties and interest may be assessed by the government.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

**3. Inventories and prepaid items**

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

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Restricted assets**

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

| <b>Assets</b>                            | <b>Years</b> |
|--|--------------|
| Land improvements                        | 20 – 50      |
| Buildings                                | 10 – 20      |
| Machinery, equipment,<br>and furnishings | 5 – 35       |
| Utility systems                          | 50 – 100     |
| Infrastructure                           | 15 – 100     |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**6. Compensated absences**

Vacation leave benefits for City employees are based on past services rendered and are accrued as a liability based on the expected use of the benefits through paid time off and cash payments at termination or retirement. The accrued liability for vacation time is determined under the vesting method as defined by GASB Statement 16.

Sick leave for City employees is vested to the extent that cash payments are made (up to allowable limits) to employees upon retirement. The accrued liability for sick leave is determined under the termination method as defined by GASB Statement 16.

The current portion (the amount normally expected to be liquidated with expendable available financial resources) of accrued sick and vacation pay are shown as a liability and expenditure in the applicable governmental fund types. The portion recognized in the governmental funds is only the compensated absences that have matured at year end. The entire accrued sick and vacation pay related to governmental fund types is reported in the government-wide statements.

In the proprietary funds as well as in the government-wide statements, the vested sick and vacation pay are recorded as an expense and liability of those funds as the benefits accrue to employees.

**7. Long-term obligations**

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any 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 any 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**8. Fund Balance Classification Policies and Procedures**

Fund balance classifications shown in the governmental funds financial statements are nonspendable, restricted, committed, assigned and unassigned.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the City Commission.

Amounts in the assigned fund balance classification are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the City Commission itself or a delegated body (for example a budget or finance committee) or an official to which the City Commission has delegated the authority to assign accounts to be used for specific purposes.

Unassigned fund balance is the residual classification usually for the City's General Fund and includes all spendable amounts not contained in the other classifications. If a negative fund balance occurs in other governmental funds, it would be classified as unassigned.

Under City policy, when both restricted and unrestricted (committed, assigned, or unassigned) amounts are available for a purpose, the City considers using the restricted funds first and then the unrestricted when an expenditure is incurred. Within the unrestricted fund balance amounts, the City considers the committed first used, then assigned and then unassigned for an applicable expenditure.

For determination of classification the City first determines the nonspendable, then the restricted, committed, assigned, and unassigned, in that order. If a deficit occurs for a certain purpose in a fund, assigned amounts for other purposes would be used to offset the deficit if possible.

**9. Comparative data/reclassification**

Comparative data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the funds.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Public-Purpose Special Revenue Fund and the permanent funds which are not budgeted. All annual appropriations lapse at fiscal year end.

On or before the last Tuesday of February each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. With the first City Commission meeting in April, the proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the second week of May.

The appropriated budget is prepared by fund, function, and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department/activity level, i.e., City Commission, Finance Department, City Clerk.

The Commission made supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the General Fund were in anticipation of normal activity.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Significant encumbrances for the governmental funds for the year ended June 30, 2010 are:

| <b>Fund</b>   | <b>Aggregate<br/>Encumbrances</b> |
|---------------|-----------------------------------|
| General Fund  | \$ 1,464,996                      |
| Major Streets | 121,589                           |
| Local Streets | 282,793                           |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**Note 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)**

**B. Excess of expenditures over appropriations in budgetary funds**

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a department/activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level i.e., City Commission, Finance Department, City Clerk. No fund had total expenditures exceed budget.

During the year ended June 30, 2010, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

| <u>Fund</u>                   | <u>Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|-------------------------------|-----------------------|-------------------------------|------------------------|
| <b>General Fund</b>           |                       |                               |                        |
| City Administrator            | \$ 1,569,877          | \$ 1,982,347                  | \$(412,470)            |
| City Clerk                    | 90,664                | 93,129                        | (2,465)                |
| City Hall                     | 182,500               | 188,931                       | (6,431)                |
| Inspection Department         | 409,819               | 417,491                       | (7,672)                |
| Street lighting               | 153,000               | 171,571                       | (18,571)               |
| Parks and Forestry - Heritage | 140,753               | 147,624                       | (6,871)                |
| Debt interest                 | 111,257               | 111,957                       | (700)                  |
| <b>Major Streets Fund</b>     |                       |                               |                        |
| Winter maintenance            | 76,000                | 87,800                        | (11,800)               |
| Other                         | 136,200               | 154,232                       | (18,032)               |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

Major Streets' additional expenditures were covered by less operating expenditures in other areas. And, General Fund covered its additional expenditures by using portion of fund balance.

