

VILLAGE OF LAKE ORION
Oakland County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

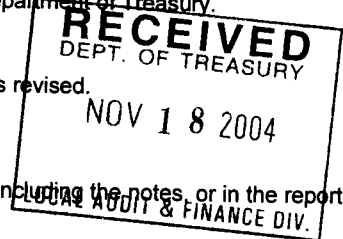
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Lake Orion	County Oakland
Audit Date 6/30/04	Opinion Date 8/31/04	Date Accountant Report Submitted to State: 11/18/04	

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

We affirm that:

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

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



You must check the applicable box for each item below.

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

We have enclosed the following:

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

Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP			
Street Address 1034 W. Ann Arbor Trail		City Plymouth	State MI
Accountant Signature <i>Paul R. Williams</i>		ZIP 48170	Date <i>11.17.04</i>

VILLAGE OF LAKE ORION
For the Year Ended June 30, 2004
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FINANCIAL SECTION

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Independent Auditor's Report

August 31, 2004

To the Members of the Village Council
Village of Lake Orion, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lake Orion, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lake Orion as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Village has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of June 30, 2004.

Members of the Village Council
Village of Lake Orion, Michigan
August 31, 2004

The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

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

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants



Village Of Lake Orion

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Management's Discussion and Analysis

As management of the Village of Lake Orion, we offer readers of the Village of Lake Orion's financial statements this narrative overview and analysis of the financial activities of the Village of Lake Orion for the fiscal year ended June 30, 2004. All amounts, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the Village of Lake Orion exceeded its liabilities at the close of the most recent fiscal year by \$9,395,650 (*net assets*). Of this amount, \$4,923,273 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$541,135.
- At the close of the current fiscal year, the Village of Lake Orion's governmental funds reported combined ending fund balances of \$851,003. Approximately three-fourths of this total amount, \$623,247 is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$292,529, or 36 percent of total general fund expenditures.
- The Village of Lake Orion's total debt decreased by \$360,062 (8 percent) during the current fiscal year.
- Excluding the expenditures for completion of the North Shore Bridge Construction, governmental fund balances increased \$84,523 as the result of diligence in expenditure control.

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Village of Lake Orion's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village of Lake Orion is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village of Lake Orion that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village of Lake Orion include general government, public works, police, streets, debt service, capital improvements, and cemetery. The business-type activity of the Village of Lake Orion is the Water and Sewer Fund.

The government-wide financial statements include not only the Village of Lake Orion itself (known as the *primary government*), but also a legally separate Downtown Development Authority (DDA) district for which the Village of Lake Orion is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 10-12 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Lake Orion, like other state and local governments, used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village of Lake Orion can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the public works fund, and the police fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

Proprietary funds. The Village of Lake Orion maintains one proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Lake Orion used an enterprise fund to account for its Water and Sewer operation.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund which is considered to be a major fund of the Village of Lake Orion.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

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

The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-40 of this report.

Government-wide Financial Analysis

Assets exceeded liabilities by \$9,395,650 at the close of the most recent fiscal year. Of the Village of Lake Orion's net assets, 44 percent reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village of Lake Orion used these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Lake Orion's Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Current and other assets	1,250,308	1,489,659	4,649,615	4,220,203	5,899,923	5,709,862
Capital Assets	2,936,166	2,840,519	5,586,606	5,785,116	8,522,772	8,625,635
Total Assets	4,186,474	4,330,178	10,236,221	10,005,319	14,422,695	14,335,497
Long-term liabilities outstanding	1,724,285	1,804,222	2,626,166	2,906,291	4,350,451	4,710,513
Other liabilities	380,753	545,515	295,841	224,954	676,594	770,469
Total Liabilities	2,105,038	2,349,737	2,922,007	3,131,245	5,027,045	5,480,982
Net Assets:						
Invested in capital assets,						
net of related debt	1,211,881	1,036,297	2,891,554	2,910,442	4,103,435	3,946,739
Restricted	155,150	138,520	213,792	335,148	368,942	473,668
Unrestricted	714,405	805,624	4,208,868	3,628,484	4,923,273	4,434,108
Total Net Assets	2,081,436	1,980,441	7,314,214	6,874,074	9,395,650	8,854,515

At the end of the current fiscal year, the Village of Lake Orion is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Net assets increased by \$541,135 during the current fiscal year.

Governmental activities. Governmental activities increased net assets by \$100,995, accounting for 19 percent of the total growth in the net assets of the Village of Lake Orion.

Key elements of this net asset increase (\$ rounded to thousands) are as follows:

- Increase due to reduction in Long term debt of \$98,000.
- Decrease of Capital Assets due to depreciation of \$108,000.
- Increase due to Oakland County Environment Fund Revenue of \$57,000.
- Increase from property tax revenue of \$44,000 (assessed value increase less millage rate reduction).

Key fluctuations in operating expenditures included:

- Attorney and planner costs due to the downtown fire at Sagebrush Cantina increased \$21,000.
- Employee wages and benefits increased \$67,000 (Health insurance \$29,000, wages \$24,000, pension \$14,000).
- Capital Improvement expenditures were reduced \$132,000.

Business-type activities. Business-type activities increased net assets by \$440,140, accounting for 81 percent of the total growth in net assets. Most of this increase is due to tap fee revenue from the Atwater Commons development.

Financial Analysis of the Government's Funds

As noted earlier, the Village of Lake Orion used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village of Lake Orion's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources.

Fund Balance Comparison for Governmental Funds

	General Fund	Public Works	Police	Other Govt Funds	Total Funds
Fund Balance 6-30-2003	340,187	60,266	99	543,592	944,144
Fund Balance 6-30-2004	347,440	65,768	63,718	374,077	851,003
Net Change in Fund Balance	7,253	5,502	63,619	(169,515)	(93,141)

As of the end of the current fiscal year, the governmental funds reported combined ending fund balances of \$851,003, approximately three fourths of this total amount (\$623,247) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for prepaid expenses (\$37,101), 2) to pay debt service (\$8,559), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$138,008) or 4) for other restricted purposes (\$44,088).

Total governmental fund balances decreased \$93,141 for the 2003-2004 fiscal year as compared to the 2002-2003 fiscal year. This decrease is attributable to the large fund balance in the North Shore Bridge Construction Fund in 2002-2003 which was depleted due to the completion of that project. Absent the North Shore Bridge project the Village had a positive change in total fund balance of \$84,523 due to diligence in the area of expenditure control.

The General Fund is the chief operating fund of the Village of Lake Orion. At the end of the current fiscal year, unreserved fund balance of the general fund was \$292,529, while total fund balance was \$347,440. Unreserved fund balance represents 36 percent of total general fund expenditures, while total fund balance represents 43 percent of that same amount.

The fund balance of the Village of Lake Orion's General Fund increased by \$7,253 during the current fiscal year. This increase represents diligence in the area of expenditure control while increasing allocations to other funds.

The Public Works Fund has a total fund balance of \$65,768, and unreserved fund balance in the Public Works Fund was \$53,950. The total Public Works fund balance represents an increase of \$5,502 in comparison with the prior year.

The Police Fund has a total fund balance of \$63,718, unreserved fund balance in the Police Fund was \$49,258. The total Police fund balance represents an increase of \$63,619 in comparison with the prior year.

Key elements of this change (\$ rounded to thousands) are as follows:

- \$11,000 revenue increased in the area of penal and parking fines.
- \$92,000 increase in General Fund allocations
- \$24,000 increase in Employee Benefit expenses, mostly attributable to health insurance and pension increases.
- \$11,000 increase in equipment and vehicle maintenance expenses.

