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COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Transmittal Letter

November 15, 2010

To the Citizens of the CITY OF ADRIAN, MICHIGAN,
Honorable Mayor and Members of the City Commission:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the CITY OF ADRIAN for the fiscal year ended June 30, 2010.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. This accounting pronouncement has had a substantial impact on both the format and content of the information included in this report, the fourth Comprehensive Annual Financial Report (CAFR) prepared under the requirements of the new reporting model. Tom Allen, GASB Chairman stated, "This is the most significant change to occur in the history of governmental financial reporting."

The new financial reporting model requires general-purpose governments to present the following basic financial statements and Required Supplementary Information (RSI) in order for the financial statements to be in conformance with generally accepted accounting principles (GAAP):

- Management's Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements

- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds and component units.

The new financial statement includes a discussion of the City's financial condition and outlook. The new *Management Discussion and Analysis* (MD&A) precedes the full-accrual "*Government-wide Financial Statements*" that are intended to show whether today's taxpayers have paid the full cost of the services received. These full-accrual statements are followed by a revised version of the financial statements previously reported, "*Fund Financial Statements*", which report governmental activities on the "modified accrual" basis of accounting, followed by *Footnote Disclosures* and *Required Supplementary Information* (RSI).

The financial statements include several tiers of information, some of which are familiar and some of which are new. The MD&A, a narrative discussion preceding the government-wide financial statements, will analyze:

- The City's financial performance for the year
- A comparison of the current year to the prior year
- A discussion of whether the City's financial position has improved or deteriorated during the year
- Significant changes in individual funds
- Significant budget variances
- A brief explanation of capital asset and long term debt activity
- Any likely future significant changes in financial position or operating results.

The second tier of information includes the two full-accrual "*government-wide*" financial statements prepared using the economic resources measurement focus; the **Statement of Net Assets** and the **Statement of Activities**. These government-wide financial statements now include all capital assets, including infrastructure, as well as the cost of asset purchases over the years they are in service (i.e., depreciation). These statements also include all long-term liabilities, including employee compensated absences. Compensated absences are recognized as expenses in the year that the employees' services are rendered, since this is when the employees earn them. For example, governments are now required to charge the cost of employee benefits, including sick and vacation pay, over the years that employees are rendering services (rather than decades later, when those benefits are typically paid).

The financial statements in the third tier are referred to as the “Fund” financial statements. The traditional modified accrual reporting of individual governmental funds has been retained. The GASB believes that this is the preferable method to show budgetary accountability. Significant individual funds (referred to as “Major” funds) are presented separately on the statements preceding the footnotes. The fund-based statements are separated into three sections:

- Governmental Funds
- Proprietary Funds, including Enterprise Funds (e.g., water and waste water funds), and Internal Service Funds (e.g., Information Technology and Motor Vehicle Pool Funds), and
- Fiduciary Funds (e.g., Endowment Trust Fund).

The government-wide and fund financial statements continue to require various note disclosures to supplement the basic financial statements.

Required Supplementary Information (RSI), presented after the notes to the financial statements, include budgetary comparison schedules for the debt service and non-major special revenue funds (e.g., Community Development Fund). Budget to actual comparisons include the original budget, as well as the final amended budget.

The Comprehensive Annual Financial Report (CAFR) consists of management’s representations concerning the finances of the City of Adrian. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Adrian has established a comprehensive internal control framework that is designed to both protect the government’s assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Adrian’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Adrian’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Adrian’s financial statements have been audited by Robertson, Eaton & Owen, P.C., an Adrian firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Adrian for the fiscal year ended June 30, 2010, are free from material misstatement. The independent audit involved examining, on a test

basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Adrian's financial statements for the fiscal year ended June 30, 2010, are fairly presented, as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Adrian was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Single Audit Report is incorporated into the Comprehensive Annual Report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This Letter of Transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Adrian's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Adrian, founded in 1825, incorporated in 1853 and re-chartered in 1957, is the county seat of Lenawee County, one of the richest agricultural counties in Michigan. The population of the City of Adrian in 2000 was 22,215, with moderate decrease in population since then. Adrian is located 33 miles northwest of Toledo, Ohio, 37 miles south of Ann Arbor and 59 miles southwest of Detroit, and is served by Michigan highways US223, M52 and M34. The City of Adrian is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission, in accordance with the rules and regulations of the State Boundary Commission. In recent years the City boundaries have expanded through annexation by 1.2 square miles, from 6.9 square miles to 8.1 square miles.

The City of Adrian has operated under the commission-administrator form of government since 1957. Policy-making and legislative authority are vested in a governing commission consisting of the mayor and six other members elected at-large on a non-partisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the government's Administrator, Attorney, and City Clerk. The City Administrator is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Commission members serve four-year staggered terms, with three Commission members elected every two years. The mayor is elected to serve a two-year term.

The City of Adrian provides a full range of services, including police and fire protection, sanitation services, construction and maintenance of highways, streets and other infrastructure, Dial-A-Ride transportation and Community Development services, as well as recreational activities and cultural events. In addition to general government activities, the City Commission is financially responsible for the activities of the water and sewer systems, the City of Adrian Building Authority, a blended component unit; therefore, its activities are included as an integral part of the reporting entity. Also included in the City's financial report are the Downtown Development Authority (DDA-TIF), the Local Development Finance Authority (LDFA) and Brownfield Redevelopment Authority (BRA), as discreetly presented component units. However, the Adrian Board of Education and the Bixby Medical Center have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from the financial report.

FACTORS AFFECTING FINANCIAL AND ECONOMIC CONDITION

The Annual Operating Budget and General Appropriations Act serves as the foundation for the City of Adrian's financial planning and control. All departments of the City government are required to submit requests for appropriation to the City's Chief Fiscal Officer on or before the last Tuesday in February each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The Recommended Budget is presented to the City Commission for consideration at the first Commission Meeting in April. The Commission is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than the second week in May. The appropriated budget is prepared by fund (e.g., General Fund), department (e.g., Parks and Recreation) and activity (e.g., Swimming Pool).

Transfers of appropriations within and between departments require the special approval of the City Commission in the form of a budget amendment. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Major and Local Street Funds, these comparisons are provided on Pages 62-67 as part of the basic financial statements for the governmental funds.

In addition, the City Commission, Planning Commission and City Administration meet in December of each year to engage in long-term financial planning by preparing and adopting a six-year Capital Improvement Program and Annual Capital Budget, which is incorporated into the Annual Operating Budget and General Appropriations Act. The long-term Capital Improvement Program is predicated on a Strategic Plan developed by the same group of elected and appointed officials on a biennial basis.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific economic and demographic environment within which the City of Adrian operates.

ECONOMIC OUTLOOK

National Economy – Reports from the twelve Federal Reserve Districts suggest that, on balance, national economic activity continued to rise, albeit at a modest pace, during the reporting period from September to early October, 2010.