**C. Fund Balance – Designations**

The City Commission has designated a part of the General Fund's assigned fund balance for the following purposes:

|   |    |                |
|---|----|----------------|
| 1. Office Space Rental Program                    | \$ | 545,000        |
| 2. Property Acquisitions, demolitions and options |    | 50,000         |
| 3. Bohn Pool Analysis                             |    | 26,000         |
| 4. Local Grant Match                              |    | <u>25,000</u>  |
| Total Proposed Designations                       | \$ | <u>646,000</u> |

**NOTE 3. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of June 30, 2010, the City had the following investments and maturities:

| Investment Type                                 | Fair Value          | Less Than 1         | 1 - 5               | 6- 10               |
|---|---------------------|---------------------|---------------------|---------------------|
| Money Market Accounts                           | \$ 792,387          | \$ 792,387          | \$ -                | \$ -                |
| Certificates of Deposit                         | 792,179             | -                   | 387,307             | 404,872             |
| U.S. Agencies                                   | 4,385,409           | 2,351,806           | 1,206,790           | 826,813             |
| Mutual Fund – Cash (U.S. Government Securities) | 13,161              | 13,161              | -                   | -                   |
| Class – Pooled Investments                      | <u>636,157</u>      | <u>636,157</u>      | <u>-</u>            | <u>-</u>            |
| Total fair value                                | <u>\$ 6,619,293</u> | <u>\$ 3,793,511</u> | <u>\$ 1,594,097</u> | <u>\$ 1,231,685</u> |

Class Investment Pool is through MBIA Asset Management and is a 2a 7 – Like Pool. Investments consist of U.S. Government Agencies Securities both explicitly and implicitly guaranteed, and commercial paper.

*Interest Rate Risk.* City is exposed to interest rate risk with over 42% of investments maturing after one year. The City's investment policy has no provision limiting interest rate risk.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

*Credit Risk.* The City's investment policy limits investments to certificates of deposit or money market accounts; U.S. Government and U.S. Agencies Securities; commercial paper with ratings at the two highest levels established by not less than two standard rating services; and corporate bonds, mutual funds, and repurchase agreements meeting State requirements. The money market accounts and mutual funds in the City's investments at June 30, 2010 were unrated. All of the U.S. government agencies investments of \$4,385,409 and a portion of the Class Investment \$614,580 are implicitly guaranteed by the U.S. Government. This makes these investments subject to credit risk.

*Concentration of Credit Risk.* The City's investment policy does not limit the amount of investment with any one issuer. For investments, more than five percent of the City's holdings were with Huntington Bank 44% of the City's total investments which represent 66% of General Fund's investments and 100% of the Water Fund Investment. Also, United Bank and Trust had 10% of the City's total investments, which was 76% of Endowment Trust Fund's investments in the form of money market funds and U.S. Agencies securities.

In addition, Key Bank had 8% of the City's total investment, which was 53% of the investments of the Perpetual Care Fund, in the form of U.S. Agencies securities.

First Federal Bank had 12% of the City's total investments, which was 19% of General Fund's investments.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be fully returned to the City. Neither the City nor the discretely presented component units, have a policy limiting custodial credit risk, other than authorizing (through Commission approval) the depositories used. As of June 30, 2010, \$6,164,347 of the City's bank balance of \$6,937,137 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, the discretely presented component units had exposure to custodial credit risk because \$303,999 of their bank balance of \$553,999 of was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For the money market accounts and certificates of deposit which are with banks the exposure is the same as stated above for deposits. As of June 30, 2010, these investments with total balances of \$1,584,566 were exposed to custodial credit risk on the balance of \$481,366 as being uninsured and uncollateralized.

For the remaining investments, the risk is, in the event of failure of the counterparty, will the City be able to recover the value of its investments. The U.S. Agencies investments and Class Investment of \$5,021,566 are held by counterparties and the securities are uninsured and not registered in the name of the City, which exposes them to custodial credit risk. The mutual funds of \$13,161 are not exposed to custodial credit risk.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS** (Continued)

**B. Receivables**

Receivables as of year end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

|                                    | General           | Major Streets    | Local Streets    | Fee Estate        | Wastewater System | Water System      | Nonmajor Funds    | Total               |
|------------------------------------|-------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| <b>Receivables:</b>                |                   |                  |                  |                   |                   |                   |                   |                     |
| Taxes                              | \$ 474,340        | \$ -             | \$ -             | \$ -              | \$ -              | \$ -              | \$ -              | \$ 474,340          |
| Accounts                           | 71,305            | 76,661           | 23,402           | 209,976           | 611,029           | 516,884           | 45,883            | 1,555,140           |
| Special assessments                | -                 | -                | -                | -                 | 68,501            | 22,629            | 456,513           | 547,643             |
| Intergovernmental                  | -                 | -                | -                | -                 | -                 | -                 | -                 | -                   |
| Community Development loans        | -                 | -                | -                | -                 | -                 | -                 | 71,306            | 71,306              |
| Gross receivables                  | 545,645           | 76,661           | 23,402           | 209,976           | 679,530           | 539,513           | 573,702           | 2,648,429           |
| Less: Allowance for uncollectibles | 429,476           | -                | -                | -                 | -                 | -                 | -                 | 429,476             |
| Net total receivables              | <u>\$ 116,169</u> | <u>\$ 76,661</u> | <u>\$ 23,402</u> | <u>\$ 209,976</u> | <u>\$ 679,530</u> | <u>\$ 539,513</u> | <u>\$ 573,702</u> | <u>\$ 2,218,953</u> |