Proprietary funds. The Village of Lake Orion's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$4,208,868. Factors concerning the change in net assets have already been addressed in the discussion of business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were a total \$10,500 increase in revenue and a total \$12,750 increase in expenditures.

Capital Asset and Debt Administration

Capital assets. The Village of Lake Orion's investment in capital assets for its governmental and business type activities is \$7,847,237 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings, machinery and equipment, park facilities, roads, and bridges. The increase in the Village of Lake Orion's investment in capital assets for the current fiscal year was 7 percent for governmental activities, with no increase in business-type activities.

Major capital asset events during the current fiscal year included the following:

- North Shore Bridge Construction (\$178,415).
- Leaf Vacuum (\$13,800)

Additional information on the Village of Lake Orion's capital assets can be found in note IV.B on pages 31-32 of this report.

Long-term debt. At the end of the current fiscal year, the Village of Lake Orion had total bond debt outstanding of \$4,465,000. Of this amount, \$1,485,000 is governmental, \$2,715,000 is business-type, and \$265,000 Component Unit (DDA). The Village of Lake Orion's total bond debt decreased by \$395,000 (8 percent) during the current fiscal year.

The Village of Lake Orion received an "A" rating from Standard & Poor's in 2003 for bond debt.

Additional information on the Village of Lake Orion's long-term debt can be found in note IV.E on pages 33-34 of this report.

Economic Factors and Next Year's Budgets and Rates

Last year the Village of Lake Orion reduced its property tax millage rate. Property taxes make up about 50 percent of our General Fund Budget, and they experienced a 5 percent increase in assessed values for 2004/2005. State Shared Revenues make up almost 20 percent of our General Fund Budget, and they have been reduced almost 10 percent in the past 2 years.

The Village experiences annual increases in employee health and pension expenses above the rate of inflation. The Village will continue to monitor these expenditure increases in perspective to changes in the revenue base and propose program adjustments as necessary to maintain financial stability.

The Village purchases its water from Orion Township (City of Detroit water) and its sewer services from the City of Detroit through Oakland County. The operations of the Water and Sewer Fund resulted in an operation loss of \$124,790. While some of this is attributable to the March 4, 2004 fire which destroyed a significant section of the downtown area, we will review the rate structure for these services based on a Water and Sewer Rate Study completed by Bendzinski & Co.

Requests for Information

This financial report is designed to provide a general overview of the Village of Lake Orion's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to 37 E. Flint Street, Lake Orion, Michigan 48362.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LAKE ORION
Statement of Net Assets
June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Cash Equivalents	\$ 906,536	\$ 3,871,468	\$ 4,778,004	\$ 426,966
Receivables (net of allowance for uncollectibles)	251,060	298,949	550,009	7,106
Due from Other Governmental Units	29,598	-	29,598	-
Due from Other Funds	26,013	(26,013)	-	-
Inventory	-	13,707	13,707	-
Prepaid Expenditures	37,101	-	37,101	450
Restricted Assets - Cash and Cash Equivalents	-	491,504	491,504	-
Capital Assets (net of accumulated depreciation)	2,936,166	4,911,071	7,847,237	1,008,369
Intangible Assets (net of accumulated amortization)	-	675,535	675,535	-
Total Assets	<u>4,186,474</u>	<u>10,236,221</u>	<u>14,422,695</u>	<u>1,442,891</u>
LIABILITIES				
Accounts Payable	104,448	121,185	225,633	39,469
Accrued Liabilities	9,823	2,158	11,981	-
Retainage Payable	-	43,707	43,707	-
Deferred Revenue	266,482	33,994	300,476	43,838
Liabilities payable from restricted assets	-	94,797	94,797	-
Noncurrent Liabilities:				
Due within one year	123,552	110,000	233,552	130,000
Due in more than one year	1,600,733	2,516,166	4,116,899	135,000
Total Liabilities	<u>2,105,038</u>	<u>2,922,007</u>	<u>5,027,045</u>	<u>348,307</u>
NET ASSETS				
Invested in Capital Assets, net of related debt	1,211,881	2,891,554	4,103,435	743,369
Restricted for:				
Highways and Streets	8,583	-	8,583	-
Debt Service	8,559	213,792	222,351	1,791
Perpetual Care	138,008	-	138,008	-
Unrestricted (Deficit)	714,405	4,208,868	4,923,273	349,424
Total Net Assets	<u>\$ 2,081,436</u>	<u>\$ 7,314,214</u>	<u>\$ 9,395,650</u>	<u>\$ 1,094,584</u>

VILLAGE OF LAKE ORION
Statement of Activities
For the Year Ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 551,819	\$ 291,465	\$ -	\$ -
Public Safety	727,800	142,443	202,921	-
Public Works	720,285	144,163	169,877	64,333
Health and Welfare	2,200	-	-	-
Community Development	68,648	14,501	-	2,200
Recreation and Cultural	37,565	4,998	-	-
Interest on Long-Term Debt	69,299	-	-	-
Total Governmental Activities	<u>2,177,616</u>	<u>597,570</u>	<u>372,798</u>	<u>66,533</u>
Business-type Activities:				
Water and Sewer	1,144,491	902,772	-	479,860
Total Primary Government	<u>\$ 3,322,107</u>	<u>\$ 1,500,342</u>	<u>\$ 372,798</u>	<u>\$ 546,393</u>
Component Units	<u>\$ 276,095</u>	<u>\$ 14,860</u>	<u>\$ 35,057</u>	<u>\$ -</u>

General Revenues:
Property Taxes
State Shared Revenue
Unrestricted Investment Earnings
Gain on Sale of Capital Assets
Total General Revenues

Change in Net Assets
Net Assets - Beginning

Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (260,354)	\$ -	\$ (260,354)	\$ -
(382,436)	-	(382,436)	-
(341,912)	-	(341,912)	-
(2,200)	-	(2,200)	-
(51,947)	-	(51,947)	-
(32,567)	-	(32,567)	-
(69,299)	-	(69,299)	-
<u>(1,140,715)</u>	<u>-</u>	<u>(1,140,715)</u>	<u>-</u>
-	238,141	238,141	-
<u>(1,140,715)</u>	<u>238,141</u>	<u>(902,574)</u>	<u>-</u>
-	-	-	(226,178)
980,300	144,069	1,124,369	403,937
243,657	-	243,657	-
15,643	57,930	73,573	5,804
2,110	-	2,110	-
<u>1,241,710</u>	<u>201,999</u>	<u>1,443,709</u>	<u>409,741</u>
100,995	440,140	541,135	183,563
<u>1,980,441</u>	<u>6,874,074</u>	<u>8,854,515</u>	<u>911,021</u>
<u>\$ 2,081,436</u>	<u>\$ 7,314,214</u>	<u>\$ 9,395,650</u>	<u>\$ 1,094,584</u>

VILLAGE OF LAKE ORION
Balance Sheet
Governmental Funds
June 30, 2004

ASSETS	General	Public Works	Police	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 208,647	\$ 68,108	\$ 230,189	\$ 399,592	\$ 906,536
Receivables (net of allowance for uncollectibles)	159,429	-	75,143	523	235,095
Special Assessment Receivable	-	-	-	15,965	15,965
Due from State	-	-	-	29,598	29,598
Due from Other Funds	-	-	-	26,013	26,013
Advance to Other Funds	35,505	-	-	-	35,505
Prepaid Expenditures	10,823	11,818	14,460	-	37,101
Total Assets	\$ 414,404	\$ 79,926	\$ 319,792	\$ 471,691	\$ 1,285,813
 LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	\$ 26,438	\$ 711	\$ 15,190	\$ 62,109	\$ 104,448
Accrued and Other Liabilities	2,326	13,447	12,602	-	28,375
Advance from Other Funds	-	-	-	35,505	35,505
Deferred Revenue	38,200	-	228,282	-	266,482
Total Liabilities	66,964	14,158	256,074	97,614	434,810
Fund Balances:					
Reserved for:					
Highways and Streets	8,583	-	-	-	8,583
Perpetual Care	-	-	-	138,008	138,008
Advances	35,505	-	-	-	35,505
Prepays	10,823	11,818	14,460	-	37,101
Debt Service	-	-	-	8,559	8,559
Unreserved, reported in:					
General Fund	292,529	-	-	-	292,529
Special Revenue Funds	-	53,950	49,258	203,944	307,152
Capital Projects Funds	-	-	-	23,566	23,566
Total Fund Balance	347,440	65,768	63,718	374,077	851,003
Total Liabilities and Fund Balance	\$ 414,404	\$ 79,926	\$ 319,792	\$ 471,691	

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 funds.