Manufacturing activity continued to expand, with production and new orders rising across most Districts. Demand for nonfinancial services was reported to be stable to modestly increasing overall. Consumer spending was steady to up slightly, but consumers remained price-sensitive, and purchases were mostly limited to necessities and nondiscretionary items. New vehicle sales held steady or rose during the reporting period; sales of used automobiles were strong as well. Activity in the travel and tourism sector picked up.

Housing markets remained weak with most Districts reporting sales below year-ago levels. Reports on prices suggested stability, however. Conditions in the commercial real estate sector were subdued, and construction was expected to remain weak. Lending activity was stable in most Districts. Agricultural conditions were generally favorable, and above-average yields were expected in most reporting Districts. Activity in the energy sector continued to expand.

Input costs, most notably for agricultural commodities and industrial metals, rose further. Shipping rates increased, and retailers in some Districts noted rising wholesale prices. However, prices of final goods and services were mostly stable as higher input costs were not passed on to consumers. Wage pressures were minimal.

The economy in the U.S. probably grew at a faster pace in the third quarter, reflecting a pickup in consumer spending that bodes well for the recovery's staying power. Gross domestic product rose at a 2 percent annual pace, up from a 1.7 percent rate in the previous three months. Other data shows business investment remains a mainstay of the economic rebound, while housing is mired in a slump.

The pace of growth would still not be strong enough to give the 14.8 million unemployed Americans hope of finding work soon, one reason why Federal Reserve policy makers may be about to pump more money into the economy. Consumer spending, which accounts for about 70 percent of the economy, increased at a 2.4 percent annual rate from July through September, the best showing of the recovery that began in June 2009.

The National Retail Federation has forecast November- December sales will rise by 2.3 percent from a year ago, making it the best holiday season in four years. About 85 percent of companies in the S&P 500 have exceeded analysts' per-share profit estimates so far in third- quarter reports.

The Commerce Department reported that orders for goods meant to last at least three years climbed 2 percent in September, the most in five months. The gain signals business investment in new equipment continues to support the recovery. While capital expenditures are climbing, manufacturing gains are cooling as the pace of inventory rebuilding eases compared with the surge that began in late 2009.

Housing continues to struggle as foreclosures mount and unemployment, near 10 percent, limits demand and hurts property values. Sales of existing homes, according to the National Association of Realtors, rose to a 4.3 million annual rate last month. The readings over the past three months would be the lowest since comparable records began in 1999. The Commerce Department reports that new-home purchases increased last month to a 300,000 annual rate, hovering close to the record-low 282,000 reached in May. Home prices in 20 cities for the 12 months through August climbed at a slower pace.

Consumer confidence reports show little change this month as the lack of jobs unnerves Americans. The Thomson Reuters/University of Michigan's sentiment index dropped to a three-month low.

Regional and State Economy - The pace of economic activity in the Seventh Federal Reserve District, including Midwest States like Michigan, picked up moderately in September. There is generally more optimism about the outlook for the remainder of the year and the beginning of 2011. Manufacturing production increased, and construction activity improved slightly. Consumer spending continued at a steady pace and business spending increased. Credit conditions continued to gradually improve. Price and wage pressures were moderate, while agricultural prices increased on balance.

Consumer Spending

The pace of consumer spending was little changed from the previous reporting period. Contacts indicated that consumers were slowly regaining confidence, although they remain very price-conscious. As such, promotions and sales persisted as the primary driver of traffic in stores and showrooms. Retail sales excluding autos in September were nearly on par with the August sales pace. Clothing items continued to sell well, as did electronics and appliances; but furniture sales were again weak. Auto sales held steady even as fewer incentives were offered and access to credit continued to slowly improve.

Business Spending

Business spending increased in September. Capital spending rose as recent tax accounting changes pulled forward demand before the year's end. Contacts indicated that spending was heavily concentrated in replacement of older equipment and other efficiency improving investments. While less widespread, new investments in capacity, research and development, and employee training were also reported. In contrast, inventory rebuilding slowed. Both manufacturers and retailers reported comfortable levels of inventories in September, even though they remain relatively lean historically. The pace of hiring continued to be slow, but engineering, information technology, and healthcare were exceptions to this trend. Manufacturers' were reluctant to add permanent employees, continuing to use temporary hires instead. In addition, the manufacturing workweek leveled off, as firms pulled back on overtime. Contacts also noted that state and local government employment was sharply declining given the budgetary constraints faced by several District states and their local municipalities.

Construction and Real Estate

Construction activity improved slightly in September. With housing inventory still elevated, residential building was minimal, particularly for multifamily properties. A contact noted, however, that a few large builders had begun to rebuild their inventory of single-family homes after a recent uptick in contract signings. Attractive pricing led to higher showroom traffic, but contacts indicated that the limited availability of conventional mortgage financing remained a constraint for potential buyers. Private nonresidential construction remained subdued, particularly for office and retail buildings. However, rising vacancy rates leveled out in many areas of the District, and contacts reported small improvements in demand for large industrial and small retail facilities. Public infrastructure construction continued to expand.

Manufacturing

Manufacturing production increased in September, refreshing from the late summer pause. Several metals manufacturers reported that September sales were the best so far this year. Power generation, mining, and medical equipment manufacturers also reported an increase in orders. In addition, export activity continued to be robust with slower growth in developing countries in Asia and South America offset by strengthening demand from Europe. The automotive and heavy equipment sectors remained strong sources of growth. In contrast, a manufacturer of household appliances noted a reduction in fourth quarter production, and capacity utilization in the steel industry edged lower. Although contacts in some industries indicated that new orders and order backlogs had eased as inventory rebuilding slowed going into early October, manufacturers in general expressed a very positive outlook for the remainder of 2010 and early 2011.

Banking and Finance

Credit conditions continued to gradually improve in September. Contacts indicated that the corporate financing environment remains very favorable, but the availability of credit for small businesses remained a source of concern for some. Business loan demand was steady, driven mostly by refinancing and merger and acquisition activity. Recent tax law changes and increasing pressure from shareholders to productively employ the large amounts of cash on firm balance sheets were seen as contributing to the latter. Furthermore, a contact noted that private equity funds that are required to invest funds by year-end or return them to investors were another likely factor. Investment demand for distressed commercial properties remained strong. Moreover, limited improvement in the availability of bank loans for commercial real estate was noted, although it was concentrated among a few banks.

Prices and Costs

Price and wage pressures were moderate in September. Retailers reported wholesale price increases were becoming more widespread. Prices also moved higher for industrial metals like copper, aluminum, zinc, and gold. Shortages of silicone and copper contributed to the increase in industrial metal prices. The depreciation of the dollar was cited as one of the primary drivers of higher demand for gold. Energy costs, in contrast, were steady with natural gas prices at historically low levels. Limited pricing power continued to constrain pass-through of cost pressures to downstream prices. Wage pressures again increased only modestly on balance, although some contacts highlighted large expected increases in the cost of healthcare for employees.

