

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Auburn	County Bay
Fiscal Year End June 30, 2007	Opinion Date October 24, 2007	Date Audit Report Submitted to State November 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)
Financial Statements		<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>	
Other (Describe)		<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
			Zip 48602
Authorizing CPA Signature 		Printed Name Mari McKenzie	
		License Number 10725	

City of Auburn

Auburn, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2007

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City of Auburn
List of Elected and Appointed Officials
June 30, 2007

City Commission

John McNally	Mayor
Richard Fletcher	Commissioner
Ann Machelski	Commissioner
B.J. Raab	Commissioner
William Reder	Commissioner
Sandra Henning	Commissioner
James Zoller	Commissioner

Other Officers and Officials

JoElla Krantz	City Administrator
Lucille Wiesenauer	City Clerk/Treasurer



3023 Davenport
Saginaw, MI 48602
Phone (989) 793-9830 / (800) 968-0010
Fax (989) 793-0186

Independent Auditors' Report

To the Honorable Mayor and Members of the City Commission
City of Auburn

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

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

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

The management's discussion and analysis and budgetary comparison information identified 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 it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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.

Yeo & Yeo, P.C.

October 24, 2007
Saginaw, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Auburn
Management's Discussion and Analysis
June 30, 2007

As management of the City of Auburn, Michigan, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplemental Information and Other Supplemental Information.

Financial Highlights

- This City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water and Sewer.
 - In total, the assets of the City exceed its liabilities by \$4,863,017 at the close of the most recent fiscal year.
 - \$2,977,616 is invested in Capital Assets, net of related debt;
 - \$3,305 is restricted for specific purposes.
 - \$1,882,096 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$1,521,803 in governmental activities and \$360,293 in business-type activities.
 - The City's total net assets increased by \$302,844 during the year, primarily due to increased infrastructure.
 - The City's bonded debt decreased by \$81,051 (new issues less retirements), during the fiscal year.
- Fund financial statements are comprised of 8 governmental funds and 3 proprietary funds. Governmental funds include the General Fund, Major and Local Street Funds, Street Repair Millage Fund, and other special revenue and debt service funds.
 - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,126,373.
 - Of the fund balance amount, \$703,068 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
 - The City's major funds, the General Fund (\$540,499), Major Street Fund (\$88,100), Local Street Fund (\$1,308) and the Street Repair Millage Fund (\$66,591) account for 99% of this unreserved balance. The remaining amount is represented across the other 4 non-major funds.
 - The General Fund's fund balance increased \$88,864. At the end of the current fiscal year, unreserved general fund balance was 75% of the total general fund expenditures.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

Overview of the Basic Financial Statement

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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 City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Activities presents information showing how the City'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 City 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 City include: general government, public safety, public works, community and economic development and recreation and culture. The business-type activities of the City include: a water and sewer system.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

Fund Financial Statement. The fund financial statements provide more detailed information about the City's major funds individually. 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 City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City 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 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 on 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.

The City of Auburn maintains eight (8) individual governmental funds. 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, Major Street Fund, Local Street Fund and the Street Repair Millage Fund 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 nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general and other major funds to demonstrate compliance with this budget.

Proprietary funds. The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

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 City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

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.

Analysis of the Government-Wide Financial Statements

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

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$ 1,669,738	\$ 1,638,034	\$ (3,385)	\$ 132,051	\$ 1,666,353	\$ 1,770,085
Capital assets	<u>1,171,294</u>	<u>903,148</u>	<u>3,001,967</u>	<u>2,922,645</u>	<u>4,173,261</u>	<u>3,825,793</u>
Total assets	<u>2,841,032</u>	<u>2,541,182</u>	<u>2,998,582</u>	<u>3,054,696</u>	<u>5,839,614</u>	<u>5,595,878</u>
Liabilities						
Current liabilities	66,563	52,093	56,322	58,200	122,885	110,293
Long-term liabilities	<u>829,119</u>	<u>873,219</u>	<u>24,593</u>	<u>52,193</u>	<u>853,712</u>	<u>925,412</u>
Total liabilities	<u>895,682</u>	<u>925,312</u>	<u>80,915</u>	<u>110,393</u>	<u>976,597</u>	<u>1,035,705</u>
Net assets						
Invested in capital assets - net of related debt	420,242	98,645	2,557,374	2,585,452	2,977,616	2,684,097
Restricted	3,305	288,292	-	-	3,305	288,292
Unrestricted	<u>1,521,803</u>	<u>1,228,933</u>	<u>360,293</u>	<u>358,851</u>	<u>1,882,096</u>	<u>1,587,784</u>
Total net assets	<u>\$ 1,945,350</u>	<u>\$ 1,615,870</u>	<u>\$ 2,917,667</u>	<u>\$ 2,944,303</u>	<u>\$ 4,863,017</u>	<u>\$ 4,560,173</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Auburn, assets exceeded liabilities by \$4,863,017 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$302,844.

The largest portion of the City's net assets (61%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital 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.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

An additional portion of the City's net assets \$3,305 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,882,096 may be used to meet the City's ongoing obligations to citizens and creditors.