2,936,166

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(1,705,733)

Net Assets of Governmental Activities

\$ 2,081,436

VILLAGE OF LAKE ORION
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Public Works</u>	<u>Police</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Property Taxes	\$ 838,987	\$ -	\$ -	\$ 141,313	\$ 980,300
Intergovernmental:					
Federal, State and Local	310,094	-	219,657	162,906	692,657
Charges for Services	173,718	125,808	-	-	299,526
Fines and Forfeitures	-	-	68,987	-	68,987
Special Assessments	7,067	-	-	-	7,067
Interest and Rent	8,774	470	1,147	5,252	15,643
Other	129,007	-	56,720	26,594	212,321
Total Revenues	<u>1,467,647</u>	<u>126,278</u>	<u>346,511</u>	<u>336,065</u>	<u>2,276,501</u>
Expenditures					
Current:					
General Government	472,127	-	-	-	472,127
Public Safety	-	-	714,892	-	714,892
Public Works	180,543	305,276	-	168,636	654,455
Health and Welfare	2,200	-	-	-	2,200
Community Development	68,648	-	-	-	68,648
Recreation and Cultural	30,896	-	-	-	30,896
Other Functions	59,090	-	-	1,000	60,090
Debt Service:					
Principal	-	-	-	95,000	95,000
Interest and Other Charges	-	-	-	69,299	69,299
Capital Outlay	-	-	-	204,145	204,145
Total Expenditures	<u>813,504</u>	<u>305,276</u>	<u>714,892</u>	<u>538,080</u>	<u>2,371,752</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>654,143</u>	<u>(178,998)</u>	<u>(368,381)</u>	<u>(202,015)</u>	<u>(95,251)</u>
Other Financing Sources (Uses)					
Transfers In	-	184,500	432,000	75,200	691,700
Transfers Out	(649,000)	-	-	(42,700)	(691,700)
Sale of Capital Assets	2,110	-	-	-	2,110
Total Other Financing Sources (Uses)	<u>(646,890)</u>	<u>184,500</u>	<u>432,000</u>	<u>32,500</u>	<u>2,110</u>
Net Change in Fund Balance	7,253	5,502	63,619	(169,515)	(93,141)
Fund Balance - Beginning	<u>340,187</u>	<u>60,266</u>	<u>99</u>	<u>543,592</u>	<u>944,144</u>
Fund Balance - Ending	<u>\$ 347,440</u>	<u>\$ 65,768</u>	<u>\$ 63,718</u>	<u>\$ 374,077</u>	<u>\$ 851,003</u>

VILLAGE OF LAKE ORION
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	(93,141)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
		95,647
<p>The issuance of long-term debt (e.g. bonds, leases) 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.</p>		
		98,489
Change in net assets in governmental activities	\$	100,995

VILLAGE OF LAKE ORION

Balance Sheet

Proprietary Fund

June 30, 2004

	<u>Enterprise Fund</u> <u>Water & Sewer</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 3,871,468
Accounts Receivable	298,949
Inventory	13,707
Total Current Assets	<u>4,184,124</u>
Restricted Assets - Cash	<u>491,504</u>
Property, Plant and Equipment	8,833,157
Less: Accumulated Depreciation	<u>(3,922,086)</u>
Net Property, Plant and Equipment	<u>4,911,071</u>
Intangible Assets (net of accumulated amortization)	<u>675,535</u>
Total Assets	<u>\$ 10,262,234</u>
<u>LIABILITIES AND EQUITY</u>	
Current Liabilities:	
Accounts Payable	\$ 121,185
Retainage Payable	43,707
Due to Other Funds	26,013
Compensated Absences Payable	2,158
Deferred Revenue	33,994
General Obligation Bonds Payable	110,000
Total Current Liabilities	<u>337,057</u>
Current Liabilities Payable from Restricted Assets:	
Revenue Bonds Payable	80,000
Accrued Interest Payable	14,797
Total Current Liabilities Payable from Restricted Assets	<u>94,797</u>
Long-Term Liabilities:	
Compensated Absences Payable	11,114
General Obligation Bonds Payable	1,080,000
Revenue Bonds Payable (net of unamortized discount)	1,425,052
Total Long-Term Liabilities	<u>2,516,166</u>
Total Liabilities	<u>2,948,020</u>
Equity:	
Invested in Capital Assets, Net of Related Debt	2,891,554
Restricted for Debt Service	213,792
Unrestricted	4,208,868
Total Equity	<u>7,314,214</u>
Total Liabilities and Equity	<u>\$ 10,262,234</u>

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

VILLAGE OF LAKE ORION
Statement of Revenues, Expenses and Changes in Fund Equity
Proprietary Fund
For the Year Ended June 30, 2004

	Enterprise Fund Water & Sewer
<u>Operating Revenues:</u>	
Charges for Services	\$ 882,378
Penalty Charges	16,877
Miscellaneous	3,517
Total Operating Revenues	902,772
<u>Operating Expenses:</u>	
Salaries and Fringe Benefits	27,540
Water Purchases	365,231
Sewage Treatment	326,741
General and Administrative	32,952
Supplies	36,668
Equipment Rentals	33,589
Depreciation and Amortization	198,510
Other	6,331
Total Operating Expenses	1,027,562
Operating Income (Loss)	(124,790)
<u>Non-Operating Revenues (Expenses):</u>	
Property Taxes	144,069
Interest Earned	57,930
Interest Expense and Related Fees	(116,929)
Total Non-Operating Revenues (Expenses)	85,070
Income (Loss) before Contributions and Transfers	(39,720)
Capital Contributions - Tap Fees	479,860
Net Income (Loss)	440,140
Fund Equity, Beginning	6,874,074
Fund Equity, Ending	\$ 7,314,214

VILLAGE OF LAKE ORION
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2004

	Enterprise Fund
	Water & Sewer
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers and users	\$ 911,316
Payments to Suppliers	(795,101)
Payments to Employees	(46,932)
Net Cash Provided by Operating Activities	69,283
<u>CASH FLOWS FROM NONCAPITAL FINANCING</u>	
<u>ACTIVITIES</u>	
Property Taxes Levied	144,069
<u>CASH FLOWS FROM CAPITAL AND RELATED</u>	
<u>FINANCING ACTIVITIES</u>	
Capital Contributions	479,860
Principal Paid on Capital Debt	(180,000)
Interest Paid on Capital Debt	(115,504)
Net Cash Provided (Used) by Capital and Related Financing Activities	184,356
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Earned	57,930
Net Increase (Decrease) in Cash and Cash Equivalents	455,638
Cash and Cash Equivalents, Beginning	3,907,334
Cash and Cash Equivalents, Ending	\$ 4,362,972
Balance Sheet Classification of Cash and Cash Equivalents:	
Cash and Cash Equivalents	\$ 3,871,468
Restricted Assets	491,504
Total	\$ 4,362,972
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided (Used) by Operating Activities:</u>	
Operating Income (Loss)	\$ (124,790)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation and Amortization Expense	198,510
(Increase) Decrease in Receivables	213
Increase (Decrease) in Accounts Payable	10,246
Increase (Decrease) in Compensated Absences	(19,392)
Increase (Decrease) in Accrued Interest Payable	(3,835)
Increase (Decrease) in Deferred Revenue	8,331
Net Cash Provided by Operating Activities	\$ 69,283