Agriculture

The District harvest started early and progressed rapidly, although parts of Iowa and Wisconsin had a slower harvest due to heavy rains. Corn yields varied widely, sometimes even within the same field. The quality of the corn crop was, however, higher than a year ago. Soybean yields were reported as above-average in most of the District, with soybean disease issues in Iowa appearing to be limited in scope. Corn and soybean prices were above the levels of a year ago. Contacts indicated that farmers were selling soybeans, but holding on to newly harvested corn in the hope of even higher prices. Prices for milk, hogs, and cattle remained higher than last year, helping offset a sudden increase in feed costs for livestock. Fertilizer costs also increased, but drying costs for corn decreased substantially from the previous year.

Michigan Economy and Budget Impact- The Michigan economy, as measured by inflation-adjusted personal income, after contracting 2.4% in 2009, is estimated to contract 0.7% in 2010 before growing 0.3% in 2011. Wage and salary employment, after falling 6.8% during 2009, is expected to decline 1.2% in 2010 and 0.8% in 2011.

Fiscal year FY2008-09 was one of the worst years on record for overall State revenue, which fell by over 13.0%. This represents one of the sharpest drops in State history. Overall State revenue in FY2009-10 is projected to be down another 6.0% compared with FY2008-09. In FY 2009-10, the May 2010 forecast has revenue projected to be down a further \$247.0 million due to weakness in the Michigan Business Tax collections. As the economic recovery finally gets under way in 2010, State revenue is expected to recover from the lows experienced in FY 2008-09 and FY2009-10. Projections are that State revenue will grow by 2.1% in FY2010-11.

The National Bureau of Economic Research, the organization traditionally regarded as the authority for dating recessions, announced on November 28, 2008, that the U.S. economy had been in recession since December 2007. While debate remains on when the economy has turned (or will turn) around, virtually every economic indicator identifies the recession of 2008 and 2009 as the most severe economic contraction in more than 70 years. Light vehicle sales declined from an annual rate of 16.0 million units in December 2007 to 9.1 million units in February 2009. Three of the four worst months on record for vehicle sales occurred during February, April, and September 2009, driving 2009 to rank as the worst year of vehicle sales in modern records, which start in 1976.

By April 2009, housing starts had fallen 78.9% from their January 2006 peak, to the lowest level since current records started in 1959. United States wage and salary employment peaked in December 2007, at 138.1 million workers, and then declined for 23 consecutive months (the longest string of consecutive declines since records began in 1939) between January 2008 and October 2009, a drop of approximately 8.3 million jobs, the largest decline on record. Consumer sentiment, measured by the University of Michigan's Consumer Sentiment Index, fell 33.7% between September 2007 and November 2008 and remained at historically low levels throughout much of 2009, with many components of the index exhibiting the lowest values ever recorded. Retail sales dropped 10.9% from November 2007 to September 2009.

However, since the second half of 2009, when the growth rate in inflation-adjusted Gross Domestic Product (GDP) turned positive (after declining for four consecutive quarters), the U.S. economy has shown signs of slow but steady improvement. As of the first quarter of 2010, inflation-adjusted GDP had risen for three consecutive quarters and surpassed the prerecession peak. Wage and salary employment rose for four consecutive months between January and April 2010, adding 573,000 payroll jobs since the December 2009 trough in employment. Housing starts were 9.2% higher in March 2010 than in December 2009 and 20.2% above the level in March 2009. Industrial production in April 2010 was up 2.0% from December 2009 and 6.8% from the June 2009 trough. After exceeding 650,000 initial claims for unemployment compensation per week at various points during 2009, initial claims have averaged 468,000 per week since late November 2009.

While the economy appears to be consistently improving, several areas of weakness persist. Approximately 54.2% of the growth of the last three quarters reflected increases in inventories. Unless consumption grows enough to support the higher inventory, such gains will not be sustainable. Federal spending accounted for another 6.6% of the growth

in output over the same period. Historically, growth in consumption has accounted for more than 70.0% of the growth in inflation-adjusted GDP.

Instead, over the last three quarters, more than 60.0% of the growth in the economy came from Federal spending and inventory accumulation. Furthermore, despite the increase in industrial production, industrial capacity has continued to decline, with April 2010 representing the 16th consecutive month of declines and reflecting the 12.5% decline in non-inventory business investment over the last three quarters.

Consumer debt burdens remain high despite low interest rates, with financial obligations during the fourth quarter of 2009 still consuming more than 17.5% of disposable personal income, down less than 1.4% of income from the peak in the first quarter of 2008. Substantial numbers of homeowners still exhibit negative equity, owing more on the home than it is worth, with more than 24.0% of residential mortgages in negative equity at the end of 2009, and another 5.0% with near negative equity.

Michigan's economy spent the last nine years in recession, largely driven by the same fundamental restructuring as that affecting manufacturing globally. Manufacturing has experienced a significant surge in productivity, as the economy has become more competitive.

For Michigan, the effect of productivity improvements has been substantial, particularly given that there was more room for improvements in the durable goods and motor vehicle manufacturing sectors to be implemented than in many other sectors, that Michigan is very disproportionately concentrated in motor vehicle manufacturing, and that the motor vehicle industries have become one of the most competitive sectors of the economy. Those factors have been complicated for Michigan as General Motors, Ford, and Chrysler also have lost market share, even as they have made productivity gains, leaving Michigan to lose employment from both productivity and reduced demand. The rapid and drastic decline in automobile sales in late 2008 and during 2009 exacerbated Michigan's economic difficulties, as sectors such as construction, real estate, and finance collapsed.

As the U.S. economy has improved in recent months, the Michigan economy also has shown improvement. Light vehicle sales rose from an average of 9.7 million units during much of 2009 to an average of 11.0 million units during the first four months of 2010. The improvement in vehicle sales has helped stabilize employment in Michigan, with wage and salary employment falling by an average of 6,300 jobs per month during the first three months of 2010, compared with an average monthly decline of 32,400 jobs per month between September 2008 and

June 2009. However, despite some months of increases, employment overall has continued to decline and, as with the national forecast, several economic factors remain very negative. For example, it is estimated that, as of the end of 2009, approximately 39.0% of Michigan mortgages exhibited negative equity.

The U.S. economy is expected to exhibit relatively weak growth in 2010 and 2011, while the Michigan economy will remain in recession over the forecast period. Inflation-adjusted Gross Domestic Product is projected to increase 3.1% in 2010 and 2.5% in 2011, after falling 2.4% in 2009. The expansion in 2010 primarily reflects increases in light vehicle sales, combined with modest growth in both residential and business investment. Light vehicle sales are expected to increase from 10.4 million units in 2009 to 11.6 million units in 2010 and 12.7 million units in 2011, while housing starts in 2010 are expected to exhibit the first annual increase since 2004. Despite these increases, many key economic variables will exhibit values far below the levels shown in 2007 and 2008. As a result, the U.S. unemployment rate is expected to remain stable, averaging 9.7% during 2010 and 9.6% in 2011.