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the government funds were as follows:

|   | <b>Unearned Revenue</b> |
|---|-------------------------|
| Funds for training classes to be held in the future             | \$ 6,594                |
| Library contributions to be used for specified library projects | 56,172                  |
| Drug forfeiture funds not yet allocated                         | 43,993                  |
|   | <u>\$ 106,759</u>       |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital assets**

Capital asset activity for the year ended June 30, 2010 was as follows:

**Primary Government**

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>    | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|---------------------|---------------------------|
| <b>Governmental activities:</b>                  |                              |                     |                     |                           |
| Capital assets, not being depreciated:           |                              |                     |                     |                           |
| Land   | \$ 8,305,639                 | \$ -                | \$ -                | \$ 8,305,639              |
| Total capital assets,<br>not being depreciated   | <u>8,305,639</u>             | <u>-</u>            | <u>-</u>            | <u>8,305,639</u>          |
| Capital assets, being depreciated:               |                              |                     |                     |                           |
| Land improvements                                | 7,244,270                    | 98,588              | -                   | 7,342,858                 |
| Buildings  | 7,107,145                    | 5,343,899           | (1,155,462)         | 11,295,582                |
| Machinery, equipment, and<br>furnishings         | 11,358,861                   | 440,925             | (52,399)            | 11,747,387                |
| Infrastructure                                   | <u>38,093,012</u>            | <u>1,803,179</u>    | <u>-</u>            | <u>39,896,191</u>         |
| Total capital assets, being depreciated          | <u>63,803,288</u>            | <u>7,686,591</u>    | <u>(1,207,861)</u>  | <u>70,282,018</u>         |
| Less: Accumulated depreciation for:              |                              |                     |                     |                           |
| Land improvements                                | (1,514,851)                  | (331,719)           | -                   | (1,846,570)               |
| Buildings  | (3,118,326)                  | (216,978)           | 907,029             | (2,428,275)               |
| Machinery, equipment, and<br>furnishings         | (8,523,952)                  | (915,084)           | 52,399              | (9,386,637)               |
| Infrastructure                                   | <u>(29,680,491)</u>          | <u>(406,444)</u>    | <u>-</u>            | <u>(30,086,935)</u>       |
| Total accumulated depreciation                   | <u>(42,837,620)</u>          | <u>(1,870,225)</u>  | <u>959,428</u>      | <u>(43,748,417)</u>       |
| Total capital assets, being<br>depreciated, net  | <u>20,965,668</u>            | <u>5,816,366</u>    | <u>(248,433)</u>    | <u>26,533,601</u>         |
| Governmental activities, capital<br>assets – net | <u>\$ 29,271,307</u>         | <u>\$ 5,816,366</u> | <u>\$ (248,433)</u> | <u>\$34,839,240</u>       |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases</u>      | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|-----------------------|---------------------------|
| <b>Business-type activities:</b>                  |                              |                     |                       |                           |
| Capital assets, not being depreciated:            |                              |                     |                       |                           |
| Land  | \$ 1,385,346                 | \$ -                | \$ -                  | \$ 1,385,346              |
| Construction in progress                          | 7,596,542                    | -                   | (7,596,542)           | -                         |
| Total capital assets, not<br>being depreciated    | <u>8,981,888</u>             | <u>-</u>            | <u>(7,596,542)</u>    | <u>1,385,346</u>          |
| Capital assets, being depreciated:                |                              |                     |                       |                           |
| Land improvements                                 | 1,582,008                    | -                   | -                     | 1,582,008                 |
| Utility systems                                   | 72,749,315                   | 8,056,394           | -                     | 80,805,709                |
| Machinery, equipment, and<br>furnishings          | 697,127                      | -                   | -                     | 697,127                   |
| Building  | 1,373,271                    | -                   | -                     | 1,373,271                 |
| Total capital assets, being depreciated           | <u>76,401,721</u>            | <u>8,056,394</u>    | <u>-</u>              | <u>84,458,115</u>         |
| Less: accumulated depreciation for:               |                              |                     |                       |                           |
| Land improvements                                 | (612,522)                    | (31,703)            | -                     | (644,225)                 |
| Utility systems                                   | (27,377,590)                 | (1,997,466)         | -                     | (29,375,056)              |
| Machinery, equipment,<br>and furnishings          | (530,272)                    | (50,317)            | -                     | (580,589)                 |
| Building  | (34,620)                     | (30,593)            | -                     | (65,213)                  |
| Total accumulated depreciation                    | <u>(28,555,004)</u>          | <u>(2,110,079)</u>  | <u>-</u>              | <u>(30,665,083)</u>       |
| Total capital assets, being<br>depreciated – net  | <u>47,846,717</u>            | <u>5,946,315</u>    | <u>-</u>              | <u>53,793,032</u>         |
| Business-type activities, capital<br>assets – net | <u>\$ 56,828,605</u>         | <u>\$ 5,946,315</u> | <u>\$ (7,596,542)</u> | <u>\$ 55,178,378</u>      |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