City's Changes in Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue						
Charges for services	\$ 137,665	\$ 138,104	\$ 502,239	\$ 522,091	\$ 639,904	\$ 660,195
Operating grants and contributions	144,862	146,520	-	-	144,862	146,520
General revenue						
Property taxes	746,751	717,126	-	-	746,751	717,126
State-shared revenue	184,385	226,101	-	-	184,385	226,101
Interest	71,502	38,494	7,708	5,288	79,210	43,782
Miscellaneous	8,882	36,163	1,622	2,090	10,504	38,253
Transfers	(12,400)	(12,400)	12,400	12,400	-	-
	<u>1,281,647</u>	<u>1,290,108</u>	<u>523,969</u>	<u>541,869</u>	<u>1,805,616</u>	<u>1,831,977</u>
Total revenue						
Program expenses						
General government	197,059	193,611	-	-	197,059	193,611
Public safety	251,798	229,014	-	-	251,798	229,014
Public works	375,911	350,055	-	-	375,911	350,055
Community and economic development	3,989	7,075	-	-	3,989	7,075
Recreation and culture	78,203	71,317	-	-	78,203	71,317
Interest on long-term debt	45,207	49,837	-	-	45,207	49,837
Water and sewer	-	-	550,605	564,999	550,605	564,999
	<u>952,167</u>	<u>900,909</u>	<u>550,605</u>	<u>564,999</u>	<u>1,502,772</u>	<u>1,465,908</u>
Total program expenses						
Change in net assets	<u>\$ 329,480</u>	<u>\$ 389,199</u>	<u>\$ (26,636)</u>	<u>\$ (23,130)</u>	<u>\$ 302,844</u>	<u>\$ 366,069</u>

Governmental Activities. Governmental activities increased the City's net assets by \$329,480.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

City of Auburn Funds

General Fund

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$960,499, an increase of \$88,864 over prior year balance, a 10% increase over the previous year.

Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local street component. The City uses the funds for improvements to the City street system, along with contributions from the Street Repair Millage Fund. Major Street fund balance had an increase of \$35,560. The Local Street fund balance had a decrease of \$17,909 due mainly to street improvement projects.

Street Repair Millage Fund

The City's millage for road construction and improvements are accounted for in this fund. The decrease in fund balance of \$159,289 was for transfers to the Local Street Fund for street improvement projects.

Business-type activities. Business-type activities decreased the City's net assets by \$26,636. The Water Fund continued to invest capital assets to replace its aging infrastructure. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

Budgetary Highlights

Budget and actual comparison statements are provided in the Budgetary Comparison Schedule for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times.

Capital Asset and Debt Administration

Capital assets. At June 30, 2007 the City had \$4.17 million invested in capital assets, including buildings, equipment, park and recreation facilities and water and sewer lines.

City of Auburn
Management's Discussion and Analysis
June 30, 2007

Long-Term Debt. At June 30, 2007, the City of Auburn had total bonded debt outstanding of \$775,645. Additional information can be found in the Notes to the Financial Statements, Note 7.

Economic Factors

The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

BASIC FINANCIAL STATEMENTS

City of Auburn
Statement of Net Assets
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,123,380	\$ 286,373	\$ 1,409,753	\$ 152,185
Receivables				
Taxes	21,236	1,547	22,783	-
Customers	20,413	66,443	86,856	-
Special assessments	18,538	-	18,538	-
Accrued interest and other	1,599	-	1,599	590
Due from other units of government	81,985	-	81,985	-
Internal balances	396,016	(396,016)	-	-
Prepaid items	6,571	38,268	44,839	-
Nondepreciable capital assets	61,570	36,000	97,570	13,000
Depreciable capital assets, net	<u>1,109,724</u>	<u>2,965,967</u>	<u>4,075,691</u>	<u>11,072</u>
Total assets	<u>2,841,032</u>	<u>2,998,582</u>	<u>5,839,614</u>	<u>176,847</u>
Liabilities				
Accounts payable	22,412	54,439	76,851	-
Accrued and other liabilities	43,084	1,698	44,782	-
Due to other units of government	1,066	185	1,251	-
Noncurrent liabilities				
Due within one year	89,342	24,593	113,935	-
Due in more than one year	<u>739,777</u>	<u>-</u>	<u>739,777</u>	<u>-</u>
Total liabilities	<u>895,682</u>	<u>80,915</u>	<u>976,597</u>	<u>-</u>
Net assets				
Invested in capital assets, net of related debt	420,242	2,557,374	2,977,616	-
Restricted for:				
Debt service	3,305	-	3,305	-
Unrestricted	<u>1,521,803</u>	<u>360,293</u>	<u>1,882,096</u>	<u>176,847</u>
Total net assets	<u>\$ 1,945,350</u>	<u>\$ 2,917,667</u>	<u>\$ 4,863,017</u>	<u>\$ 176,847</u>

See Accompanying Notes to Financial Statements

City of Auburn
Statement of Activities
For the Year Ended June 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Functions/Programs								
Primary government								
Governmental activities								
General government	\$ 197,059	\$ 18,124	\$ -	\$ -	\$ (178,935)	\$ -	\$ (178,935)	\$ -
Public safety	251,798	2,240	-	-	(249,558)	-	(249,558)	-
Public works	375,911	108,481	144,862	-	(122,568)	-	(122,568)	-
Community and economic development	3,989	100	-	-	(3,889)	-	(3,889)	-
Recreation and culture	78,203	8,720	-	-	(69,483)	-	(69,483)	-
Interest on long-term debt	45,207	-	-	-	(45,207)	-	(45,207)	-
Total governmental activities	<u>952,167</u>	<u>137,665</u>	<u>144,862</u>	<u>-</u>	<u>(669,640)</u>	<u>-</u>	<u>(669,640)</u>	<u>-</u>
Business-type activities								
Sewer	260,224	251,084	-	-	-	(9,140)	(9,140)	-
Water	290,381	251,155	-	-	-	(39,226)	(39,226)	-
Total business-type activities	<u>550,605</u>	<u>502,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,366)</u>	<u>(48,366)</u>	<u>-</u>
Total primary government	<u>\$ 1,502,772</u>	<u>\$ 639,904</u>	<u>\$ 144,862</u>	<u>\$ -</u>	<u>(669,640)</u>	<u>(48,366)</u>	<u>(718,006)</u>	<u>-</u>
Component unit								
Downtown Development Authority	<u>\$ 564,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				<u>(564,271)</u>
General revenues								
Property taxes					746,751	-	746,751	186,715
State shared revenue					184,385	-	184,385	-
Unrestricted investment earnings					71,502	7,708	79,210	11,078
Gain (loss) on sale of capital assets					-	-	-	74,161
Miscellaneous					8,882	1,622	10,504	-
Transfers					(12,400)	12,400	-	-
Total general revenues and transfers					<u>999,120</u>	<u>21,730</u>	<u>1,020,850</u>	<u>271,954</u>
Change in net assets					329,480	(26,636)	302,844	(292,317)
Net assets - beginning of year					1,615,870	2,944,303	4,560,173	469,164
Net assets - end of year					<u>\$ 1,945,350</u>	<u>\$ 2,917,667</u>	<u>\$ 4,863,017</u>	<u>\$ 176,847</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2007