VILLAGE OF LAKE ORION
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Pension Trust Fund</u>	<u>Agency Fund</u>
<u>ASSETS</u>		
Cash	\$ -	\$ 117,956
Investments	112,946	-
Total Assets	<u>112,946</u>	<u>117,956</u>
 <u>LIABILITIES</u>		
Due to Other	<u>-</u>	<u>117,956</u>
 <u>NET ASSETS</u>		
Reserved for Employee's Pension Benefits	\$ <u><u>112,946</u></u>	\$ <u><u>-</u></u>

VILLAGE OF LAKE ORION
Statement of Changes in Fiduciary Net Assets
Pension Trust Fiduciary Fund
For the Year Ended June 30, 2004

Additions:	
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 12,802
Contributions:	
Employer	5,017
Employee	-
Total Additions	<u>17,819</u>
Deductions	<u>-</u>
Net Increase	17,819
Net Assets - Beginning	<u>95,127</u>
Net Assets - Ending	<u>\$ 112,946</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Lake Orion, Michigan, was incorporated in 1859. The Village operates under an elected Village Council, with a full-time Village Manager appointed by the Council to carry out the policies that it establishes. Services are provided to approximately 2,700 residents in the areas of police, refuse removal, parks and recreation, road construction, lighting, maintenance, and water and sewer.

As required by generally accepted accounting principles, these financial statements present the Village of Lake Orion and its component units, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority

The Village of Lake Orion Downtown Development Authority (DDA) was established to promote economic growth and revitalization of the Village's business district. The DDA Board is appointed by the Village Council and the annual operating budget and any modifications require the approval of the Village Council. The DDA has a June 30 fiscal year end.

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*.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Government-Wide and Fund Financial Statements – Continued

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 if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Governmental Funds

The Village reports the following major governmental funds:

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

The Public Works Fund is a special revenue fund used to account for the activity of the Department of Public Works, including cemetery operations.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – Continued

The Police Fund is a special revenue fund used to account for the revenues and expenditures of the police department.

In addition, the Village reports on the following fund types:

The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects).

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The capital project funds are used to account for the financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds.)

Permanent funds are used to report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. This includes the perpetual care fund for the municipal cemetery.

Proprietary Funds

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds include the enterprise fund types.

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Village Council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The Village has one enterprise fund which is the Water and Sewer Fund.

Fiduciary Funds

Fiduciary Funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Fiduciary funds include the following fund types:

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
- Continued

The Pension Trust Fund accounts for the activities of the Employee Pension Plan, which accumulates resources for pension benefit payments to qualified employees.

The Agency Fund is used to account for assets that the government holds for others in an agency capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Village to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the Village, as well as for its component units, are recorded at fair value.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

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 "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). 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. All trade and property tax receivables are shown net of allowance for uncollectible accounts, which are recorded at \$-0- at June 30, 2004.

3. Inventory

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

4. Restricted Assets

Assets of the Water and Sewer Fund have been restricted for debt service payments which are to be funded out of bond proceeds and as required by other agreements.

Retained earnings have been reserved for property taxes levied for debt retirement. Retained earnings have not been reserved for the restricted assets resulting from the issuance of debt and the receipt of contributed capital.

Restricted assets at June 30, 2004 consist of the following:

	<u>Restricted Assets</u>
Revenue Bond Reserve	\$ 191,044
Revenue Bond Debt Retirement	18,939
Revenue Bond Construction	13,832
General Obligation Bonds Construction	29,111
General Obligation Bonds Debt Retirement	<u>238,578</u>
	<u>\$491,504</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. 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 costs 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 capitalized value of the assets constructed. Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	15-50
Buildings	40
Streets	50
Equipment	5-15

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the Village and the Village's internal policy, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental funds is a liability recorded in the Statement of Net Assets. This liability is composed of employees who retire and any unused vacation paid upon termination of employment. The total liability at June 30, 2004 is \$252,557.

7. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

7. Long-term Obligations - Continued

discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary funds are reported as liabilities in those funds.

8. Fund Equity

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,705,733 difference are as follows:

General Obligation Bonds Payable	\$1,485,000
Compensated Absences Payable	<u>220,733</u>
	<u>\$1,705,733</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS -
Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities - Continued

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$95,647 difference are as follows:

Capital Outlay	\$204,145
Depreciation Expense	<u>(108,498)</u>
	<u>\$ 95,647</u>

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) 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." The details of this \$98,489 difference are as follows:

Compensated Absences	\$ 3,489
Principal Repayments:	
General Obligation Bonds	<u>95,000</u>
	<u>\$98,489</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Village is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

A. Budgetary Information - Continued

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

1. The Village Charter requires two regular council meetings per month. By the second meeting in April, a proposed operating budget must be submitted to the Village Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the second meeting in May.
3. On or before June 15, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund budget is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level.
5. Budget appropriations lapse at year end.
6. The Village Council may authorize supplemental appropriations (budget amendments) during the year. In 2004 several budget amendments were made and are reflected in the financial statements.

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

None of the funds have a deficit fund balance as of June 30, 2004.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures Over Appropriations</u>
General Fund:			
Municipal Building	\$79,450	\$ 93,138	\$13,688
Professional Services	43,000	50,377	7,377

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the Village is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades.

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits along with imprest cash of \$1,300 are separately displayed on the balance sheets as "Cash and Cash Equivalents".

The carrying amount of the Village's deposits with financial institutions at June 30, 2004 was \$5,387,464 and the bank balance was \$5,498,453 categorized as follows:

	<u>Bank Balance</u>
Insured by F.D.I.C.	\$ 500,000
Uninsured and Uncollateralized	<u>4,998,453</u>
Total	<u>\$5,498,453</u>

A reconciliation of cash for the primary government follows:

Cash and Cash Equivalents per:	
Statement of Net Assets	\$4,778,004
Restricted Assets-Statement of Net Assets	491,504
Statement of Fiduciary Net Assets	<u>117,956</u>
Total	<u>\$5,387,464</u>

At June 30, 2004, the carrying amount and bank balances of the component units of the Village of Lake Orion are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>FDIC Insured</u>
Downtown Development Authority	<u>\$426,966</u>	<u>\$426,966</u>	<u>\$100,000</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

In accordance with GASB Statement 3, investments are classified into three categories of credit risk as follows:

Category 1: Insured or registered, or securities held by the Village or agent in the Village's name.