In Michigan, both job growth and personal income growth are expected to remain below the national average and the historical State average and to spend the forecast period in recession. Inflation-adjusted personal income is projected to fall 0.7% in 2010 and then rise a meager 0.3% in 2011. The rate of employment declines should begin tapering during 2010 with employment forecast to decline 1.2%, the slowest annual decline since 2005 and a substantial improvement from the 6.8% drop during 2009.

Employment losses will be smaller in early 2011 and by the end of the year may exhibit some consistent gains, although on an annual basis employment in 2011 is expected to fall 0.8%. The declines in wage and salary employment will extend the period of employment declines to 11 consecutive years, the longest period on record. In Michigan, below-average vehicle sales and high productivity growth will help keep the unemployment rate above the national average, with the State's unemployment rate increasing from 13.6% in 2009 to 14.1% in 2010, before slightly declining to 14.0% in 2011.

Compared with the January 11, 2010 Consensus Economic Forecast, both the U.S. and Michigan forecasts for 2010 are somewhat stronger. The forecasted growth rates during 2011 for both the national and State economies are approximately the same as in January, but will be off a stronger 2010 base. Income and employment growth are stronger at both the State and national levels, and the unemployment rate in both years is less than was forecast in January.

The economy of the last 30 years has been largely powered by strong growth in consumer spending. While saving rates fell and debt levels increased through the 1980s and 1990s, over much of the last decade those trends became even more magnified, despite flat or declining inflation-adjusted wages. Tight credit markets and declining housing prices have induced consumers to rein in their spending. As a result, the saving rate is expected to remain above its recent near-zero levels. Under the forecast, the saving rate will fall slightly from 4.3% in 2009 to 3.3% in 2010. While the saving rate is expected to decline again in 2011, to 2.5%, this rate would be substantially above the level exhibited in several of the prerecession years and relatively consistent with saving rates exhibited at the beginning of the decade. However, consumers will need to save at a far-higher rate than this to offset their losses in home equity and the stock market. Limited income growth and high debt burdens will impede consumers in their ability to increase saving. If the saving rate improves more than expected, such as to levels experienced during the 1980s, both consumption growth and economic growth will be substantially lower. Conversely, consumers could return to their spending habits of the late 2000s and growth would be stronger than forecasted. The lower revised saving rate in the forecast accounts for much of the increase in economic growth in the current forecast compared with the January 2010 forecast.

While over the last nine years Michigan's employment situation has fared worse than the national average, and, in some cases or time periods within that range, worse than any other state's, Michigan's performance is not particularly inconsistent with other states when Michigan's economic composition is considered. Generally, states with higher manufacturing concentrations (particularly in the transportation equipment manufacturing sector) have experienced weaker job performance over the last nine years, both because of the economic changes occurring in that sector and because of the dependence of other sectors within those states on manufacturing activity. As indicated earlier, productivity gains have made American manufacturing firms more profitable and more competitive, but have reduced the need for hiring additional employees to meet increased demand.

Weak markets for housing, credit and employment, high energy prices, and substantial debt burdens are expected to exert a dragging force on any increases in demand over the forecast period. Vehicle sales are expected to remain substantially below the levels experienced over the last two decades, while the domestic share of the sales mix is expected to continue declining. Michigan's economic fortunes historically have been very closely linked with sales of domestically produced light vehicles, so it is unclear whether Michigan's employment situation would be much

better even if productivity were not rising so rapidly in the motor vehicle sector. However, the combination of high productivity and declining market share has been particularly dramatic: On a seasonally adjusted basis, as of March 2010, Michigan had lost nearly two-thirds of the jobs (64.4%, a decline of nearly 227,500 jobs) in transportation equipment manufacturing that existed during the peak in July 2000. March 2010 represented a new trough in total employment, with total job losses since the June 2000 peak reaching 864,700 jobs, a decline of 18.4%. Even with something approximating normal employment growth in Michigan, it is unlikely that Michigan will reach the level of employment reported in June 2000 again until some time near the year 2035.

On January 1, 2011, a newly elected Michigan Governor will begin the task of developing a State budget recommendation for the fiscal year beginning on October 1, 2011. Pursuant to statutory requirements, the new Governor will have to submit a detailed FY2011-12 State budget recommendation to the Legislature by March 6, 2011. This State budget recommendation by the Governor will then begin legislative debate on the FY 2011-12 State budget.

The parameters of the FY 2011-12 State budget recommendation of the Governor are not known today. What is known is that due to a variety of factors related to the enacted FY2010-11 State budget, the new Governor and the newly elected members of the Legislature will face difficult decisions in developing and enacting the FY2011-12 State budget. This is especially true when examining the issues surrounding the FY2011-12 General Fund/General Purpose (GF/GP) budget.

The enacted FY2010-11 GF/GP budget is balanced with a combination of temporary Federal funds, nonrecurring revenue from several statutory changes and appropriation reductions. It is now the belief that the temporary Federal funds that were such an important part of balancing the FY2008-09, FY2009-10, and FY2010-11 GF/GP budgets will not be available in FY2011-12. This assumption is based on the belief that the United States Congress is unlikely to continue the temporary emergency Federal aid to states that has occurred over the past three fiscal years.

On the revenue side of the FY2011-12 GF/GP budget, two factors will have an impact on the level of revenue available to support expenditures, including State Revenue Sharing to local units of government. The first is that several nonrecurring revenue sources were used to balance the FY 2010-11 GF/GP budget. The second is that under current law, the rate of the State income tax will decline from 4.35% to 4.25% on October 1, 2011.

The combination of the assumed elimination of the temporary Federal aid and these revenue changes will lead to a significant challenge in ensuring a balance between FY2011-12 GF/GP revenue and appropriations. The Senate Fiscal Agency (SFA) is estimating a \$1.4 billion imbalance between potential GF/GP revenue and appropriations. This imbalance equals 16.9% of the level of FY2010-11 GF/GP appropriations.

The SFA's FY2011-12 GF/GP budget outlook assumes total GF/GP revenue of \$8.2 billion. This estimate is developed using the current estimate of FY2010-11 GF/GP revenue as a base and adjusting for nonrecurring revenue items and the change in the income tax rate. These nonrecurring revenue items included revenue from changes in the State accounting of unclaimed property, revenue from a tax amnesty program, State restricted revenue transfers to the GF/GP budget, and the additional GF/GP revenue impact of increased revenue sharing payments to counties. The final assumption regarding the FY2011-12 GF/GP revenue base is an assumed 4.0% growth in GF/GP revenue. The actual level of FY2011-12 GF/GP revenue growth will be determined when the Consensus Revenue Estimating Conference establishes the initial estimate of FY2011-12 GF/GP revenue in January 2011.