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

|   |                         |
|---|-------------------------|
| <b>Governmental activities:</b>                           |                         |
| General government  | \$ 116,357              |
| Public safety   | 79,345                  |
| Public works (includes sidewalks and street               | 54,293                  |
| Culture and recreation (includes parks)                   | 428,230                 |
| Other services (includes library)                         | 571,295                 |
| Community/economic development                            | 3,250                   |
| Highways, streets, and bridges                            | 424,848                 |
| Motor vehicle pool  | 164,682                 |
| Information technology                                    | <u>27,925</u>           |
| <br>Total depreciation expense – governmental activities  | <br><u>\$ 1,870,225</u> |
| <br><b>Business-type activities:</b>                      |                         |
| Wastewater system   | \$ 1,338,321            |
| Water system  | 635,343                 |
| Dial-A-Ride system  | 80,472                  |
| Automobile parking system                                 | 14,912                  |
| Storm water system  | <u>41,031</u>           |
| <br>Total depreciation expense – business-type activities | <br><u>\$ 2,110,079</u> |

**Construction commitments**

The government has active construction projects as of June 30, 2010. The projects include street construction and paving, wastewater system improvements, lighting, and park renovation.

|                                 | <u>Spent-to-Date</u> | <u>Remaining<br/>Commitment</u> |
|---------------------------------|----------------------|---------------------------------|
| Demolition 100 E. Church Street | \$ 34,775            | \$ 34,775                       |
| Street Curb                     | 19,893               | 61,645                          |
| Street Paving                   | <u>32,430</u>        | <u>213,188</u>                  |
| <b>Total</b>                    | <b>\$ 87,098</b>     | <b>\$ 309,608</b>               |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

The special assessment portion of the commitment for street construction is being financed by the Capital Project Fund that will be repaid by the benefiting property owners. The City's portion of these projects are being funded by the transfer of existing resources from the Municipal Streets Fund. The commitment for improvements to the wastewater and water systems is being financed by revenue bonds secured by wastewater and water revenues.

Discretely presented component units:

Capital asset activity for the Downtown Development Authority (DDA) for the year ended June 30, 2010 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Capital assets, not being depreciated: |                              |                    |                  |                           |
| Land                                   | \$ 53,494                    | \$ -               | \$ -             | \$ 53,494                 |
| Capital assets, being depreciated:     |                              |                    |                  |                           |
| Land improvements                      | 1,225,000                    | -                  | -                | 1,225,000                 |
| Less: Accumulated depreciation for:    |                              |                    |                  |                           |
| Land improvements                      | <u>(735,000)</u>             | <u>(49,000)</u>    | <u>-</u>         | <u>(784,000)</u>          |
| DDA capital assets – net               | <u>\$ 543,494</u>            | <u>\$ (49,000)</u> | <u>\$ -</u>      | <u>\$ 494,494</u>         |

Capital asset activity for the Local Development Finance Authority (LDFA) for the year ended June 30, 2010 was as follows:

|                                     | <u>Beginning<br/>Balance</u> | <u>Increases</u>  | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|-------------------------------------|------------------------------|-------------------|------------------|---------------------------|
| Capital assets, being depreciated:  |                              |                   |                  |                           |
| Utility systems                     | \$ 920,000                   | \$ -              | \$ -             | \$ 920,000                |
| Less: accumulated depreciation for: |                              |                   |                  |                           |
| Utility                             | <u>(161,000)</u>             | <u>(9,200)</u>    | <u>-</u>         | <u>(170,200)</u>          |
| LDFA capital assets – net           | <u>\$ 759,000</u>            | <u>\$ (9,200)</u> | <u>\$ -</u>      | <u>\$ 749,800</u>         |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund receivables, payables, and transfers**

**Primary Government**

Due to/from other funds:

| <u>Fund</u>               | <u>Interfund<br/>Receivable</u> | <u>Fund</u>               | <u>Interfund<br/>Payable</u> |
|---------------------------|---------------------------------|---------------------------|------------------------------|
| General                   | \$ 191,074                      | Major Street              | \$ 12,189                    |
|                           |                                 | Local Street              | 34,844                       |
|                           |                                 | Omni                      | 1,179                        |
|                           |                                 | Community Development     | 4,353                        |
|                           |                                 | Economic Development      | 4,325                        |
|                           |                                 | Automobile Parking System | 4,713                        |
|                           |                                 | Dial-A-Ride System        | 40,812                       |
|                           |                                 | Wastewater                | 19,183                       |
|                           |                                 | Water                     | 35,113                       |
|                           |                                 | Storm Water               | 6,032                        |
|                           |                                 | Trust                     | 2,511                        |
|                           |                                 | Endowment Trust           | 25,248                       |
|                           |                                 | Perpetual Care            | 572                          |
|                           | <u>191,074</u>                  |                           | <u>191,074</u>               |
| Automobile Parking System | <u>6,000</u>                    | General                   | <u>6,000</u>                 |
| Water                     | <u>98</u>                       | General                   | <u>98</u>                    |
| Trust                     | <u>1,191</u>                    | General                   | <u>1,191</u>                 |
| Endowment Trust           | <u>22,659</u>                   | General                   | <u>22,659</u>                |
| Information Technology    | 3,203                           | Community                 | 385                          |
|                           |                                 | Wastewater                | 919                          |
|                           |                                 | Water                     | 983                          |
|                           |                                 | Major Street              | 405                          |
|                           |                                 | Local Street              | 405                          |
|                           |                                 | Economic Development      | 106                          |
|                           | <u>3,203</u>                    |                           | <u>3,203</u>                 |
| Motor Vehicle             | 27,237                          | Major Street              | 5,324                        |
|                           |                                 | Local Street              | 17,889                       |
|                           |                                 | Omni                      | 88                           |
|                           |                                 | Vibrant Small Cities      | 336                          |
|                           |                                 | Wastewater                | 1,228                        |
|                           |                                 | Water                     | 1,414                        |
|                           |                                 | Storm Water               | 958                          |
|                           | <u>27,237</u>                   |                           | <u>27,237</u>                |
| Local Street              | <u>414,000</u>                  | Municipal Street          | <u>414,000</u>               |
| Total primary government  | <u>\$ 665,462</u>               |                           | <u>\$ 665,462</u>            |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

Due to/from primary government and component units:

| <u>Receivable Entity</u>  |                  | <u>Payable Entity</u>                              |                  |
|---------------------------|------------------|--|------------------|
| General Fund              | \$ 1,353         | Downtown Development Authority-TIF<br>LDFA - GAIDC | \$ 283<br>1,070  |
|                           | <u>\$ 1,353</u>  |  | <u>\$ 1,353</u>  |
| Automobile Parking System | <u>\$ 20,000</u> | Downtown Development Authority                     | <u>\$ 20,000</u> |
| Information Technology    | 936              | Downtown Development Authority-TIF<br>LDFA-GAIDC   | 853<br>83        |
|                           | <u>\$ 936</u>    |  | <u>\$ 936</u>    |
| Community Development     | <u>\$ 31,000</u> | LDFA   | <u>\$ 31,000</u> |
| Vibrant Small Cities      | <u>\$ 12,695</u> | DDA - TIF  | <u>\$ 12,695</u> |

The balance of \$3,203 due to the Information Technology Fund and \$27,237 due to Motor Vehicle Pool Fund from other funds noted above are for interfund services provided. All remaining balances resulted from time lag between the dates that (1) reimbursable expenditures occur, (2) revenues collected for another fund, and (3) payments between funds are made.

**Interfund transfers:**

**Primary Government**

| <u>Transfers Out:</u> | <u>Transfers In</u> |                      |                            |                            |                           | <u>Total</u>        |
|-----------------------|---------------------|----------------------|----------------------------|----------------------------|---------------------------|---------------------|
|                       | <u>General Fund</u> | <u>Local Streets</u> | <u>Nonmajor Government</u> | <u>Nonmajor Enterprise</u> | <u>Motor Vehicle Pool</u> |                     |
| General               | \$ -                | \$ -                 | \$ -                       | \$ 114,827                 | \$ 700,000                | \$ 814,827          |
| Major Streets         | -                   | 150,000              | 120,000                    | -                          | -                         | 270,000             |
| Nonmajor Governmental | 33,000              | 460,000              | -                          | -                          | -                         | 493,000             |
| Motor Vehicle Pool    | 691,200             | -                    | -                          | -                          | -                         | 691,200             |
|                       | <u>\$ 724,200</u>   | <u>\$ 610,000</u>    | <u>\$ 120,000</u>          | <u>\$ 114,827</u>          | <u>\$ 700,000</u>         | <u>\$ 2,269,027</u> |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (i.e. property taxes from Municipal Street Fund to Local Street Fund) (2) use unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations (3) move revenues to the General Fund from other funds for General Fund programs related to the overall purpose of the transferring fund in accordance with budgetary authorizations. In fiscal year 2009-10, Major Street Fund transferred to Local Street Fund \$150,000 to support local street construction projects. Transfers between General Fund and Motor Vehicle Pool were made to help expand Motor Pool operations.

**E. Long-term Debt**

**General obligation bonds.** The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and land purchase. General obligation bonds have been issued for both business-type activities and component unit.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

General obligation bonds currently outstanding are as follows:

| Purpose                        | Date of Issue | Amount of Issue | Interest Rates    | Final Maturity Date | Annual Principal Payments | Balance Outstanding |
|--------------------------------|---------------|-----------------|-------------------|---------------------|---------------------------|---------------------|
| <b>Primary Government</b>      |               |                 |                   |                     | \$ 200,000                |                     |
| General Fund                   | 11/16/2009    | \$ 7,040,000    | 2.0% to<br>6.625% | 5/1/2034            | to<br>405,000             | <u>\$ 7,040,000</u> |
| <b>Component Unit</b>          |               |                 |                   |                     | \$ 80,000                 |                     |
| Downtown Development Authority | 10/01/92      | \$ 1,025,000    | 6.4%              | 03/01/12            | to<br>90,000              | <u>\$ 160,000</u>   |

**Primary Government**

At the end of 2009, the City of Adrian issued general obligation bonds totaling \$7,040,000. The bond proceeds were used to retire all land contracts and installment purchase agreements the City had outstanding related to governmental funds at the time, and to fund the acquisition, construction and renovation of the Downtown Government Complex.