	<u>Special Revenue Funds</u>					<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street Repair Millage</u>	<u>Nonmajor Governmental Funds</u>	
Assets						
Cash and cash equivalents	\$ 507,721	\$ 75,615	\$ 8,082	\$ 59,866	\$ 9,810	\$ 661,094
Receivables						
Taxes	14,511	-	-	6,725	-	21,236
Customers	20,348	-	-	-	65	20,413
Special assessments	18,538	-	-	-	-	18,538
Accrued interest and other	1,481	-	-	-	-	1,481
Due from other units of government	59,244	16,208	6,533	-	-	81,985
Due from other funds	-	-	4,054	-	-	4,054
Prepaid items	4,411	671	1,029	-	-	6,111
Advances to other funds	420,000	-	-	-	-	420,000
Total assets	<u>\$ 1,046,254</u>	<u>\$ 92,494</u>	<u>\$ 19,698</u>	<u>\$ 66,591</u>	<u>\$ 9,875</u>	<u>\$ 1,234,912</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2007

	Special Revenue Funds					Total Governmental Funds
	General	Major Street	Local Street	Street Repair Millage	Nonmajor Governmental Funds	
Liabilities						
Accounts payable	\$ 19,883	\$ 249	\$ 491	\$ -	\$ -	\$ 20,623
Accrued and other liabilities	13,522	84	17,730	-	-	31,336
Due to other funds	-	4,054	-	-	-	4,054
Due to other units of government	850	7	169	-	-	1,026
Deferred revenue	<u>51,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,500</u>
Total liabilities	<u>85,755</u>	<u>4,394</u>	<u>18,390</u>	<u>-</u>	<u>-</u>	<u>108,539</u>
Fund balances						
Reserved for:						
Debt service	-	-	-	-	3,305	3,305
Long-term advances	420,000	-	-	-	-	420,000
Unreserved, reported in:						
General fund	540,499	-	-	-	-	540,499
Special revenue funds	<u>-</u>	<u>88,100</u>	<u>1,308</u>	<u>66,591</u>	<u>6,570</u>	<u>162,569</u>
Total fund balances	<u>960,499</u>	<u>88,100</u>	<u>1,308</u>	<u>66,591</u>	<u>9,875</u>	<u>1,126,373</u>
Total liabilities and fund balances	<u>\$ 1,046,254</u>	<u>\$ 92,494</u>	<u>\$ 19,698</u>	<u>\$ 66,591</u>	<u>\$ 9,875</u>	<u>\$ 1,234,912</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2007

Total fund balances for governmental funds	\$ 1,126,373
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	963,591
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	51,499
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(11,145)
Compensated absences	(78,067)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(751,052)
Internal service funds are included as part of governmental activities.	<u>644,151</u>
Net assets of governmental activities	<u><u>\$ 1,945,350</u></u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	<u>Special Revenue Funds</u>				<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Street Repair Millage</u>		
Revenues						
Taxes	\$ 490,346	\$ -	\$ -	\$ 256,405	\$ -	\$ 746,751
Licenses and permits	20,101	-	-	-	156	20,257
State revenue sharing	187,641	96,684	41,820	-	-	326,145
Other state grants	-	2,098	4,260	-	-	6,358
Charges for services	108,416	-	-	-	-	108,416
Fines and forfeitures	272	-	-	-	-	272
Interest income	39,526	1,543	67	16,617	396	58,149
Rental income	5,290	-	-	-	-	5,290
Other revenue	17,538	90	131	-	-	17,759
	<u>869,130</u>	<u>100,415</u>	<u>46,278</u>	<u>273,022</u>	<u>552</u>	<u>1,289,397</u>
Total revenues						