The SFA's FY2011-12 GF/GP budget outlook assumes total GF/GP appropriations of \$9.6 billion. This estimate is developed using the FY 2010-11 enacted appropriations as the starting point. Adjustments then are made for temporary Federal funds in the Community Health and Human Services budgets that will not be available in FY 2011-12. These adjustments total \$919.0 million.

Additional expenditures in the Human Services budget are a result of caseload, full-year staffing, and cost increases. Funding adjustments are also included for the additional costs of debt service on General Obligation bonds resulting from restructuring changes made during FY 2010-11. The final expenditure adjustments include the elimination of one-time funding sources in the State Police budget and projected increases in State employee costs. These projected increases in State employee costs include health insurance costs, retirement costs, and changes in the level of savings from the recently enacted policy changes in the State Employees Retirement System.

This SFA outlook on the FY2011-12 GF/GP budget is built on freezing the funding in FY2011-12 at the FY2010-11 levels for such programs as revenue sharing payments to cities, villages, and townships, aid to universities and community colleges, and a general freeze in other grant programs. The assumptions also assume no

changes in State tax laws outside of the already- enacted reduction in the rate of the State income tax.

In summary, the newly elected Governor and the members of the Legislature will face significant challenges in enacting a balanced FY 2011-12 GF/GP budget. In many respects, the challenge in passing a balanced FY2011-12 GF/GP budget would have occurred in FY2008-09, FY2009-10, and FY2010-11 if the United States Congress had not provided Michigan with approximately \$3.1 billion of temporary Federal funds that helped eliminate many of the difficult budget decisions. The anticipated elimination of these temporary Federal funds will mean the fundamental decisions regarding the future of the GF/GP budget will be made during FY2011-12.

Long Term Financial Planning – Included with the Comprehensive Annual Financial Report is the City's Strategic Action Plan. A financial planning process that is well-integrated with other activities of government, such as land use and physical development planning and management functions, provides better financial and program decisions and leads to improved governmental operations. Consistent with the recommendations of the National Advisory Council on State and Local Budgeting (NACSLB), the *CITY OF ADRIAN'S STRATEGIC ACTION PLAN* is presented below.

The Strategic Action Plan is the product of several strategic planning sessions, originally conducted during calendar year 2008, by the City Commission, and City Administration, including City Department Heads, facilitated by Dr. Joseph Ohren, Professor for the Institute of Community and Regional Development at Eastern Michigan University (ICARD/EMU). The initial session focused on decision-making processes and emerged with a list of recommended strategies for strengthening our work as a leadership team on behalf of the Adrian community. Subsequent sessions dealt with performance of an environmental scan (identifying strategic issues by assessing our strengths, weaknesses, opportunities and threats), articulating a list of priority goals, and developing action strategies for implementing those goals. Also included are a Statement of Values, Vision Statement and Statement of Vision and Purpose.

The Strategic Plan is updated on a biennial basis, the most recent in 2010. The participant group was expanded to include the Planning Commission and was facilitated by the City Administrator, Dane C. Nelson. All of the goals are considered of equal priority, however, the action strategies are designated either *High Priority* or *Priority When*

Resources are Available, thereby providing an action agenda to be considered when formulating the FY2010-11 Annual Operating Budget.

CITY OF ADRIAN STRATEGIC ACTION PLAN

STATEMENT OF VALUES

The City of Adrian, Michigan values:

- Active citizen involvement in determining the direction of City government and the public services it provides;
- Respect for the individual voice and service for the common good;
- A responsive and responsible public service delivery system;
- Positive change, innovation and creativity;
- Well-trained employees committed to excellent customer service;
- Respect for our heritage and cultural diversity.

VISION STATEMENT

The City of Adrian aspires to be a hospitable and pleasant community that nurtures its diverse, natural, historical, cultural and social assets in order to foster a safe, clean, prosperous, attractive place in which to live, work, grow and play.

STATEMENT OF MISSION AND PURPOSE

To provide efficient and effective City services through comprehensive planning based on long-term systematic principles that foster an open, honest, responsive government.

Goal: Strengthen city finances by ensuring long-term sustainability

High Priority

1. Explore alternatives to stabilize or replace lost revenues.
 - Review of current fee schedules
 - Consideration of new fees
 - Other taxation alternatives
 - Charging policies
 - Grant writer
 - Advertising sales for city website

- Water sale policies
 - Refuse millage review
 - District library/consolidation
 - Recreation Authority
 - Sell services to other local governments
2. Develop cost-sharing pricing strategies to reflect true costs of services utilized by nonresidents.
 3. Annually perform a debt capacity analysis for proposed debt finance transactions.
 4. Prudently invest idle cash, adhering to the following primary objectives, in priority order:
 - Safety – Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to insure the preservation of capital in the overall portfolio.
 - Diversification – The investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - Liquidity – The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated.
 - Return on Investment – The portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Priority When Resources are Available

5. Develop a process to address departmental contingency plans for budget reductions.
6. Develop Process (Considerations) for Service Reductions
 - Community input
 - Can service be outsourced effectively?
 - Is service cost effective
 - Who (and numbers) is being served (resident – non-resident)
 - General Fund or Utility Fund savings
 - Impact on quality of life
 - Apply “Good to Great” concepts (focus on what we do best)
 - Is service mandatory or discretionary

- Is consolidation possible
- Consider across-board reductions by department
- Benchmark with other communities
- How to determine level of reductions without knowing revenue reductions

7. Considerations for Personnel Savings

- Health care
- Furlough days/layoffs
- Move to hour lunch
- Holidays
- Pay
- Retirement Health Savings Accounts
- Pension costs
- Seasonal workers
- Library consolidation
- Attempt for consistency among all City employees

Goal: Strengthen and diversify the local economy

High Priority

1. Prepare and implement an economic development plan to provide guidance for action, perhaps incorporating some or all of the following elements:
 - Build on a philosophy of “gardening” as opposed to “hunting” in terms of our approach to economic development (develop and support local entrepreneurs).
 - Incorporate attention to neighborhoods and residential development, as well as downtown and commercial redevelopment, as part of the economic development plan.
 - Explore opportunities for partnerships with other entities.
 - Identify options and make recommendations on use of incentives.
2. Complete Vibrant Small Cities Initiative ((VSCI) Grant projects.
3. Explore opportunities and develop strategy for building partnerships with local colleges to attract business investment and facilitate development.
4. Development and sales of Industrial Park, Witt and Marvin parcels and possible use of Local Development Finance Authority. At a minimum, create signage for development opportunities.