These bonds were issued under Series A, B and C Bonds. Series B and C were issued under the Federal Stimulus Program (American Recovery and Reinvestment Act of 2009 ARRA), which enables the City to obtain funds at a reduced interest rate.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

The bond issues are:

\$1,540,000

City of Adrian  
County of Lenawee, State of Michigan  
Limited Tax General Obligation Bonds, Series A-2009  
Date: 11/16/09 True Interest: 3.38066%

\$1,600,000

City of Adrian  
County of Lenawee, State of Michigan  
Limited Tax General Obligation Bond Series B-2009  
(Federally Taxable-Build America Bonds-Direct Payment)  
Date: 11/16/09 True Interest: 3.75507%

\$3,900,000

City of Adrian  
County of Lenawee, State of Michigan  
Limited Tax General Obligation Bonds, Series C-2009  
(Federally Taxable-Recovery Zone Economic Development Bonds)  
Date: 11/16/09 True Interest: 3.74073%

For bond issue Series B-\$1,600,000, under ARRA and Build America Bond program, the U.S. Treasury will reimburse the City 35% of its interest expense over a 25 year amortization period.

For bond issue Series C- \$3,900,000, under ARRA and the Recovery Zone Economic Development Bond program, the U.S. Treasury will reimburse the City 45% of its interest expense over a 25 year amortization period under this bond issue.

The following schedule combines Series A, B and C 2009 bonds showing annual debt service requirements to maturity for all general obligation bonds.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

| Year Ending<br>June 30 | Governmental Activities |  | Component Unit - DDA |               |
|------------------------|-------------------------|--|----------------------|---------------|
|                        | Principal               | Interest<br>(Net of Federal<br>Tax Credit<br>Receipts) | Principal            | Interest      |
| 2011                   | \$ 200,000              | \$ 241,434   | 80,000               | 10,240        |
| 2012                   | 210,000                 | 237,434  | 80,000               | 5,120         |
| 2013                   | 215,000                 | 232,710  |                      |               |
| 2014                   | 220,000                 | 227,334  |                      |               |
| 2015                   | 220,000                 | 220,734  |                      |               |
| 2016-2020              | 1,235,000               | 982,636  |                      |               |
| 2021-2025              | 1,450,000               | 749,004  |                      |               |
| 2026-2030              | 1,710,000               | 474,268  |                      |               |
| 2031-2034              | 1,580,000               | 145,385  |                      |               |
|                        | <u>\$ 7,040,000</u>     | <u>\$ 3,510,939</u>                                    | <u>160,000</u>       | <u>15,360</u> |

The debt service requirements for the Community Development Fund \$89,000 are not known and are not shown in the above schedule.

**Revenue bonds:** The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Under three revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) of \$8,920,000; Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) of \$5,665,000, and Water Revenue Bond Series 2007 (September 27, 2007) of \$7,441,707, funding was provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRF). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. All three of these projects are now completed.

In fiscal year ended June 30, 2005, two revenue bond issues – Wastewater System Revenue Bond (September 22, 2005) of \$1,993,885; and Wastewater System Revenue Bond, Series 2007B (December 15, 2005) of 6,962,663 for improvements to wastewater system were issued.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

Revenue bonds outstanding at June 30, 2010 are as follows:

| Purpose                        | Date of Issue | Amount of Issue | Interest Rates | Final Maturity Date | Annual Principal Payments | Balance Outstanding |
|--------------------------------|---------------|-----------------|----------------|---------------------|---------------------------|---------------------|
| Wastewater System Improvements | 09/26/02      | \$ 8,920,000    | 2.5%           | 10/01/23            | \$ 350,000 to 560,000     | \$ 6,695,000        |
| Water System Improvements      | 09/26/02      | \$ 5,665,000    | 2.5%           | 10/01/23            | \$ 220,000 to 355,000     | 4,250,000           |
| Wastewater System Improvements | 09/22/05      | \$ 1,993,885    | 1.675%         | 10/01/26            | \$ 85,000 to 118,885      | 1,728,885           |
| Wastewater System Improvements | 12/15/05      | \$ 6,962,663    | 1.675%         | 04/01/27            | \$ 305,000 to 397,663     | 6,047,663           |
| Water System Improvements      | 09/27/07      | \$ 7,441,707    | 2.125%         | 10/1/2028           | \$ 320,000 to 426,707     | 7,121,707           |
|                                |               |                 |                |                     |                           | <u>\$25,843,255</u> |