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2007

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Street Repair Millage		
Expenditures						
Current						
General government	\$ 189,271	\$ -	\$ -	\$ -	\$ -	\$ 189,271
Public safety	243,324	-	-	-	3,900	247,224
Public works	195,623	40,174	92,473	-	-	328,270
Community and economic development	3,989	-	-	-	-	3,989
Recreation and culture	68,567	-	-	-	-	68,567
Capital outlay	18,966	-	345,395	-	30,891	395,252
Debt service						
Principal retirement	-	-	-	-	84,342	84,342
Interest and fiscal charges	-	-	-	-	47,178	47,178
Total expenditures	<u>719,740</u>	<u>40,174</u>	<u>437,868</u>	<u>-</u>	<u>166,311</u>	<u>1,364,093</u>
Excess (deficiency) of revenues over expenditures	<u>149,390</u>	<u>60,241</u>	<u>(391,590)</u>	<u>273,022</u>	<u>(165,759)</u>	<u>(74,696)</u>
Other financing sources (uses)						
Transfers in	-	-	373,681	-	131,437	505,118
Transfers out	(60,526)	(24,681)	-	(432,311)	-	(517,518)
Debt proceeds	-	-	-	-	30,891	30,891
Total other financing sources and uses	<u>(60,526)</u>	<u>(24,681)</u>	<u>373,681</u>	<u>(432,311)</u>	<u>162,328</u>	<u>18,491</u>
Net change in fund balance	88,864	35,560	(17,909)	(159,289)	(3,431)	(56,205)
Fund balance - beginning of year	<u>871,635</u>	<u>52,540</u>	<u>19,217</u>	<u>225,880</u>	<u>13,306</u>	<u>1,182,578</u>
Fund balance - end of year	<u>\$ 960,499</u>	<u>\$ 88,100</u>	<u>\$ 1,308</u>	<u>\$ 66,591</u>	<u>\$ 9,875</u>	<u>\$ 1,126,373</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - Total governmental funds	\$ (56,205)
Total change in net assets reported for governmental activities in the statement of activities is different because:	
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.	
Depreciation expense	(55,488)
Capital outlay	364,395
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	(3,256)
Special assessments	(5,447)
Expenses are recorded when incurred in the statement of activities	
Accrued interest	1,971
Compensated absences	(9,351)
Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.	
Bond proceeds	(30,891)
Repayments of long-term debt	84,342
Internal service funds are also included as governmental activities	39,410
Change in net assets of governmental activities	\$ 329,480

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 226,077	\$ 60,296	\$ 286,373	\$ 462,286
Receivables				
Taxes	-	1,547	1,547	-
Customers	20,380	46,063	66,443	-
Accrued interest and other	-	-	-	118
Prepaid items	37,544	724	38,268	460
Total current assets	284,001	108,630	392,631	462,864
Noncurrent assets				
Nondepreciable capital assets	36,000	-	36,000	-
Depreciable capital assets, net	1,042,995	1,922,972	2,965,967	207,703
Total noncurrent assets	1,078,995	1,922,972	3,001,967	207,703
Total assets	1,362,996	2,031,602	3,394,598	670,567
Liabilities				
Current liabilities				
Accounts payable	39,371	15,068	54,439	1,789
Accrued and other liabilities	764	934	1,698	603
Due to other units of government	64	121	185	40
Current portion of noncurrent liabilities	24,593	-	24,593	-
Total current liabilities	64,792	16,123	80,915	2,432
Noncurrent liabilities				
Advances from other funds	-	420,000	420,000	-
Total liabilities	64,792	436,123	500,915	2,432

See Accompanying Notes to Financial Statements

**City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2007**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Net assets				
Invested in capital assets, net of related debt	\$ 1,054,402	\$ 1,502,972	\$ 2,557,374	\$ 207,703
Unrestricted	243,802	92,507	336,309	460,432
Total net assets	\$ 1,298,204	\$ 1,595,479	2,893,683	\$ 668,135
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			23,984	
Net assets of business-type activities			\$ 2,917,667	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Operating revenue				
Customer fees	\$ 250,479	\$ 250,450	\$ 500,929	\$ -
Billings to other funds	-	-	-	159,373
Connection fees	605	705	1,310	-
Rental income	377	-	377	-
Other revenue	29	1,216	1,245	908
	<u>251,490</u>	<u>252,371</u>	<u>503,861</u>	<u>160,281</u>
Total operating revenue				
Operating expenses				
Personnel services	30,678	48,433	79,111	27,020
Supplies	6,846	15,410	22,256	25,581
Contractual services	165,703	152,639	318,342	718
Utilities	4,682	264	4,946	3,702
Repairs and maintenance	13,204	17,346	30,550	18,313
Other expenses	1,160	3,730	4,890	12,358
Depreciation	36,426	47,143	83,569	41,862
	<u>258,699</u>	<u>284,965</u>	<u>543,664</u>	<u>129,554</u>
Total operating expenses				
Operating income (loss)	<u>(7,209)</u>	<u>(32,594)</u>	<u>(39,803)</u>	<u>30,727</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Interest income	\$ 6,395	\$ 1,313	\$ 7,708	\$ 13,353
Interest expense	(3,061)	(8,550)	(11,611)	-
Total nonoperating revenues (expenses)	3,334	(7,237)	(3,903)	13,353
Income (loss) before transfers in	(3,875)	(39,831)	(43,706)	44,080
Transfers in	-	12,400	12,400	-
Change in net assets	(3,875)	(27,431)	(31,306)	44,080
Net assets - beginning of year	1,302,079	1,622,910		624,055
Net assets - end of year	\$ 1,298,204	\$ 1,595,479		\$ 668,135
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			4,670	
Change in net assets of business-type activities			\$ (26,636)	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2007

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 251,669	\$ 262,028	\$ 513,697	\$ 790
Receipts from interfund users	-	-	-	159,373
Payments to suppliers	(184,033)	(174,686)	(358,719)	(59,773)
Payments to employees	(30,678)	(48,433)	(79,111)	(27,020)
Payments for interfund services used	(7,914)	(16,327)	(24,241)	-
Net cash provided by operating activities	<u>29,044</u>	<u>22,582</u>	<u>51,626</u>	<u>73,370</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	12,400	12,400	-
Cash flows from capital and related financing activities				
Advances from other funds	-	135,000	135,000	-
Purchases/construction of capital assets	-	(162,891)	(162,891)	(1,101)
Principal and interest paid on long-term debt	(30,661)	(8,550)	(39,211)	-
Net cash used by capital and related financing activities	<u>(30,661)</u>	<u>(36,441)</u>	<u>(67,102)</u>	<u>(1,101)</u>
Cash flows from investing activities				
Interest received	<u>6,395</u>	<u>1,313</u>	<u>7,708</u>	<u>13,353</u>
Net increase (decrease) in cash and cash equivalents	4,778	(146)	4,632	85,622
Cash and cash equivalents - beginning of year	<u>221,299</u>	<u>60,442</u>	<u>281,741</u>	<u>376,664</u>
Cash and cash equivalents - end of year	<u>\$ 226,077</u>	<u>\$ 60,296</u>	<u>\$ 286,373</u>	<u>\$ 462,286</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2007