Priority When Resources are Available

5. Review current zoning and sign ordinances for amendments and revisions.
6. Explore development of a fixed route transportation system for the city.
7. Wayfinding Signage System

Goal: Maintain and improve city facilities and infrastructure to meet long-term needs

High Priority

1. Seek funding for those needs identified as high priority in the Capital Improvement Plan (CIP).
2. Explore creation of an internal service fund for maintenance of all city facilities.
3. Disabled accessibility for City Hall

Priority When Resources are Available

5. Develop and implement a public outreach campaign using the CIP to communicate facility needs to residents and build support for long-term action.

Goal: Create and nurture a vibrant and thriving downtown

High Priority

1. Formulate and implement a downtown marketing strategy to attract and retain commercial and residential activities in and near downtown.
2. Aggressively pursue strategies designed to improve the physical appearance of buildings in the downtown, including:
 - Demolition of city property as needed and appropriate
 - Code enforcement for private property to insure continued maintenance.
 - Grant opportunities to fund rehabilitation
3. Coordinate and collaborate with other interested entities to recruit new businesses and retain those in place.

- Consider creating an incubator facility and program for new downtown businesses
 - Utilize all incentive programs to recruit and retain business
4. Develop, implement and promote a downtown housing strategy; explore use of upper floors for housing and consider partnering with local colleges to develop housing options.
 5. Improve communication and information sharing between City Commission, DDA Board, Brownfield Redevelopment Authority and other stakeholders.
 6. Develop plan to again address downtown parking, including funding and lot rehabilitation.

Priority When Resources are Available

7. Explore downtown festival activity to draw traffic/population into the downtown area.
8. Explore opportunities for public art.
9. Continuation of the recommendations from the Downtown Blueprint and/or Anderson Study with respect to the riverfront.

Goal: Pursue opportunities for multi-jurisdictional cooperation and collaboration, where appropriate, in securing effective and efficient service delivery

High Priority

1. Encourage and support convening a cooperation summit, bringing local officials together to explore willingness to engage in identifying and implementing opportunities for multi-jurisdictional collaboration and service consolidation.
2. Develop a mechanism or process to facilitate and encourage on-going communication and dialogue among local government officials in the area.

Priority When Resources are Available

3. Explore possible areas of cooperation, including cost studies to identify efficiencies.
 - Service areas; i.e., police, fire, inspections
 - Facilities or infrastructure management or use
4. Prepare and share information with other local officials and the community at large on the benefits of multi-jurisdictional collaboration.

Goal: Preserve and enhance the quality of life services provided by the City

High Priority

1. Explore opportunities for funding from external sources; friends, foundations.
2. Enhance non-motorized transportation (trails, bike paths).
3. Prepare and disseminate information more actively on the comparative cost of living in Adrian, emphasizing costs, services and quality of life with the rest of the county and in the larger region.
4. Create new plan for refuse collection/recycling.
5. Credit card usage expansion.
6. Explore options for future of Bohn Pool; i.e., public survey, collaborate with Christian Family Centre, indoor water park.

Priority When Resources are Available

7. Seek increased county funding to enhance quality of life for all residents in the county; i.e., a recreational authority.
8. Collaborate with and support local cultural organizations.
9. Explore technology enhancements or upgrades for citizens, such as wireless, city website, etc.
10. Aggressive code enforcement for all private properties to ensure property maintenance.

11. Create bike path system on city streets
12. Fixed route transportation system

Goal: Improve Communication to Citizens

- Maple City Focus (or similar format) on website
- E-news
- Increased use of utility mailings
- State of City message
- Regular newspaper columns
- Speakers Bureau for staff
- Regular radio engagement
- “Welcome Wagon” of city services for new businesses
- Regular retention visits to private employers
- Support Adrian festivals/events
- Nixle – Twitter
- Overall improvement of customer service

Goal: Continue planning process

1. Review of current Strategic Plan by City Commission every 6 months, preferably at a pre-meeting.
2. Maintain City Strategic Plan on a biennial basis for the purpose of reviewing progress, incorporating new initiatives and formulating action plans upon which the city budget can be built.

Long-range financial planning, of course, is affected by the City’s revenue stream. The negative effects of “Proposal A” of 1994 are finally coming home to roost, particularly for older, low-growth rate communities like Adrian. Because of the difference between Assessed Value and Taxable Value, which is constrained by the cumulative rate of inflation, Proposal A will reduce City General Fund revenues from property taxes by \$396,033 during fiscal year 2010-11 alone.

In addition, the tax rate computations required by the Headlee constitutional tax limitation amendment approved by the voters in 1978, property tax revenues for fiscal year 2010-11 are \$778,607 less than they otherwise would have been. The full impacts of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. It should be noted that, due to the calculation that permanently lowers the Base

Tax Rate, the ability to recover from the adverse impact of Headlee rollbacks will take several years.

City of Adrian Fund Balance – General Fund

Governmental Funds report the difference between assets and liabilities as *fund balance*. In February, 2009, the Governmental Accounting Standards Board (GASB) adopted **Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions**. This important new standard has left unchanged the total amount reported as *fund balance*, but has substantially altered the categories and terminology used to describe its components. The new categories and terminology focus, not on financial resources available for appropriation, but on “the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund balance can be spent.”

Research conducted after implementation of **Statement No. 34 – Basic Financial Statements – and Management’s Discussion & Analysis – for State and Local Governments**, revealed considerable differences in how governments interpret and apply the standards for fund balance reporting. The differences existed, in part, because certain terms were not well defined, which affected the amounts that were reported as reserved and unreserved fund balances. Consequently, many users have been receiving inconsistent and non-comparable information which reduced its usefulness and led to confusion as to what the information presented in fund balance reporting actually communicated.

These concerns were exacerbated by two additional factors. First, different interpretations of certain aspects of the definitions of governmental fund types reduced the comparability of the governmental fund financial statements, because the funds used and the purposes for using them varied significantly from government to government. Second, the introduction of restricted net assets under Statement No. 34 led to confusion regarding its relationship to reserved fund balance.

The objective of Statement No. 54 is to improve the usefulness, including the understandability, of government fund balance information. This Statement provides more clearly defined categories to make the nature and extent of the constraints placed on a government’s fund balance more transparent. It also clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements and help financial statement users to better understand the purposes for which governments have chosen to use particular funds for financial reporting. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. Early implementation is encouraged.

In compliance with Statement No. 54, financial statements for governmental funds report up to five (5) components of fund balance:

- **NON-SPENDABLE FUND BALANCE**

Some of the assets reported in governmental funds are inherently non-spendable from the vantage point of the current period, including:

- Assets that will never convert to cash (e.g., prepaid items and inventories of supplies);
- Assets that will not convert to cash soon enough to affect the current period (e.g., the long-term portion of loans receivable and non-financial assets held for resale, such as foreclosure properties);
- Resources that must be maintained intact pursuant to legal or contractual requirements (e.g., the principal of an endowment or the capital of a revolving loan fund).