Revenue bond debt service requirements to maturity for bonds totaling \$25,843,255 are as follows:

| Year Ending<br>June 30 | Principal            | Interest            |
|------------------------|----------------------|---------------------|
| 2011                   | 1,395,000            | 538,842             |
| 2012                   | 1,430,000            | 508,406             |
| 2013                   | 1,455,000            | 477,303             |
| 2014                   | 1,480,000            | 445,636             |
| 2015                   | 1,505,000            | 413,397             |
| 2016-2020              | 7,990,000            | 1,559,692           |
| 2021-2025              | 7,900,000            | 658,960             |
| 2026-2028              | 2,688,255            | 94,596              |
|                        | <u>\$ 25,843,255</u> | <u>\$ 4,696,832</u> |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

**Lease Purchase**

The City has entered into a lease purchase agreement with Siemens Public, Inc. for equipment needed in the Wastewater System. The lease purchase is for \$754,800 with an interest rate of 3.77%. Payments are made semiannually over ten years.

| Purpose           | Date of Issue | Amount of Issue | Interest Rates | Final Maturity Date | Annual Principal Payments | Balance Outstanding |
|-------------------|---------------|-----------------|----------------|---------------------|---------------------------|---------------------|
|                   |               |                 |                |                     | \$ 26,801<br>to           |                     |
| Wastewater System | 3/28/2008     | \$ 754,800      | 3.77%          | 5/10/2018           | 45,092                    | 629,507             |

**Installment Purchase**

The City has entered into an installment Purchase Agreement with Key Government Finance, Inc. for equipment needed in the Wastewater System. The installment purchase is for \$124,999 with an interest rate of 5.01%. Payments are made annually over five years.

| Purpose           | Date of Issue | Amount of Issue | Interest Rates | Final Maturity Date | Annual Principal Payments | Balance Outstanding |
|-------------------|---------------|-----------------|----------------|---------------------|---------------------------|---------------------|
|                   |               |                 |                |                     | \$ 22,871<br>to           |                     |
| Wastewater System | 7/24/2009     | \$ 124,999      | 5.01%          | 7/24/2013           | \$ 33,333                 | 102,128             |

**CITY OF ADRIAN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010**

**Note 3. DETAILED NOTES – ALL FUNDS (Continued)**

**CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2010 was as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Reductions</u>   | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|---|------------------------------|---------------------|---------------------|---------------------------|--------------------------------|
| <b>Governmental activities:</b>                 |                              |                     |                     |                           |                                |
| Installment purchase obligations                | \$ 2,208,292                 | \$ -                | \$ 2,208,292        | \$ -                      | \$ -                           |
| Land Contract                                   | 1,393,614                    | -                   | 1,393,614           | -                         | -                              |
| General obligation bonds                        | -                            | 7,040,000           | -                   | 7,040,000                 | 200,000                        |
| Loan from component unit                        | 89,000                       | -                   | -                   | 89,000                    | -                              |
| Accrued sick and vacation                       | 581,846                      | 1,525,012           | 1,559,985           | 546,873                   | 245,026                        |
|   | <u>4,272,752</u>             | <u>8,565,012</u>    | <u>5,161,891</u>    | <u>7,675,873</u>          | <u>445,026</u>                 |
| Governmental activity -<br>long-term liability  | <u>\$ 4,272,752</u>          | <u>\$ 8,565,012</u> | <u>\$ 5,161,891</u> | <u>\$ 7,675,873</u>       | <u>\$ 445,026</u>              |
| <b>Business-type activities:</b>                |                              |                     |                     |                           |                                |
| Lease Purchase                                  | \$ 695,779                   | \$ -                | \$ 66,272           | \$ 629,507                | \$ 68,794                      |
| Installment Purchase                            | -                            | 124,999             | 22,871              | 102,128                   | 20,877                         |
| Revenue bonds                                   | 27,012,358                   | 190,897             | 1,360,000           | 25,843,255                | 1,395,000                      |
|   | <u>27,708,137</u>            | <u>315,896</u>      | <u>1,449,143</u>    | <u>26,574,890</u>         | <u>1,484,671</u>               |
| Total bonds & lease payable                     | <u>27,708,137</u>            | <u>315,896</u>      | <u>1,449,143</u>    | <u>26,574,890</u>         | <u>1,484,671</u>               |
| Accrued sick and vacation                       | 88,988                       | 248,048             | 236,681             | 100,355                   | 52,433                         |
|   | <u>88,988</u>                | <u>248,048</u>      | <u>236,681</u>      | <u>100,355</u>            | <u>52,433</u>                  |
| Business-type activity -<br>long-term liability | <u>\$ 27,797,125</u>         | <u>\$ 563,944</u>   | <u>\$ 1,685,824</u> | <u>\$ 26,675,245</u>      | <u>\$ 1,537,104</u>            |

For the governmental activities, compensated absences are generally liquidated by the General Fund

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)**

**CHANGES IN LONG-TERM LIABILITIES**

**Component units:**

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Due Within<br/>One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| DDA – general obligation bonds             | \$ 240,000                   | \$ -             | \$ 80,000         | \$ 160,000                | \$ 80,000                      |
| Component units – long<br>term liabilities | <u>\$ 240,000</u>            | <u>\$ -</u>      | <u>\$ 80,000</u>  | <u>\$ 160,000</u>         | <u>\$ 80,000</u>               |