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (7,209)	\$ (32,594)	\$ (39,803)	\$ 30,727
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	36,426	47,143	83,569	41,862
Changes in assets and liabilities				
Receivables (net)	179	9,657	9,836	(118)
Prepaid items	(9)	(89)	(98)	(34)
Accounts payable	(639)	(1,807)	(2,446)	1,047
Accrued and other liabilities	275	222	497	(100)
Due to other units of government	21	50	71	(14)
Net cash provided by operating activities	<u>\$ 29,044</u>	<u>\$ 22,582</u>	<u>\$ 51,626</u>	<u>\$ 73,370</u>

See Accompanying Notes to Financial Statements

City of Auburn
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2007

	<u>Payroll</u>
Assets	
Cash and cash equivalents	\$ <u>3,929</u>
Liabilities	
Due to other units of government	\$ <u>3,929</u>

See Accompanying Notes to Financial Statements

City of Auburn
Notes to Financial Statements
June 30, 2007

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Downtown Development Authority are appointed by the City Commission. The budgets and expenditures of the Downtown Development Authority must be approved by the City Commission. The City also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the City of Auburn annual financial statements.

Jointly Govern Organizations

Auburn-Williams Fire Protection District – The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires the City provide 30% and Williams Township 70% of the operational and building costs. The District has title to all property, plant and equipment. All of the financial operations of the District are recorded in the Auburn-Williams Fire Protection District.

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

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

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

City of Auburn
Notes to Financial Statements
June 30, 2007

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, sales 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 government.

The government reports the following major governmental funds:

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

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

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

The Street Repair Millage Fund accounts for taxes levied for road construction and improvements.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue fund, Building Inspection Fund, accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds, 2000 Midland Road Bond Fund, 2000 Michigan Road Transportation Bond Fund, and 1992 Auburn Drain Fund, account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

City of Auburn
Notes to Financial Statements
June 30, 2007

The Deferred Compensation Trust Fund accounts for amounts withheld from employees' pay in accordance with the Internal Revenue Code section 457.

The Payroll Fund and Current Tax Collection Fund account for payroll expenses and property tax and other deposits collected on behalf of other units and individuals, respectively.

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 government 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. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 they are needed.

Assets, Liabilities, and Net Assets or Equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

City of Auburn
Notes to Financial Statements
June 30, 2007

The 2006 taxable valuation of the government totaled \$48,870,547, on which ad valorem taxes consisted of 10.06 mills for operating purposes, 5.0 for the Auburn drain, and 0.94 mills for road repairs. This resulted in \$428,987 for operating expenses, \$48,126 for the Auburn drain, and \$248,930 for road repairs, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

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

Buildings	40 to 60 years
Building improvements	15 to 30 years
Roads	20 to 40 years
Other infrastructure	20 to 40 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits,

which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all of their accumulated vacation pay upon termination of employment for any reason. All vacation and sick 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, for example, as a result of employee resignations and retirements.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

City of Auburn
Notes to Financial Statements
June 30, 2007

Comparative Data

Comparative data is not included in the government's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the first meeting held in June, the City Administrator submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Administrator is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Budget Deficit

The City authorized a budget deficit in the Street Repair Millage Fund. The year end fund balance is in a positive position.

Excess of Expenditures over Appropriations

The City had the following excess of expenditures over appropriations:

	Budget	Actual	Excess
General Fund			
Recreation and culture	\$ 66,225	\$ 68,567	\$ 2,342

Note 3 - Deposits and Investments

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents
Governmental activities	\$ 1,123,380
Business-type activities	286,373
Total primary government	1,409,753
Component unit	152,185
Total	\$ 1,561,938

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,409,603	\$ 152,185
Petty cash and cash on hand	150	-
	\$ 1,409,753	\$ 152,185

City of Auburn
Notes to Financial Statements
June 30, 2007

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government’s investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government’s deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 806,635 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Receivables and Deferred Revenue

The only receivable not expected to be collected within one year is as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 18,538	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 32,961
Special assessments	18,538
	\$ 51,499

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital assets being depreciated				
Land improvements	209,385	5,356	-	214,741
Infrastructure	41,687	352,153	-	763,840
Buildings, additions and improvements	267,963	-	-	267,963
Machinery and equipment	649,940	7,987	-	657,927
Vehicles	89,793	-	-	89,793
Total capital assets being depreciated	1,628,768	365,496	-	1,994,264
Less accumulated depreciation for				
Land improvements	184,982	6,375	-	191,357
Infrastructure	14,984	32,018	-	47,002
Buildings, additions and improvements	109,103	7,667	-	116,770
Machinery and equipment	401,454	51,228	-	452,682
Vehicles	76,667	62	-	76,729
Total accumulated depreciation	787,190	97,350	-	884,540
Net capital assets being depreciated	841,578	268,146	-	1,109,724
Governmental activities capital assets, net	\$ 903,148	\$ 268,146	\$ -	\$ 1,171,294