- **RESTRICTED FUND BALANCE**

This describes the portion of fund balance that reflects resources that are subject to externally enforceable legal restrictions. Such restrictions are imposed by the government's charter but most restrictions are typically imposed by parties altogether outside the governmental unit, by:

- Creditors (e.g., through debt covenants);
- Grantors;
- Donors or Contributors; and
- Other governmental units (e.g., through laws and regulations).

Restrictions also can arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose (e.g., gasoline taxes restricted for use for road repair or construction).

- **COMMITTED FUND BALANCE**

Reflects the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision-making (normally the City Commission) and that remain binding unless removed in the same manner. Resources accumulated pursuant to Stabilization Arrangements (e.g., rainy day funds or contingency funds) are reported in this category.

- **ASSIGNED FUND BALANCE**

Describes that portion of fund balance that reflects a government's intended use of resources (previously referred to as Designated Fund Balance). Such intent would have to be established at either the highest level of decision-making (i.e., City Commission) or delegated to an appropriate designated official (i.e., City Administrator). It is the assigned fund balance category, too, that is used to reflect the appropriation of a portion of existing fund balance to eliminate a projected deficit in the subsequent year's budget.

There are two (2) essential differences between *committed fund balance* and *assigned fund balance*. First, *committed fund balance* requires action by the highest level of decision-making authority (i.e., City Commission), whereas *assigned fund balance* allows that authority to be delegated to an appropriate designated official (i.e., City Administrator). Second, formal action is necessary to impose, remove or modify a constraint reflected in *committed fund balance*, whereas less formality is necessary in the case of *assigned fund balance*.

- **UNASSIGNED FUND BALANCE**

The General Fund, as the principal operating fund of the government, often will have resources in excess of what can be properly classified in one of the four categories already described. If so, that surplus is presented as *unassigned fund balance*.

If resources were not at least assigned, they could not properly be reported in a fund other than the General Fund. Therefore, only the General Fund can report a positive amount of *unassigned fund balance*. Conversely, any governmental fund in a deficit position could report a negative amount of as *unassigned fund balance*.

The schedule below presents a summary of changes in General Fund – Fund Balance between FY2008-09 and FY2009-10:

**CITY OF ADRIAN
FY2009-10 YEAR-END REPORT**

**GENERAL FUND
Unreserved Fund Balance**

Fund Balance as of June 30, 2009		\$4,613,395
Less Reserves for:		
Inventories and Prepayments	\$173,761	
Encumbrances	341,359	
Total Reserved Fund Balance as of June 30, 2009		515,120
Unreserved Fund Balance as of June 30, 2009		\$4,098,275
FY2009-10 Revenue and Other Sources	\$18,458,925	
FY2009-10 Expenditures and Other Uses	19,712,514	
Revenue Over/(Under) Expenditures		(1,253,589)
FY2009-10 Reserve for Inventories and Prepayments	\$181,966	(8,205)
FY2009-10 Reserve for Encumbrances and Carry Forwards	1,464,996	(1,123,637)
Total Reserved Fund Balance as of June 30, 2010		(1,131,842)
Unreserved Fund Balance as of June 30, 2010		\$1,712,844
Proposed Assignments of Unreserved Fund Balance (Acct. #393.000):		
1 Office Space Rental Program	\$545,000	
2 Property Acquisitions, Demolitions and Options	50,000	
3 Bohn Pool Analysis	26,000	
4 Local Grant Match	25,000	
Total Proposed Designations		646,000
FY2009-10 Estimated Unassigned Fund Balance		<u>\$1,066,844</u>

The decrease in the General Fund-Fund Balance (\$2,385,431) is mainly attributable to the authorized appropriation for the local portion (\$2,250,000) for financing construction and renovation of the Downtown Government Complex. It should be noted that, even after this planned draw down, the Unreserved Fund Balance remains at 15.3% of the FY2009-10 Adopted Budget, which is within the 15%-20% recommended guidelines established by the Government Finance Officers Association (GFOA) of the United States and Canada.

Cash Management Policies and Practices – Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, obligations of the U.S. Treasury, pooled investments and managed portfolio trusts that adhere to the City’s adopted investment policy and Public Act 20 of 1943, as amended, Investment of Public Funds Act. The following exhibit compares investments on June 30, 2010 with the prior fiscal year, reflecting an overall decrease of \$(2,209,696), primarily due to the impact of the Downtown Government Complex Project:

<u>Investment Type</u>	<u>FY2008-09</u>	<u>FY2009-10</u>
Money Market Accounts	\$ 709,232	\$ 792,387
Certificates of Deposit	2,384,771	792,179
U.S. Government Securities	4,383,533	4,398,570
Pooled Investments	<u>1,351,453</u>	<u>636,157</u>
Total	<u>\$8,828,989</u>	<u>\$ 6,619,293</u>

The exhibit below shows the amount of interest earnings by each type of fund during the 2009-10 fiscal year, compared with the prior fiscal year.

<u>Fund Type</u>	<u>FY2008-09</u>	<u>FY2009-10</u>
General Fund	\$291,871	\$124,825
Other Governmental Funds	57,284	122,003
Proprietary Funds	<u>69,753</u>	<u>249,831</u>
Total	<u>\$418,908</u>	<u>\$496,659</u>

City of Adrian investment policy specifies that all public funds held by the City, including federal funds, shall be deposited and/or invested with agencies that are recognized and authorized by Michigan statutes for that purpose. All certificates of investments of funds entrusted to the City of Adrian shall remain in the custody of the Finance Department unless otherwise authorized by the City Commission. As of June 30, 2010 certificates of investments were in custody of the Finance Department.

Risk Management – The City is a member of the Michigan Municipal Liability and Property Pool for its general liability property coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers' compensation coverage. Both pools are under the Michigan Municipal Program sponsored and administered by the Michigan Municipal League (MML).

The City pays annual premiums to the insurance pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of a minimum of \$1,000,000 for each specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund. Based on an historical claims analysis by the Finance Department, deductibles for Comprehensive General Liability, Personal Injury Liability and Public Officials Liability coverages were increased from \$1,000 to \$5,000, six years ago resulting in an annual savings of almost \$30,000.

Pension and Other Post-employment Benefits- The City of Adrian is a member of the Municipal Employees' Retirement System (MERS) of Michigan. The pension program is administered by the MERS Board under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by Public Act 220 of 1996, embodied in the MERS Plan Document. The pension program is categorized as a Defined Benefit Program with eligibility earned at age 60 with 8 or more years of credited service with annual retirement benefits for General Non-represented employees based on 2.25 percent of Final Average Compensation (FAC defined as the three consecutive year period of credited service in which the average compensation paid is highest) times years of credited service. For the current reporting period, employee contributions for General employees amount to 4.0 percent of salary, while employer contributions (\$903,303) equate to 12.0 percent. Upon recommendation of the City Administrator, the City Commission, in 2005, improved the Defined Benefit Program by reducing the required years of credited service to achieve full vesting rights from 10 year to 8 years. Pension benefits, as well as employee and employer contributions, for Represented employees are determined in the collective bargaining process. Total Regular Employee Contributions for Fiscal Year 2009-10 amounted to \$334,460. As of December 31, 2009, the Pension Plan had Net Assets of \$40,872,633 with an Unfunded Actuarial Accrued Liability of \$8,867,105, resulting in a decrease in the Funded Ratio from 82.9% to 82.2%.

