

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 Benton Harbor, Michigan	County Berrien
Fiscal Year End 6/30/07	Opinion Date 2/28/08	Date Audit Report Submitted to State 4/02/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

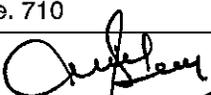
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. 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. 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. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. 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. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. 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. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. 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. The board or council approves all invoices prior to payment as required by charter or statute.
15. 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 checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Alan C. Young & Associates, P.C.		Telephone Number (313) 873-7500	
Street Address 7310 Woodward Ave., Ste. 710		City Detroit	State Zip MI 48202
Authorizing CPA Signature 	Printed Name Anil Sakhuja		License Number 110102118

City of Benton Harbor, Michigan

**Financial Report
with Supplemental Information
June 30, 2007**

City of Benton Harbor, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members
of the City Commission
City of Benton Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Benton Harbor, Michigan 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 of Benton Harbor, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Twin Cities Area Transportation Authority, which represents 97% of the assets and 85% of the revenue of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose report was furnished to us, and our opinion, insofar as it relates to the amounts included for the Transportation Authority, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of 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 and the report of other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Benton Harbor, Michigan 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.

To the Honorable Mayor and Members
of the City Council
City of Benton Harbor, Michigan

In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2008 on our consideration of the City of Benton Harbor, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audit.

The management's discussion and analysis, the budgetary comparison schedule and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

Alan C. Young, Assoc.

February 28, 2008

City of Benton Harbor, Michigan

Management's Discussion and Analysis

The discussion and analysis of the City of Benton Harbor's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007.

Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the City's management.

About the City of Benton Harbor

The City is located in Berrien County in the southwestern corner of the lower peninsula of Michigan. The City is governed by an elected nine-member commission, but operates under a manager form of government.

Because of its economically distressed status, in 1986 Benton Harbor was designated as an Enterprise Zone City by the State under the Michigan Enterprise Zone Act of 1985, and was in fact the only city in the state to receive such a designation. This designation allowed the City to redirect certain property tax collections as well as provide incentives for tax-base growth.

Under the Act, commercial/industrial businesses located within the City limits were given certain State tax benefits in return for real and personal property investments that increased taxable value. Organizations making this investment were then assessed property taxes at one-half the state-wide average millage rate (approximately 26 mills versus total local taxes of approximately 70 mills) for 10 years. The entire tax levy (26 mills) for these "certified" properties became revenue to the City's General Fund. As the 10-year benefit period expired for these organizations, the General Fund tax revenue reverted back to the 18 operating mills approved by City voters.

The remaining commercial/industrial businesses in the City electing not to become "certified" continued to pay property taxes at voter-approved millage rates. However, the Enterprise Zone Act allowed the City to recapture all local school district taxes. These taxes were reported as revenue in the Enterprise Zone Fund and restricted for capital/infrastructure expenditures to promote economic growth.

As "certified" businesses completed their 10-year certification period, General Fund revenue decreased as indicated above. Enterprise Zone Fund revenue increased due to the additional local school taxes recaptured on these properties.

The last commercial/industrial business certifications were approved in 1996 and the entire Enterprise Zone Act ended with property taxes levied in the City's June 30, 2005 fiscal year. Therefore, starting with the year ended June 30, 2006, property tax revenue was generated at normal millage rates established and levied by all local taxing units.

During fiscal years ended June 30, 2006 and 2007, the Enterprise Zone Fund continued to spend the remaining net assets generated by the above taxes on capital/infrastructure projects. At June 30, 2007, this fund was closed and any remaining net assets were transferred to the General Fund and the Federal and State Grants Fund.

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

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

Summary Condensed Statement of Net Assets (normally presented in thousands of dollars)