Category 2: Uninsured and unregistered, with securities held by the counter party's trust department or agent in the Village's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

	<u>CATEGORY</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>		
Risk categorized – Pension Funds: Held by Administrator (I.C.M.A.) for Employee Retirement Plans	<u>\$ -</u>	<u>\$ -</u>	<u>\$112,946</u>	<u>\$112,946</u>	<u>\$112,946</u>

B. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital Assets, not depreciated:				
Land	<u>\$498,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 498,484</u>
Capital Assets, being depreciated:				
Land Improvements	211,617	178,415	-	390,032
Street and Road Improvements	1,700,000	-	-	1,700,000
Buildings and Improvements	860,570	5,900	-	866,470
Machinery and Equipment	235,701	19,830	-	255,531
Vehicles	<u>449,662</u>	<u>-</u>	<u>-</u>	<u>449,662</u>
	<u>3,457,550</u>	<u>204,145</u>	<u>-</u>	<u>3,661,695</u>
Less: Accumulated Depreciation:				
Land Improvements	(16,635)	(1,270)	-	(17,905)
Street and Road Improvements	(187,000)	(34,000)	-	(221,000)
Buildings and Improvements	(465,219)	(21,558)	-	(486,777)
Machinery and Equipment	(152,199)	(17,765)	-	(169,964)
Vehicles	<u>(294,462)</u>	<u>(33,905)</u>	<u>-</u>	<u>(328,367)</u>
	<u>(1,115,515)</u>	<u>(108,498)</u>	<u>-</u>	<u>(1,224,013)</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,840,519</u>	<u>\$ 95,647</u>	<u>\$ -</u>	<u>\$2,936,166</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets - Continued

Business-type Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, being depreciated:				
Water and Sewer Transmission Facilities	\$8,654,955	\$ -	\$ -	\$8,654,955
Equipment	<u>227,566</u>	<u>-</u>	<u>(49,364)</u>	<u>178,202</u>
	<u>8,882,521</u>	<u>-</u>	<u>(49,364)</u>	<u>8,833,157</u>
Less: Accumulated Depreciation:				
Water and Sewer Transmission Facilities	(3,651,541)	(164,146)	-	(3,815,687)
Equipment	<u>(143,917)</u>	<u>(10,680)</u>	<u>48,198</u>	<u>(106,399)</u>
	<u>(3,795,458)</u>	<u>(174,826)</u>	<u>48,198</u>	<u>(3,922,086)</u>
Business-type Activities, Capital Assets, Net	<u>\$5,087,063</u>	<u>\$(174,826)</u>	<u>\$ (1,166)</u>	<u>\$4,911,071</u>

Component Unit-DDA:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital Assets, being depreciated:				
Land Improvements	\$ 318,596	\$142,124	\$ -	\$ 460,720
Street and Road Improvements	905,000	-	-	905,000
Equipment	<u>1,420</u>	<u>-</u>	<u>-</u>	<u>1,420</u>
	<u>1,225,016</u>	<u>142,124</u>	<u>-</u>	<u>1,367,140</u>
Less: Accumulated Depreciation				
Land Improvements	(219,765)	-	(20,930)	(240,695)
Street and Road Improvements	(99,550)	-	(18,100)	(117,650)
Equipment	<u>(142)</u>	<u>-</u>	<u>(284)</u>	<u>(426)</u>
	<u>(319,457)</u>	<u>-</u>	<u>(39,314)</u>	<u>(358,771)</u>
Component Units Capital Assets, Net	<u>\$905,559</u>	<u>\$142,124</u>	<u>\$(39,314)</u>	<u>\$1,008,369</u>

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

Governmental Activities:

General Government	\$ 23,091
Public Safety	12,908
Public Works	65,830
Recreation and Cultural	<u>6,669</u>
Total	<u>\$ 108,498</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS – Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2004, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
1998 Street Improvement Construction	Water and Sewer	<u>\$26,013</u>
 <u>Advance Receivable Fund</u>	 <u>Advance Payable Fund</u>	 <u>Amount</u>
General Fund	Longpointe Special Assessment	<u>\$35,505</u>

D. Intangible Assets

The Village has paid a capital charge to Orion Township for the connection to the Township's water lines. The capital charge is being amortized over 40 years using the straight-line method. Amortization expense in 2004 was \$22,518.

Capital Charge	\$ 900,713
Less: Accumulated Amortization	<u>(225,178)</u>
Net Capital Charge	<u>\$ 675,535</u>

E. Long-Term Debt

The following is a summary of long-term debt transactions of the Village for the year ended June 30, 2004:

	Balance July 1, 2003	Add: Additional Debt Incurred	Less: Retirements and Payments on Debt	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$1,405,000	\$ -	\$ 85,000	\$1,320,000	\$ 95,000
MTF Bonds	175,000	-	10,000	165,000	10,000
Compensated Absences	<u>224,222</u>	-	<u>3,489</u>	<u>220,733</u>	<u>18,552</u>
	<u>1,804,222</u>	-	<u>98,489</u>	<u>1,705,733</u>	<u>123,552</u>
Business-type Activities:					
Revenue Bonds	1,600,000	-	75,000	1,525,000	80,000
G.O. Refunding Bonds	1,295,000	-	105,000	1,190,000	110,000
Compensated Absences	<u>32,664</u>	-	<u>19,392</u>	<u>13,272</u>	<u>2,158</u>
	<u>2,927,664</u>	-	<u>199,392</u>	<u>2,728,272</u>	<u>192,158</u>
	<u>\$4,731,886</u>	<u>\$ -</u>	<u>\$297,881</u>	<u>\$4,434,005</u>	<u>\$315,710</u>
Component Unit – DDA:					
General Obligation Bonds	<u>\$ 385,000</u>	<u>\$ -</u>	<u>\$120,000</u>	<u>\$ 265,000</u>	<u>\$130,000</u>

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

E. Long-Term Debt – Continued

The following is a summary of general obligation debt outstanding (excluding compensated absences) of the Village as of June 30, 2004:

	<u>Number of</u> <u>Issues</u>	<u>Interest</u> <u>Rate</u>	<u>Maturing</u> <u>Through</u>	<u>Principal</u> <u>Outstanding</u>
Governmental Activities:				
General Obligation Bonds	1	4.50-4.85%	2012	\$1,320,000
MTF Bonds	1	5.00%	2017	<u>165,000</u>
				<u>\$1,485,000</u>
Business-type Activities:				
Revenue Bonds	1	4.85-5.00%	2018	\$1,525,000
G.O. Refunding	1	2.00-3.63%	2013	<u>1,190,000</u>
				<u>\$2,715,000</u>
Component Unit – DDA:				
General Obligation Bonds	1	4.45-4.50%	2006	<u>\$ 265,000</u>

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2004 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 105,000	\$ 67,287	\$ 190,000	\$110,058
2006	120,000	67,175	200,000	103,978
2007	130,000	56,500	215,000	97,698
2008	140,000	50,375	225,000	90,325
2009-2013	915,000	136,340	1,220,000	318,655
2014-2018	<u>75,000</u>	<u>11,250</u>	<u>665,000</u>	<u>103,000</u>
	<u>\$1,485,000</u>	<u>\$388,927</u>	<u>\$2,715,000</u>	<u>\$823,714</u>
	<u>Component Unit – DDA</u>			
	<u>Principal</u>	<u>Interest</u>		
2005	\$ 130,000	\$ 11,860		
2006	<u>135,000</u>	<u>6,075</u>		
	<u>\$ 265,000</u>	<u>\$ 17,935</u>		

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

F. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2004, is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent Fund</u>
<u>Fund Balance</u>					
Reserved for:					
Public Right of Ways	\$ 8,583	\$ -	\$ -	\$ -	\$ -
Perpetual Care	-	-	-	-	138,008
Advances	35,505	-	-	-	-
Prepaid Expenditures	10,823	26,278	-	-	-
Debt	-	-	<u>8,559</u>	-	-
Total Reserved	<u>54,911</u>	<u>26,278</u>	<u>8,559</u>	-	<u>138,008</u>
Unreserved:					
Designated for:					
Subsequent Year's					
Expenditures	151,155	219,380	-	-	-
Undesignated	<u>141,374</u>	<u>87,772</u>	-	<u>23,566</u>	-
Total Fund Balance	<u>\$347,440</u>	<u>\$333,430</u>	<u>\$8,559</u>	<u>\$23,566</u>	<u>\$138,008</u>

G. Property Taxes

Property tax assessments are determined (Tax Day) as of each December 31. Taxes are levied on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county delinquent tax roll. The Village bills and collects its own property taxes which are accounted for in the General Fund, Downtown Development Authority Fund and Water and Sewer Fund. Village property tax revenues are recognized in the current year as revenue in accordance with guidelines of the State of Michigan.