Fiduciary Operation- The City of Adrian has a perpetual care fund from which the interest earnings are used to maintain the cemetery. Interest earnings amounted to \$35,890 for Fiscal Year 2009-10, an increase of \$12,515.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Adrian for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. This was the twenty-third consecutive year that the City has received this prestigious award.

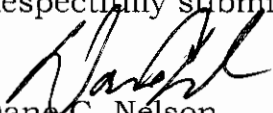
In order to attain the Award, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report with contents in conformance with program standards. Such Report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.


In addition, the City's Chief Financial Officer, previously accorded the Life Achievement Award as "Honorary Life Member", is serving an unprecedented third term on the Michigan Government Finance Officers Association (MGFOA) Board of Trustees. He was the association's President in 1995-96 and was State Representative to the national Government Finance Officers Association of the United States and Canada from 2003-2007. His current term of office will extend from 2008-2010.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in preparation of this report.

In closing, credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Adrian's finances.

Respectfully submitted,


Dane C. Nelson
City Administrator


Jeffrey C. Pardee, C.P.F.O.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Adrian
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



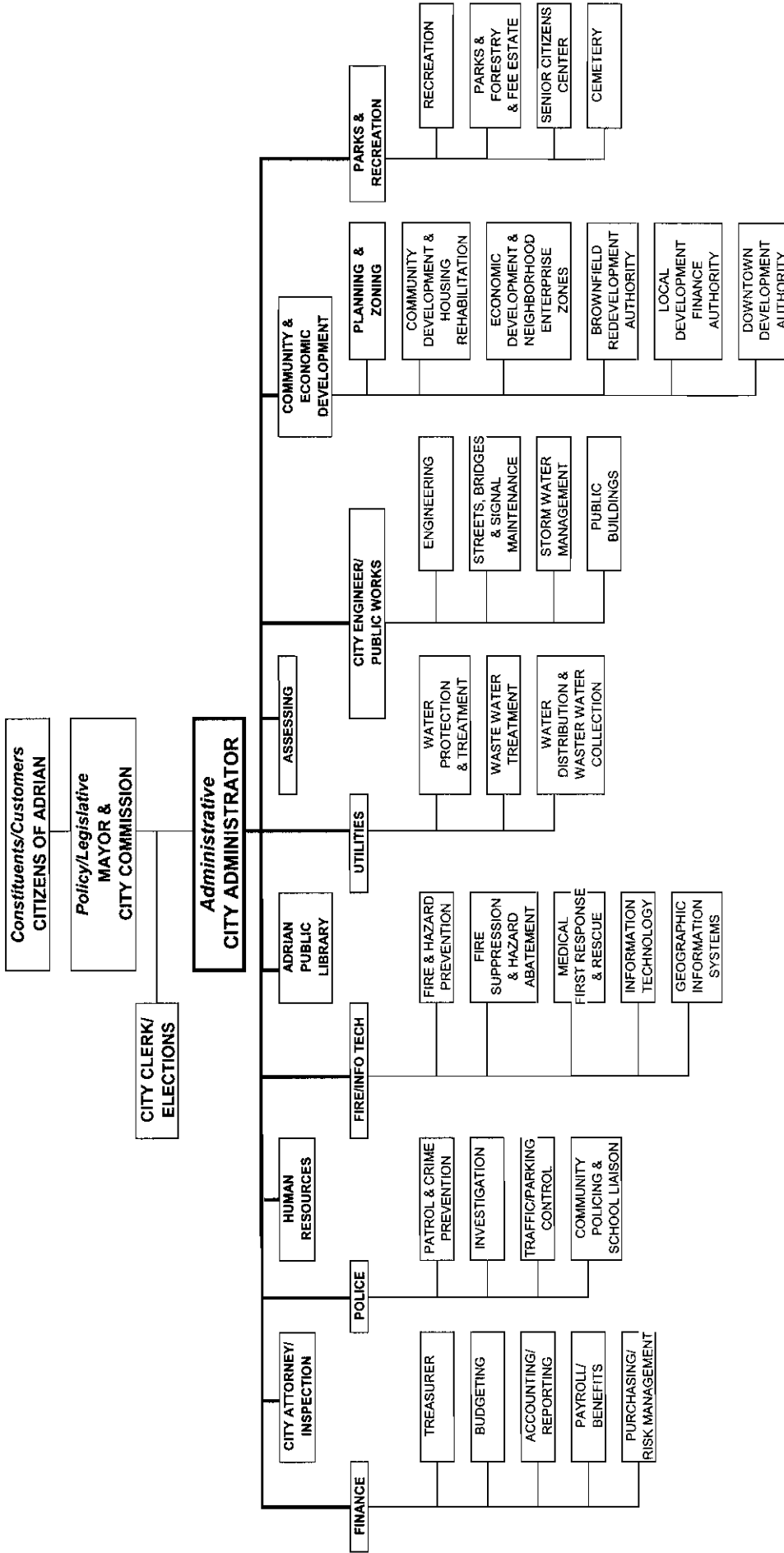
A stylized, handwritten signature in black ink, appearing to be "J.R.E.", written over a white background.

President

A handwritten signature in black ink that reads "Jeffrey R. Emer".

Executive Director

CITY OF ADRIAN ORGANIZATIONAL CHART



CITY OF ADRIAN, MICHIGAN

LIST OF PRICIPAL OFFICIALS

June 30, 2010

<u>NAME</u>	<u>TITLE</u>
Gary McDowell	Mayor
Michael Clegg	Commissioner
Greg Dumars	Commissioner
Cary Carrico	Commissioner
Michael Lee Osborne, Jr.	Commissioner
Harry "Dusty" Steele	Commissioner
Milo Warren	Commissioner
Dane C. Nelson	City Administrator
Jeffrey C. Pardee, C.P.F.O.	Finance Director
Sarah Osburn	City Attorney
Marty Marshall	City Assessor
Terrence Collins	Police Chief
Paul G. Trinka	Fire Chief/IT Director
Mark Gasche	Parks & Recreation Director
Carol Souchock	Library Director
Kristin Bauer	City Engineer/Public Works Director
Pat Baker	City Clerk
Shane Horn	Utilities Director
Heather Lasky	Human Resources Director
Christopher Atkin	Community/Economic Develop Dir.
Marcia Bohannon	Transportation Coordinator
Christopher D. Miller	Downtown/Economic Development Coordinator