City of Auburn
Notes to Financial Statements
June 30, 2007

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

Governmental activities	
General government	\$ 5,478
Public safety	5,536
Public works	32,809
Recreation and culture	11,665
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>41,862</u>
Total governmental activities	<u>97,350</u>
 Business-type activities	
Sewer	36,426
Water	<u>47,143</u>
Total business-type activities	<u>83,569</u>
Total primary government	<u>\$ 180,919</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Capital assets being depreciated				
Water system	2,391,139	167,532	-	2,558,671
Sewer system	<u>1,806,998</u>	<u>-</u>	<u>-</u>	<u>1,806,998</u>
Total capital assets being depreciated	<u>4,198,137</u>	<u>167,532</u>	<u>-</u>	<u>4,365,669</u>
Less accumulated depreciation for				
Water system	588,556	47,143	-	635,699
Sewer system	<u>727,577</u>	<u>36,426</u>	<u>-</u>	<u>764,003</u>
Total accumulated depreciation	<u>1,316,133</u>	<u>83,569</u>	<u>-</u>	<u>1,399,702</u>
Net capital assets being depreciated	<u>2,882,004</u>	<u>83,963</u>	<u>-</u>	<u>2,965,967</u>
Business-type capital assets, net	<u>\$ 2,918,004</u>	<u>\$ 83,963</u>	<u>\$ -</u>	<u>\$ 3,001,967</u>

Capital assets activity of the component unit for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Capital assets being depreciated				
Land improvements	<u>12,581</u>	<u>-</u>	<u>-</u>	<u>12,581</u>
Less accumulated depreciation for				
Land improvements	<u>1,006</u>	<u>503</u>	<u>-</u>	<u>1,509</u>
Net capital assets being depreciated	<u>11,575</u>	<u>(503)</u>	<u>-</u>	<u>11,072</u>
Component unit capital assets, net	<u>\$ 24,575</u>	<u>\$ (503)</u>	<u>\$ -</u>	<u>\$ 24,072</u>

The component unit recognized \$504 of depreciation expense.

Note 6 - Interfund Receivables, Payable, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
Local Street	Major Street	\$ 4,054

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

City of Auburn
Notes to Financial Statements
June 30, 2007

Advances at year end are as follows:

Receivable Fund	Payable Fund	Amount
Advances due to/from other funds		
General	Water	<u>\$ 420,000</u>

The advance was made for water main improvements. Annual principal payments of \$25,000 plus 3% annual interest will be made until the advance is paid in full in 2024.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General Fund	Water Fund	\$ 12,400
Major Street	Local Street	24,681
Street Repair Millage Fund	Local Street	349,000
Street Repair Millage Fund	Other governmental funds	83,311
General Fund	Other governmental funds	<u>48,126</u>
		<u>\$ 517,518</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Street Repair Millage Fund and the Major Street Fund transferred revenues to the Local Street Fund for the construction of roadways. In addition, the Street Repair Millage Fund transferred funds to other governmental funds for the payment of debt.

City of Auburn
Notes to Financial Statements
June 30, 2007

Note 7 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	<u>Maturity Date</u>	<u>Interest Rate Ranges</u>	<u>Principal Maturity Ranges</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities								
Bonds and notes payable								
General obligation bonds								
2000 Midland Road Bonds	2013	6.00%	\$34,342	\$ 209,503	\$ 30,891	\$ 34,342	\$ 206,052	\$ 34,342
2000 Michigan Transportation Bonds	2015	5.40% - 5.60%	\$35,000 - \$60,000	400,000	-	35,000	365,000	35,000
1992 Auburn Drain	2015	5.40% - 5.60%	\$20,000 - \$25,000	195,000	-	15,000	180,000	20,000
Total bonds payable				804,503	30,891	84,342	751,052	89,342
Compensated absences				68,716	9,351	-	78,067	-
Total governmental activities				\$ 873,219	\$ 40,242	\$ 84,342	\$ 829,119	\$ 89,342
Business-type activities								
Bonds and notes payable								
General obligation bonds								
Bay County Sewer Bonds	2008	5.50%	\$24,593	\$ 52,193	-	\$ 27,600	\$ 24,593	\$ 24,593

City of Auburn
Notes to Financial Statements
June 30, 2007

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

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 89,342	\$ 41,978	\$ 24,593	\$ 1,518
2009	94,342	37,034	-	-
2010	94,342	31,788	-	-
2011	99,342	26,512	-	-
2012	<u>373,684</u>	<u>50,066</u>	-	-
	\$ 751,052	\$ 187,378	\$ 24,593	\$ 1,518

Note 8 - Risk Management

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

Note 9 - Employee Retirement and Benefit Systems

Defined Benefit Pension Plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. 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 MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 3 percent of gross wages for the first \$4,200 of wages earned and 5% thereafter, for full time employees.

Annual pension costs – For year ended 2006, the government's annual pension cost of \$32,006 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8 percent investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 4.5 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period.

The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2006 follows:

	2006	2005	2004
Annual pension cost	\$ 27,657	\$ 31,200	\$ 27,769
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,274,864	1,179,536	1,094,054
Actuarial accrued liabilities	1,392,789	1,353,218	1,306,460
Unfunded AAL	117,925	173,682	212,406
Funded ratio	92.0%	87.0%	84.0%
Covered payroll	323,583	321,788	327,134
UAAL as a percentage of covered payroll	36%	54%	65%

Note 10 - Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for*

City of Auburn
Notes to Financial Statements
June 30, 2007

Postemployment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

The Government Accounting Standards Board has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes controls over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving *receivables* should be reported as a sale, the difference between the carrying value of the receivable and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2006.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Reporting for Pollution Remediation Obligations*. This Statement addresses how to account for pollution

remediation activities for the effects of *existing* pollution. It does not include *prevention or control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the current value of expected costs estimated using the *expected cash flows method*. This Statement is effective for financial statements with periods ending after December 15, 2007. However, measurement is required as of the beginning of the period.