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Assets									
Current and other assets	\$ 3,949,119	\$ 4,187,835	\$ 3,388,071	\$ 9,518,886	\$ 9,968,775	\$ 9,632,799	\$ 13,468,005	\$ 14,156,610	\$ 13,020,870
Capital assets	<u>16,623,658</u>	<u>16,438,820</u>	<u>15,635,750</u>	<u>3,744,682</u>	<u>3,645,048</u>	<u>3,330,733</u>	<u>20,368,340</u>	<u>20,083,868</u>	<u>18,966,483</u>
Total assets	20,572,777	20,626,655	19,023,821	13,263,568	13,613,823	12,963,532	33,836,345	34,240,478	31,987,353
Liabilities									
Current liabilities	3,586,640	4,051,763	1,511,063	814,471	1,182,446	582,194	4,401,111	5,234,209	2,093,257
Long-term liabilities	<u>2,462,030</u>	<u>1,565,952</u>	<u>2,131,902</u>	<u>1,345,330</u>	<u>983,914</u>	<u>1,337,038</u>	<u>3,807,360</u>	<u>2,549,866</u>	<u>3,468,940</u>
Total liabilities	<u>6,048,670</u>	<u>5,617,715</u>	<u>3,642,965</u>	<u>2,159,801</u>	<u>2,166,360</u>	<u>1,919,232</u>	<u>8,208,471</u>	<u>7,784,075</u>	<u>5,562,197</u>
Net Assets									
Invested in capital assets -									
Net of related debt	16,430,273	16,103,707	15,156,763	3,573,081	3,275,567	3,330,733	20,003,354	19,379,274	18,487,496
Restricted	1,888,906	3,592,990	3,721,874	326,245	321,823	-	2,215,151	3,914,813	3,721,874
Unrestricted (deficit)	<u>(3,795,072)</u>	<u>(4,687,757)</u>	<u>(3,497,781)</u>	<u>7,204,441</u>	<u>7,850,073</u>	<u>7,713,567</u>	<u>3,409,369</u>	<u>3,162,316</u>	<u>4,215,786</u>
Total net assets	<u>\$ 14,524,107</u>	<u>\$ 15,008,940</u>	<u>\$ 15,380,856</u>	<u>\$ 11,103,767</u>	<u>\$ 11,447,463</u>	<u>\$ 11,044,300</u>	<u>\$ 25,627,874</u>	<u>\$ 26,456,403</u>	<u>\$ 26,425,156</u>

The City's combined net assets decreased in fiscal 2007 after remaining flat the previous two years. Net assets decreased \$828,529, from \$26,456,403 to \$25,627,874.

As we look at the governmental activities separately from the business-type activities, we can see that the net assets decreased 3.2 percent from a year ago. The deficit in unrestricted net assets - that which can be used to finance day-to-day operations - decreased by approximately \$893,000 for the governmental activities.

Total net assets for the business-type activities decreased approximately 3.0 percent and unrestricted net assets decreased approximately 8.2 percent.

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in the net assets during the current year and as compared to the prior two years:

	Governmental Activities			Business-type Activities			Total		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Revenue									
Program revenue:									
Charges for services	\$ 1,259,939	\$ 1,102,854	\$ 1,087,217	\$ 5,011,097	\$ 4,956,929	\$ 4,037,964	\$ 6,271,036	\$ 6,059,783	\$ 5,125,181
Operating grants and contributions	2,100,526	2,543,149	2,276,232	-	-	-	2,100,526	2,543,149	2,276,232
Capital grants and contributions	1,293,522	549,436	957,101	-	-	402,495	1,293,522	549,436	1,359,596
General revenue:									
Property taxes	2,584,795	2,887,288	4,436,554	-	-	-	2,584,795	2,887,288	4,436,554
State-shared revenue	2,197,844	2,204,629	2,372,409	-	-	-	2,197,844	2,204,629	2,372,409
Unrestricted investment earnings	92,506	67,161	6,194	10,178	9,954	8,601	102,684	77,115	14,795
Franchise fees	85,809	45,035	-	-	-	-	85,809	45,035	-
Other revenue	(29,736)	141,725	-	-	-	-	(29,736)	141,725	-
Gain on sale of capital assets	1,294,037	1,589,127	690,486	-	-	-	1,294,037	1,589,127	690,486
Total revenue	10,879,242	11,130,404	11,826,193	5,021,275	4,966,883	4,449,060	15,900,517	16,097,287	16,275,253
Program Expenses									
General government	2,361,705	2,386,144	2,265,847	-	-	-	2,361,705	2,386,144	2,265,847
Public safety	4,759,612	4,707,799	3,844,815	-	-	-	4,759,612	4,707,799	3,844,815
Public works	2,336,428	2,294,646	2,201,606	-	-	-	2,336,428	2,294,646	2,201,606
Community and economic development	1,214,855	1,050,266	962,798	-	-	-	1,214,855	1,050,266	962,798
Recreation and culture	277,141	422,057	296,805	-	-	-	277,141	422,057	296,805
Interest on long-term debt	-	35,895	8,362	-	-	-	-	35,895	8,362
Water and sewer	-	-	-	5,566,401	4,946,366	4,568,227	5,566,401	4,946,366	4,568,227
Cemetery	-	-	-	212,904	222,867	208,306	212,904	222,867	208,306
Total program expenses	10,949,741	10,896,807	9,580,233	5,779,305	5,169,233	4,776,533	16,729,046	16,066,040	14,356,766
Excess (Deficiency) Before Transfers	(70,499)	233,597	2,245,960	(758,030)	(202,350)	(327,473)	(828,529)	31,247	1,918,487
Transfers In (Out)	(414,334)	(605,513)	36,789	414,334	605,513	(36,789)	-	-	-
Change in Net Assets	(484,833)	(371,916)	2,282,749	(343,696)	403,163	(364,262)	(828,529)	31,247	1,918,487
Beginning Net Assets	15,008,940	15,380,856	13,098,107	11,447,463	11,044,300	11,408,562	26,456,403	26,425,156	24,506,669
Ending Net Assets	\$ 14,524,107	\$ 15,008,940	\$ 15,380,856	\$ 11,103,767	\$ 11,447,463	\$ 11,044,300	\$ 25,627,874	\$ 26,456,403	\$ 26,425,156