The Village is permitted by State law to levy taxes up to \$20 per \$1,000 of equalized valuation for general governmental services. It would also appear to have unlimited taxing power to levy for certain contractual debt subject to constitutional limitations. The following is a summary of the tax rates levied on the 2003 tax roll:

<u>Purpose</u>	<u>Authorization</u>	<u>Authorized Rate</u>	<u>Per \$1,000 of State Equalized Value</u>		
			<u>Authorized Rate Post "Roll Back"</u>	<u>Rate Levied</u>	<u>Tax Margin</u>
Operating	State Law	20.00	13.1466	9.9000	3.2466
Debt	Voted	-	-	1.1672	-
Debt	Voted	-	-	1.3690	-

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

IV. DETAILED NOTES ON ALL FUNDS - Continued

G. Property Taxes - Continued

Under terms of an agreement with the Charter Township of Orion, the Township remits to the Village the equivalent of two mills (as rolled back by State law) of property taxes, which represents a special-voted tax levied on all Township residents (including Village residents) for police services. In accordance with the agreement, the Village will decrease its tax levy by an equal amount. The December 1, 2003 Township tax levy is paid by residents through February 2004. The Township remits its payment to the Village through June 2004, which will be used to replace the July 1, 2004 tax levy. This remittance from the Township, along with the July 1, 2004 tax levy, is intended to finance the budget for the year ending June 30, 2005. Because the Township remittance has been received prior to July 1, 2004, it has been reported as deferred revenue in these financial statements.

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The Village contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers substantially all full time employees of the Village. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2003.

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

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

1. Municipal Employees Retirement System Defined Benefit Plan – Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's collective bargaining units and personnel policy. The Village is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2001 as follows:

General - Union	7.08%
General Non-Union	2.81%
Police – Dispatchers	8.67%
Police	10.12%

c. Annual Pension Cost

During the fiscal year ended June 30, 2004, the Village's contributions totaling \$47,011 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Trend Information

<u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u>	<u>Valuation</u> <u>Date</u> <u>Dec. 31</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
1998	1995	\$19,908	100%	\$-0-
1999	1996	33,384	100%	-0-
2000	1997	46,547	100%	-0-
2001	1998	41,322	100%	-0-
2002	1999	20,587	100%	-0-
2003	2000	33,514	100%	-0-
2004	2001	47,011	100%	-0-

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

2. Defined Contribution Money Purchase Pension Plan

a. Plan Description

The Village of Lake Orion Money Purchase Plan is a single employer P.E.R.S. that administers the Village's defined contribution pension plan for the Village Manager. The Village is the only non-employee contributor to the plan. Only the Village Manager is eligible for the plan. As of June 30, 2004 the plan's membership was 1. A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' account. As established by Village policy, the Manager is eligible for the plan on the date of commencement of their employment

(following election). Voluntary contributions made by participants and employer contributions vest immediately as provided by the plan. The Village contributes up to 15% of the employee's gross earnings. The employee may make voluntary contributions up to 10% of his or her gross earnings.

b. Summary of Significant Accounting Policies and Plan Asset Matters

The Village's Money Purchase Plan financial statements are prepared on the accrual basis of accounting. Contributions from the Village and the Village employees are recognized as revenue in the period in which employees provide services to the Village. Investment income is recognized as earned by the pension plan.

Investments in Securities are valued at fair value. The Village's plan assets are invested through ICMA Retirement Corporation, in mutual funds administered by ICMA-RC. Investment concentrations information required by GASB 25 is not available.

c. Contributions Required and Contributions Made

The Village is required to contribute an amount equal to 9.20% of the employee's gross earnings. During the year, the Village's required and actual contributions amounted to \$5,023. There were no employee contributions.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION – Continued

A. Employee Retirement Systems and Plans – Continued

3. Post Retirement Health Care Benefits

The Village provides health care benefits to nine retirees in accordance with their respective labor contracts. The Village includes these retirees and their dependents in its insured health care plan, with three having no contribution required by the participants and six that have 25% contribution requirements. Expenditures for post employment health care benefits are recognized as the insurance premiums become due. During the year, this amounted to \$73,680, net of participant contributions.

B. Risk Management

The Village of Lake Orion is a member of the Michigan Municipal Liability and Property Pool for its general liability insurance coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The Village 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 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 Village of Lake Orion and the pools to which it belongs in any of the past three fiscal years.

C. Joint Venture

North Oakland Transportation Authority

The Authority provides transportation services for the following six entities, the Charter Township of Oxford, the Charter Township of Orion, the Township of Addison, the Village of Lake Orion, the Village of Leonard and the Village of Oxford. The Authority's board consists of nine members of which the Village of Lake Orion appoints one. The North Oakland Transportation Authority is not considered a part of the reporting entity of the Village of Lake Orion. Separate financial statements of the joint venture may be obtained at North Oakland Transportation Authority, 1370 South Lapeer Road, Oxford, Michigan 48371.

VILLAGE OF LAKE ORION
Notes to Financial Statements
June 30, 2004

V. OTHER INFORMATION – Continued

D. Property Tax Appeals

Utility companies appealed tax assessments for 1997-2003, claiming that the State Tax Commission revised depreciation tables that were adopted in 1999 had retroactive effect. The Village along with Oakland County has defended the action, but the case remains unsettled, as is the case statewide. The Village attorney is unable to determine the probable results for the tax amounts in question. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LAKE ORION
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2004

Required Supplementary Information for GASB 27

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/95	\$1,786,206	\$1,951,491	\$165,285	92%	\$583,606	28%
12/31/96	1,921,965	2,148,582	226,617	89	592,929	38
12/31/97	2,084,296	2,253,909	169,613	92	603,062	28
12/31/98	2,294,440	2,296,960	2,520	100	628,208	-0-
12/31/99	2,619,818	2,446,538	(173,280)	107	682,067	-0-
12/31/00	2,863,422	2,681,729	(181,693)	107	682,298	-0-
12/31/01	2,987,853	3,293,592	305,739	91	611,424	50
12/31/02	2,897,735	3,531,780	634,045	82	711,796	89
12/31/03	2,917,657	3,635,754	718,097	80	745,628	96

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2003 the latest actual valuation, follows:

Actuarial cost method	Entry age normal cost
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	
Includes inflation at 4.5%	4.50-8.66%
Cost of living adjustments	None