**F. Segment information**

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

**G. Endowment Trust Fund**

Various endowment donations are received by the City and reported in the Endowment Trust Fund. The amount of endowment income and, in certain cases, portion of principal available for expenditures in accord with donor-restricted requirements was \$111,005 at June 30, 2010 and 2009. All investment earnings have been derived from investments in certificates of deposit and class account. The total investment earnings (interest) and certain principal amounts create expendable balance in the Endowment Trust Fund.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 4. OTHER INFORMATION**

This balance is reported in the Statement of Net Assets in the equity section as 'Endowment: Expendable and Nonexpendable Net Assets.' And, in the governmental fund statement, the fund balance is restricted for endowment \$111,005 and restricted for public purpose \$549,226.

**A. Risk management – insurance pools**

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**C. Retirement plan**

**Plan description**

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

June 30, 2010

**NOTE 4. OTHER INFORMATION (Continued)**

**Funding policy**

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. Non-union employees contribute 4% on all eligible wages. The City is required to contribute at an actuarially determined rate per City Division; the current rates vary from 10.50% to 70.82%% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

**Annual pension cost**

For the year ended June 30, 2010, the City's annual pension cost of \$903,303 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2008 actuarial valuation using the entry age actuarial cost method. Also, employee contributions were \$334,460 for fiscal year 2009-10. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a ten year period.

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 28 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years. An open amortization period system is used.

**Three-Year Trend Information**

| <u>Fiscal Year<br/>Ending</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Recognized</u> | <u>Net Pension<br/>Obligation</u> |
|-------------------------------|--|---|-----------------------------------|
| 6/30/08                       | 1,173,432                                | 100%  | 0                                 |
| 6/30/09                       | 916,856                                  | 100%  | 0                                 |
| 6/30/10                       | 903,303                                  | 100%  | 0                                 |

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 4. OTHER INFORMATION (Continued)**

**Funding Status and Funding Progress**

|  |                            |
|--|----------------------------|
| Actuarial Accrued Liability (as of 12/31/09)   |                            |
| Retirees and beneficiaries currently receiving benefits                              | \$ 28,147,225              |
| Terminated employees not yet receiving benefits                                      | 1,301,443                  |
| Nonvested terminated employees (pending refunds of accumulated member contributions) | 118,692                    |
| Current employees --   |                            |
| Accumulated employee contributions including allocated investment income             | 4,501,429                  |
| Employer financed  | <u>15,670,949</u>          |
| Total Actuarial Accrued Liability  | 49,739,738                 |
| Net Assets Available for Benefits at Actuarial Value                                 | <u>40,872,633</u>          |
| (Market Value is \$32,654,532)   |                            |
| Unfunded (Overfunded) Actuarial Accrued Liability                                    | <u><u>\$ 8,867,105</u></u> |

The covered payroll (annual payroll of active employees covered by the plan) was \$7,490,851, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 118%. The schedule of funding process, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**D. Deferred compensation plan**

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$16,500 whichever is less, until future years. Participation in the plan is optional.

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

The market value of the investments at June 30, 2010 was \$4,599,842.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

**CITY OF ADRIAN, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2010**

**NOTE 4. OTHER INFORMATION** (Continued)

**E. Retirement Health Savings Plan**

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$74,162 in fiscal year 2009-10) during employment, but no additional funding is provided after retirement. The plan had investments of \$547,816 at June 30, 2010.

**F. Lease Agreements – Downtown City Government Complex**

During the FY 2008-09, the City was in the final stages of formulating its financial plan for underwriting the cost of the new Downtown City Government Complex, including renovation of the former Bank of Lenawee Building to house City Hall (135 East Maumee Street). At that time, the course of action being pursued to minimize costs was to enter into a lease-purchase agreement with J.E. Johnson Development Group, LLC (construction manager) to lease the improvements being done at 135 East Maumee, as well as 159 East Maumee (historic post office site) and 143 East Maumee (Adrian Public Library). The City intended to pay for all construction costs at these locations and, in addition, pay one dollar per year for four years under each of the three 5-year term lease agreements. At the conclusion of each lease, the City intended to purchase the improvements for one dollar.

The objective of the leases was to obtain Brownfield or Historical Tax Credits from the State of Michigan, which did not materialize. Therefore, an alternative cost savings measure was implemented related to the method of financing the aforementioned projects. Under the auspices of the American Reinvestment and Recovery Act of 2009, the City issued Build America Bonds and Economic Recovery Zone Bonds, both of which were taxable and therefore more marketable, as well as eligible for federal Department of Treasury interest rebates of 35% and 45%, respectively. The combined savings, over \$6 million during the 25-year life of the bonds, amounted to more than could have been gained from either the Brownfield or Historical Tax Credits.

It should be noted that all construction costs related to the new Downtown City Government Complex have been capitalized on the City's financial records as incurred.