REQUIRED SUPPLEMENTAL INFORMATION

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Revenues				
Taxes				
Property taxes	\$ 480,200	\$ 477,350	\$ 478,402	\$ 1,052
Penalties and interest	4,100	6,742	5,415	(1,327)
Administration fee	-	-	6,529	6,529
Licenses and permits	20,100	20,100	20,101	1
State revenue sharing	190,000	188,800	187,641	(1,159)
Charges for services	110,500	110,500	108,416	(2,084)
Fines and forfeitures	1,000	500	272	(228)
Interest income	15,000	28,000	39,526	11,526
Rental income	4,100	5,500	5,290	(210)
Other revenue	9,600	10,790	17,538	6,748
	<u>834,600</u>	<u>848,282</u>	<u>869,130</u>	<u>20,848</u>
Total revenues				
Expenditures				
General government				
Township board	4,920	4,920	3,762	(1,158)
Manager	94,355	87,035	83,648	(3,387)
Audit	2,200	2,200	2,034	(166)
Board of review	700	700	45	(655)
Treasurer	51,852	51,852	44,962	(6,890)
Assessor	17,000	11,300	10,927	(373)
Elections	12,811	12,811	8,774	(4,037)
Buildings and grounds	29,101	29,101	34,046	4,945
Attorney	3,000	3,000	1,073	(1,927)
	<u>215,939</u>	<u>202,919</u>	<u>189,271</u>	<u>(13,648)</u>
Total general government				

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 100,000	\$ 100,000	\$ 96,684	\$ (3,316)
Other state grants	4,000	4,000	2,098	(1,902)
Interest income	500	500	1,543	1,043
Other revenue	-	-	90	90
	<u>104,500</u>	<u>104,500</u>	<u>100,415</u>	<u>(4,085)</u>
Expenditures				
Current				
Public works	76,572	76,572	40,174	(36,398)
Transfers out	25,500	25,500	24,681	(819)
	<u>102,072</u>	<u>102,072</u>	<u>64,855</u>	<u>(37,217)</u>
Excess of revenues over expenditures	2,428	2,428	35,560	33,132
Fund balance - beginning of year	<u>52,540</u>	<u>52,540</u>	<u>52,540</u>	<u>-</u>
Fund balance - end of year	<u>\$ 54,968</u>	<u>\$ 54,968</u>	<u>\$ 88,100</u>	<u>\$ 33,132</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Public safety				
Police	\$ 190,933	\$ 190,933	\$ 183,031	\$ (7,902)
Fire department	59,000	60,293	60,293	-
Total public safety	<u>249,933</u>	<u>251,226</u>	<u>243,324</u>	<u>(7,902)</u>
Public works				
Department of public works	54,638	59,584	47,266	(12,318)
Sidewalks	29,375	29,375	21,856	(7,519)
Street lighting	22,000	22,000	23,745	1,745
Sanitary land fill	102,000	102,000	102,756	756
Total public works	<u>208,013</u>	<u>212,959</u>	<u>195,623</u>	<u>(17,336)</u>
Community and economic development				
Planning	9,600	9,600	3,989	(5,611)
Recreation and culture				
Parks and recreation	56,263	66,225	68,567	2,342
Other functions				
Contingency	2,000	2,000	-	(2,000)
Capital outlay	20,600	31,145	18,966	(12,179)
Transfers out	60,600	60,600	60,526	(74)
Total expenditures	<u>822,948</u>	<u>836,674</u>	<u>780,266</u>	<u>(56,408)</u>
Excess of revenues over expenditures	11,652	11,608	88,864	77,256
Fund balance - beginning of year	871,635	871,635	871,635	-
Fund balance - end of year	<u>\$ 883,287</u>	<u>\$ 883,243</u>	<u>\$ 960,499</u>	<u>\$ 77,256</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
State revenue sharing	\$ 41,000	\$ 41,000	\$ 41,820	\$ 820
Other state grants	2,500	2,500	4,260	1,760
Interest income	50	50	67	17
Other revenue	-	-	131	131
Transfers in	<u>255,500</u>	<u>385,500</u>	<u>373,681</u>	<u>(11,819)</u>
Total revenues	<u>299,050</u>	<u>429,050</u>	<u>419,959</u>	<u>(9,091)</u>
Expenditures				
Current				
Public works	83,703	83,703	92,473	8,770
Capital outlay	<u>230,000</u>	<u>360,000</u>	<u>345,395</u>	<u>(14,605)</u>
Total expenditures	<u>313,703</u>	<u>443,703</u>	<u>437,868</u>	<u>(5,835)</u>
Excess (deficiency) of revenues over expenditures	(14,653)	(14,653)	(17,909)	(3,256)
Fund balance - beginning of year	<u>19,217</u>	<u>19,217</u>	<u>19,217</u>	<u>-</u>
Fund balance - end of year	<u>\$ 4,564</u>	<u>\$ 4,564</u>	<u>\$ 1,308</u>	<u>\$ (3,256)</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Street Repair Millage Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 254,000	\$ 254,000	\$ 256,405	\$ 2,405
Interest income	1,000	1,000	16,617	15,617
Total revenues	<u>255,000</u>	<u>255,000</u>	<u>273,022</u>	<u>18,022</u>
Expenditures				
Current				
Public works	25	25	-	(25)
Transfers out	<u>412,800</u>	<u>543,800</u>	<u>432,311</u>	<u>(111,489)</u>
Total expenditures	<u>412,825</u>	<u>543,825</u>	<u>432,311</u>	<u>(111,514)</u>
Excess (deficiency) of revenues over expenditures	(157,825)	(288,825)	(159,289)	129,536
Fund balance - beginning of year	<u>225,880</u>	<u>225,880</u>	<u>225,880</u>	<u>-</u>
Fund balance (deficit) - end of year	<u>\$ 68,055</u>	<u>\$ (62,945)</u>	<u>\$ 66,591</u>	<u>\$ 129,536</u>