VILLAGE OF LAKE ORION
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property Taxes	\$ 811,800	\$ 811,800	\$ 807,143	\$ (4,657)
Penalties and Interest	3,000	6,000	11,369	5,369
In Lieu of Taxes	19,200	19,200	20,475	1,275
Special Assessments	5,000	5,000	7,067	2,067
Intergovernmental - Federal	11,000	11,000	2,200	(8,800)
Intergovernmental - State	251,600	251,600	250,628	(972)
Intergovernmental - Local	55,000	55,000	57,266	2,266
Charges for Services	158,000	163,000	173,718	10,718
Interest Earnings	12,000	12,000	8,774	(3,226)
Administration Fees	91,750	91,750	91,750	-
Other Revenues	12,000	12,000	37,257	25,257
Total Revenues	<u>1,430,350</u>	<u>1,438,350</u>	<u>1,467,647</u>	<u>29,297</u>
Expenditures:				
General Government:				
Village Council	6,800	6,800	4,595	2,205
Village Manager	75,860	74,860	73,231	1,629
Clerk	142,190	142,190	137,664	4,526
Treasurer	129,050	115,050	109,280	5,770
Municipal Building	84,450	79,450	93,138	(13,688)
Data Processing	10,000	5,500	3,842	1,658
Professional Services	43,000	43,000	50,377	(7,377)
	<u>491,350</u>	<u>466,850</u>	<u>472,127</u>	<u>(5,277)</u>
Public Works:				
Sanitation	148,000	148,000	146,580	1,420
Street Lighting	36,000	36,000	33,963	2,037
	<u>184,000</u>	<u>184,000</u>	<u>180,543</u>	<u>3,457</u>
Health and Welfare:				
Community Development Block Grant	13,500	13,500	2,200	11,300
Community and Economic Development:				
Planning and Zoning	100,635	88,635	68,648	19,987
Recreation and Culture:				
Parks and Recreation	39,500	37,500	30,896	6,604
Other Functions:				
Insurance	56,500	56,750	56,745	5
Community Promotion	3,000	3,000	2,345	655
	<u>59,500</u>	<u>59,750</u>	<u>59,090</u>	<u>660</u>
Total Expenditures	<u>888,485</u>	<u>850,235</u>	<u>813,504</u>	<u>36,731</u>
Excess of Revenues Over Expenditures	<u>541,865</u>	<u>588,115</u>	<u>654,143</u>	<u>66,028</u>
Other Financing Sources (Uses):				
Operating Transfers Out	(598,000)	(649,000)	(649,000)	-
Sale of Capital Assets	-	2,500	2,110	(390)
Total Other Financing Sources (Uses)	<u>(598,000)</u>	<u>(646,500)</u>	<u>(646,890)</u>	<u>(390)</u>
Net Change in Fund Balance	(56,135)	(58,385)	7,253	65,638
Fund Balance - July 1	340,187	340,187	340,187	-
Fund Balance - June 30	<u>\$ 284,052</u>	<u>\$ 281,802</u>	<u>\$ 347,440</u>	<u>\$ 65,638</u>

VILLAGE OF LAKE ORION
Public Works Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Services	\$ 6,000	\$ 6,000	\$ 6,000	\$ -
Equipment Rental	80,000	80,000	94,386	14,386
Cemetery	25,000	25,000	25,422	422
Interest Income	100	100	470	370
Total Revenues	<u>111,100</u>	<u>111,100</u>	<u>126,278</u>	<u>15,178</u>
Expenditures:				
Wages and Benefits	297,160	297,160	277,922	19,238
Repairs and Maintenance	9,600	9,600	7,614	1,986
Other	38,250	38,250	19,740	18,510
Total Expenditures	<u>345,010</u>	<u>345,010</u>	<u>305,276</u>	<u>39,734</u>
Excess (Deficiency) of Revenues Over Expenditures	(233,910)	(233,910)	(178,998)	54,912
Other Financing Sources:				
Transfers In	<u>199,500</u>	<u>184,500</u>	<u>184,500</u>	<u>-</u>
Net Change in Fund Balance	(34,410)	(49,410)	5,502	54,912
Fund Balance, July 1	<u>60,266</u>	<u>60,266</u>	<u>60,266</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 25,856</u>	<u>\$ 10,856</u>	<u>\$ 65,768</u>	<u>\$ 54,912</u>

VILLAGE OF LAKE ORION
Police Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental-State	\$ 2,500	\$ 4,000	\$ 6,071	\$ 2,071
Intergovernmental-Local	216,000	216,000	213,586	(2,414)
Fines and Forfeitures	50,000	50,000	68,987	18,987
Interest Income	1,500	1,500	1,147	(353)
Other	40,000	40,000	56,720	16,720
Total Revenues	<u>310,000</u>	<u>311,500</u>	<u>346,511</u>	<u>35,011</u>
Expenditures:				
Wages and Benefits	632,300	621,500	591,758	29,742
Other	111,200	111,200	123,134	(11,934)
Total Expenditures	<u>743,500</u>	<u>732,700</u>	<u>714,892</u>	<u>17,808</u>
Excess (Deficiency) of Revenues Over Expenditures	(433,500)	(421,200)	(368,381)	52,819
Other Financing Sources:				
Transfers In	<u>300,000</u>	<u>432,000</u>	<u>432,000</u>	-
Net Change in Fund Balance	(133,500)	10,800	63,619	52,819
Fund Balance, July 1	<u>99</u>	<u>99</u>	<u>99</u>	-
Fund Balance, June 30	<u>\$ (133,401)</u>	<u>\$ 10,899</u>	<u>\$ 63,718</u>	<u>\$ 52,819</u>

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF LAKE ORION
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent Fund- Perpetual Care</u>	<u>Total</u>
<u>ASSETS</u>					
Cash	\$ 192,349	\$ 28,099	\$ 41,523	\$ 137,621	\$ 399,592
Accounts Receivable	-	-	136	387	523
Special Assessment Receivable	-	15,965	-	-	15,965
Due from State	29,598	-	-	-	29,598
Due from Other Funds	-	-	26,013	-	26,013
	-	-	26,013	-	26,013
Total Assets	\$ 221,947	\$ 44,064	\$ 67,672	\$ 138,008	\$ 471,691
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities:					
Accounts Payable	\$ 18,003	\$ -	\$ 44,106	\$ -	\$ 62,109
Advance from Other Funds	-	35,505	-	-	35,505
	-	35,505	-	-	35,505
Total Liabilities	18,003	35,505	44,106	-	97,614
Fund Balance:					
Designated for Subsequent Year's Expenditures	140,900	-	-	-	140,900
Undesignated	63,044	8,559	23,566	138,008	233,177
	63,044	8,559	23,566	138,008	233,177
Total Fund Balance	203,944	8,559	23,566	138,008	374,077
Total Liabilities and Fund Balance	\$ 221,947	\$ 44,064	\$ 67,672	\$ 138,008	\$ 471,691

VILLAGE OF LAKE ORION
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue	Debt Service	Capital Projects	Permanent Fund- Perpetual Care	Total
Revenues:					
Property Tax Revenue	\$ -	\$ 141,313	\$ -	\$ -	\$ 141,313
State-Shared Revenue	162,906	-	-	-	162,906
Interest Earned	2,337	556	838	1,521	5,252
Other Revenues	10,419	-	-	16,175	26,594
Total Revenues	<u>175,662</u>	<u>141,869</u>	<u>838</u>	<u>17,696</u>	<u>336,065</u>
Expenditures:					
Highways, Streets, Sidewalks and Other Maintenance	168,636	-	-	-	168,636
Other	-	-	1,000	-	1,000
Debt Service:					
Principal	-	95,000	-	-	95,000
Interest and Other Charges	-	69,299	-	-	69,299
Capital Outlay	25,730	-	178,415	-	204,145
Total Expenditures	<u>194,366</u>	<u>164,299</u>	<u>179,415</u>	<u>-</u>	<u>538,080</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(18,704)</u>	<u>(22,430)</u>	<u>(178,577)</u>	<u>17,696</u>	<u>(202,015)</u>
Other Financing Sources (Uses):					
Operating Transfers In	59,000	16,200	-	-	75,200
Operating Transfers Out	<u>(41,200)</u>	<u>-</u>	<u>-</u>	<u>(1,500)</u>	<u>(42,700)</u>
Total Other Financing Sources (Uses)	<u>17,800</u>	<u>16,200</u>	<u>-</u>	<u>(1,500)</u>	<u>32,500</u>
Change in Fund Balance	(904)	(6,230)	(178,577)	16,196	(169,515)
Fund Balance - July 1	<u>204,848</u>	<u>14,789</u>	<u>202,143</u>	<u>121,812</u>	<u>543,592</u>
Fund Balance - June 30	<u>\$ 203,944</u>	<u>\$ 8,559</u>	<u>\$ 23,566</u>	<u>\$ 138,008</u>	<u>\$ 374,077</u>

VILLAGE OF LAKE ORION
Nonmajor Special Revenue Funds
Combining Balance Sheet
June 30, 2004

	<u>Major Street</u>	<u>Local Street</u>	<u>Capital Improvement</u>	<u>Total</u>
<u>ASSETS</u>				
Cash	\$ 89,195	\$ 42,421	\$ 60,733	\$ 192,349
Due from State	<u>19,178</u>	<u>10,420</u>	<u>-</u>	<u>29,598</u>
Total Assets	<u>\$ 108,373</u>	<u>\$ 52,841</u>	<u>\$ 60,733</u>	<u>\$ 221,947</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Accounts Payable	\$ 255	\$ -	\$ 17,748	\$ 18,003
Fund Balance:				
Designated for Subsequent Year's Expenditures	54,300	48,400	38,200	140,900
Undesignated	<u>53,818</u>	<u>4,441</u>	<u>4,785</u>	<u>63,044</u>
Total Fund Balance	<u>108,118</u>	<u>52,841</u>	<u>42,985</u>	<u>203,944</u>
Total Liabilities and Fund Balance	<u>\$ 108,373</u>	<u>\$ 52,841</u>	<u>\$ 60,733</u>	<u>\$ 221,947</u>

VILLAGE OF LAKE ORION
Nonmajor Special Revenue Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2004

	Major Streets	Local Streets	Capital Improvement	Total
Revenues:				
State-Shared Revenue	\$ 112,922	\$ 49,984	\$ -	\$ 162,906
Interest Earned	693	527	1,117	2,337
Other Revenues	-	2,180	8,239	10,419
Total Revenues	113,615	52,691	9,356	175,662
Expenditures:				
Highways, Streets, Sidewalks and Other Maintenance	75,963	92,673	-	168,636
Capital Outlay	-	-	25,730	25,730
Total Expenditures	75,963	92,673	25,730	194,366
Excess (Deficiency) of Revenues Over Expenditures	37,652	(39,982)	(16,374)	(18,704)
Other Financing Sources (Uses):				
Operating Transfers In	-	25,000	34,000	59,000
Operating Transfers Out	(25,000)	(16,200)	-	(41,200)
Total Other Financing Sources (Uses)	(25,000)	8,800	34,000	17,800
Change in Fund Balance	12,652	(31,182)	17,626	(904)
Fund Balance - July 1	95,466	84,023	25,359	204,848
Fund Balance - June 30	\$ 108,118	\$ 52,841	\$ 42,985	\$ 203,944

VILLAGE OF LAKE ORION
Nonmajor Debt Service Funds
Combining Balance Sheet
June 30, 2004

	<u>1998</u> <u>G.O. Bonds</u>	<u>Longpointe</u> <u>Special</u> <u>Assessment</u>	<u>North Shore</u> <u>Bridge</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 6,968	\$ 20,841	\$ 290	\$ 28,099
Special Assessments Receivable	<u>-</u>	<u>15,965</u>	<u>-</u>	<u>15,965</u>
Total Assets	<u>\$ 6,968</u>	<u>\$ 36,806</u>	<u>\$ 290</u>	<u>\$ 44,064</u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Advance from Other Funds	\$ -	\$ 35,505	\$ -	\$ 35,505
Fund Balance				
Reserved for Debt Service	<u>6,968</u>	<u>1,301</u>	<u>290</u>	<u>8,559</u>
Total Liabilities and Fund Balance	<u>\$ 6,968</u>	<u>\$ 36,806</u>	<u>\$ 290</u>	<u>\$ 44,064</u>

VILLAGE OF LAKE ORION
Nonmajor Debt Service Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2004

	<u>1998</u> <u>G.O. Bonds</u>	<u>Longpointe</u> <u>Special</u> <u>Assessment</u>	<u>North Shore</u> <u>Bridge</u>	<u>Total</u>
<u>Revenues:</u>				
Property Taxes	\$ 141,313	\$ -	\$ -	\$ 141,313
Interest Income	<u>410</u>	<u>144</u>	<u>2</u>	<u>556</u>
Total Revenues	<u>141,723</u>	<u>144</u>	<u>2</u>	<u>141,869</u>
<u>Expenditures:</u>				
Principal	85,000	-	10,000	95,000
Interest and Other Charges	<u>63,387</u>	<u>-</u>	<u>5,912</u>	<u>69,299</u>
Total Expenditures	<u>148,387</u>	<u>-</u>	<u>15,912</u>	<u>164,299</u>
Excess (Deficiency) of Revenues Over Expenditures	(6,664)	144	(15,910)	(22,430)
<u>Other Financing Sources:</u>				
Operating Transfer In	<u>-</u>	<u>-</u>	<u>16,200</u>	<u>16,200</u>
Change in Fund Balance	(6,664)	144	290	(6,230)
Fund Balance - July 1	<u>13,632</u>	<u>1,157</u>	<u>-</u>	<u>14,789</u>
Fund Balance - June 30	<u>\$ 6,968</u>	<u>\$ 1,301</u>	<u>\$ 290</u>	<u>\$ 8,559</u>

VILLAGE OF LAKE ORION
Nonmajor Capital Project Funds
Combining Balance Sheet
June 30, 2004

	<u>1998 Street Improvements Construction</u>	<u>North Shore Bridge Construction</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 12,964	\$ 28,559	\$ 41,523
Accounts Receivable	136	-	136
Due from Other Funds	<u>26,013</u>	<u>-</u>	<u>26,013</u>
Total Assets	<u>\$ 39,113</u>	<u>\$ 28,559</u>	<u>\$ 67,672</u>
<u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accounts Payable	\$ 39,106	\$ 5,000	\$ 44,106
Fund Balance	<u>7</u>	<u>23,559</u>	<u>23,566</u>
Total Liabilities and Fund Balance	<u>\$ 39,113</u>	<u>\$ 28,559</u>	<u>\$ 67,672</u>

VILLAGE OF LAKE ORION
Nonmajor Capital Project Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2004

	<u>1998 Street Improvements Construction</u>	<u>North Shore Bridge Construction</u>	<u>Total</u>
<u>Revenues:</u>			
Interest Income	\$ <u>87</u>	\$ <u>751</u>	\$ <u>838</u>
<u>Expenditures:</u>			
Construction	-	178,415	178,415
Other	1,000	-	1,000
Total Expenditures	<u>1,000</u>	<u>178,415</u>	<u>179,415</u>
Excess (Deficiency) of Revenues Over Expenditures	(913)	(177,664)	(178,577)
Fund Balance - July 1	<u>920</u>	<u>201,223</u>	<u>202,143</u>
Fund Balance - June 30	<u>\$ 7</u>	<u>\$ 23,559</u>	<u>\$ 23,566</u>