OTHER SUPPLEMENTAL INFORMATION

City of Auburn
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	
	<u>Building Inspection</u>	<u>1992 Auburn Drain</u>	<u>Total Nonmajor Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 6,505	\$ 3,305	\$ 9,810
Receivables			
Customers	<u>65</u>	<u>-</u>	<u>65</u>
Total assets	<u>\$ 6,570</u>	<u>\$ 3,305</u>	<u>\$ 9,875</u>
Fund balances			
Reserved for:			
Debt service	\$ -	\$ 3,305	\$ 3,305
Unreserved			
Undesignated	<u>6,570</u>	<u>-</u>	<u>6,570</u>
Total fund balances	<u>\$ 6,570</u>	<u>\$ 3,305</u>	<u>\$ 9,875</u>

City of Auburn
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	
Revenues					
Licenses and permits	\$ 156	\$ -	\$ -	\$ -	\$ 156
Interest income	300	-	-	96	396
Total revenues	456	-	-	96	552
Expenditures					
Current					
Public safety	3,900	-	-	-	3,900
Capital outlay	-	-	-	30,891	30,891
Debt service					
Principal retirement	-	15,000	35,000	34,342	84,342
Interest and fiscal charges	-	11,023	22,328	13,827	47,178
Total expenditures	3,900	26,023	57,328	79,060	166,311
Excess (deficiency) of revenues over expenditures	(3,444)	(26,023)	(57,328)	(78,964)	(165,759)
Other financing sources (uses)					
Transfers in	-	26,003	57,308	48,126	131,437
Debt proceeds	-	-	-	30,891	30,891
Total other financing sources (uses)	-	26,003	57,308	79,017	162,328
Net change in fund balance	(3,444)	(20)	(20)	53	(3,431)
Fund balance - beginning of year	10,014	20	20	3,252	13,306
Fund balance - end of year	\$ 6,570	\$ -	\$ -	\$ 3,305	\$ 9,875

City of Auburn
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 180,000	\$ 180,000	\$ 186,715	\$ 6,715
Interest income	3,000	3,000	11,078	8,078
Total revenues	<u>183,000</u>	<u>183,000</u>	<u>197,793</u>	<u>14,793</u>
Expenditures				
Current				
Community and economic development	10,326	10,326	6,229	(4,097)
Capital outlay	<u>512,000</u>	<u>512,000</u>	<u>483,378</u>	<u>(28,622)</u>
Total expenditures	<u>522,326</u>	<u>522,326</u>	<u>489,607</u>	<u>(32,719)</u>
Excess (deficiency) of revenues over expenditures	(339,326)	(339,326)	(291,814)	47,512
Fund balance - beginning of year	<u>444,589</u>	<u>444,589</u>	<u>444,589</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 105,263</u></u>	<u><u>\$ 105,263</u></u>	<u><u>\$ 152,775</u></u>	<u><u>\$ 47,512</u></u>

City of Auburn
Component Unit - Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - Total governmental funds \$ (291,814)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

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.

Depreciation expense (503)

Change in net assets of governmental activities \$ (292,317)

City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2007

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	5.40%	2008	\$ 20,000	\$ 4,973	\$ 4,973	\$ 29,946
2000 Midland Road Bonds	5.45%	2009	20,000	4,433	4,433	28,866
	5.50%	2010	20,000	3,888	3,888	27,776
	5.50%	2011	20,000	3,338	3,338	26,676
	5.55%	2012	25,000	2,788	2,788	30,576
	5.55%	2013	25,000	2,094	2,094	29,188
	5.60%	2014	25,000	1,400	1,400	27,800
	5.60%	2015	<u>25,000</u>	<u>700</u>	<u>700</u>	<u>26,400</u>
			<u>\$ 180,000</u>	<u>\$ 23,614</u>	<u>\$ 23,614</u>	<u>\$ 227,228</u>
 2000 Michigan Transportation Bonds	5.40%	2008	\$ 35,000	\$ 10,090	\$ 10,090	\$ 55,180
	5.45%	2009	40,000	9,145	9,145	58,290
	5.50%	2010	40,000	8,055	8,055	56,110
	5.50%	2011	45,000	6,955	6,955	58,910
	5.55%	2012	45,000	5,718	5,718	56,436
	5.55%	2013	45,000	4,469	4,469	53,938
	5.60%	2014	55,000	3,220	3,220	61,440
	5.60%	2015	<u>60,000</u>	<u>1,680</u>	<u>1,680</u>	<u>63,360</u>
			<u>\$ 365,000</u>	<u>\$ 49,332</u>	<u>\$ 49,332</u>	<u>\$ 463,664</u>

City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2007

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities	6.00%	2008	\$ 34,342	\$ 5,926	\$ 5,926	\$ 46,194
Auburn Drain Contract	6.00%	2009	34,342	4,939	4,939	44,220
	6.00%	2010	34,342	3,951	3,951	42,244
	6.00%	2011	34,342	2,963	2,963	40,268
	6.00%	2012	34,342	1,976	1,976	38,294
	6.00%	2013	34,342	988	988	36,318
			<u>\$ 206,052</u>	<u>\$ 20,743</u>	<u>\$ 20,743</u>	<u>\$ 247,538</u>
Business-type Activities						
Bay County Sewer Bonds	5.50%	2008	<u>\$ 24,593</u>	<u>\$ 759</u>	<u>\$ 759</u>	<u>\$ 26,111</u>



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October 24, 2007

To the Management and
 Members of the City Commission of
 City of Auburn

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

However, during our audit we became aware of the following matter that we would like to comment. This letter does not affect our report dated October 24, 2007, on the financial statements of the City of Auburn.

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the City. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the City completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in these procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Status of Prior Year Comments

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Cash collections were not immediately placed in an envelope or the safe	X		

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

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in black ink that reads "Mari McKenzie". The signature is written in a cursive style with a large, looped initial "M".

Mari McKenzie