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues decreased by approximately \$251,000. The decrease, which represents approximately 2.3 percent, was primarily due to small decreases in most revenue line items.

Expenses increased by about \$53,000 during the year. Increases resulted from higher public safety, public works, and community/economic development costs offset by decreases in general government, recreation/culture, and debt service.

Business-type Activities

The City's business-type activities consist of utility service as well as cemetery operations. The City provides water to residents as well as sewage treatment services from the Benton Harbor/St. Joseph Joint Wastewater Treatment System.

Total revenues increased by approximately \$54,000. The majority of this increase resulted from a fiscal year 2006 mid-year increase in water rates charged and collected from customers. In addition, expenses increased approximately \$610,000 as the result of increases in water and sewer operating costs along with increases in salaries and healthcare expenses.

The City's Funds

Our analysis of the City's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Commission creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2007 include the General Fund, the Federal and State Grants Fund, the Debt Service Fund, and the Utility Service Fund.

The General Fund pays for most of the City's governmental services. Significant services include police and fire protection services, which incurred expenses of approximately \$4,634,000 in 2007. Wages and fringe benefits make up a substantial portion of the General Fund expenditure budget. Given the fund balance deficit situation in the General Fund, the City is implementing a plan to control/reduce these costs in the future. The plans include reductions in healthcare costs and limited wage increases through union contract negotiations, as well as the elimination of some nonessential staffing positions.

The Federal and State Grants Fund collects and administers grant dollars for various projects.

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

The City did not amend its budget during the year.

Revenue shortfalls included \$217,000 in property taxes due to the roll-back of operating millage rates, \$277,000 in other charges for services due lower collections of rubbish fees, and \$133,000 in rental income due to less equipment rentals. Total General Fund revenue fell short of budgeted amounts by approximately \$248,000.

On the expenditure side, mayor/commission, city manager, and building and grounds exceeded budgeted amounts due to increased general liability/health insurance premiums expenditures. Police department costs exceeded budget by approximately 10 percent due to additional overtime costs, increased fringe benefit costs, and the significant rise in gasoline prices. Fire department costs exceeded budget by the same percentage for many of the same reasons. Rubbish collection fees continue to increase faster than the related revenue and exceeded budget by approximately \$53,000. Parks and recreation costs exceeded budget by \$99,000 because of additional projects and programs funded by local grant dollars. Many other departments were at or below budget, which caused total General Fund expenditures to exceed budget by approximately \$641,000.

Capital Asset and Debt Administration

At the end of 2007, the City had approximately \$45,900,000 invested in a broad range of capital assets, including buildings, police and fire equipment, water and sewer lines, and streets and sidewalks. This amount included additions of \$1,400,000 during the year. In addition, the City has invested significantly in roads within its boundaries. Infrastructure projects in progress and/or completed in 2007 amounted to \$1,100,000 and are included in the additions above. This was after an investment of \$1,500,000 in 2006 and \$2,300,000 in 2005. Retroactive infrastructure to 1980 has not been recorded on the City's books.

The City incurred no additional debt in fiscal year 2007 and reduced existing debt by \$816,000. This reduction included paying \$371,000 against a promissory note in the amount of \$1,250,000 with Benton Charter Township to cover remittance of past water collections by the City from Township residents. While the City still struggles financially, all loan payments were made timely.

Economic Factors and Next Year's Budgets and Rates

The economic position of the City is closely tied to that of the State. For fiscal year 2007, the State revenue sharing provided 33 percent of the City's General Fund revenues (excluding the sale of City-owned property). The State continues to reduce statutory revenue sharing to all local units of government. The State's budget for its year beginning October 1, 2007 contained an agreement for the cities, villages, and townships to maintain revenue-sharing funding at prior year levels. However, this very likely could change. The State funding problems are believed to be a multiple-year situation and future decreases may be likely.

City of Benton Harbor, Michigan

Management's Discussion and Analysis (Continued)

As property tax revenue and state revenue sharing decrease, controlling General Fund expenditures becomes a significant challenge unless new revenue can be generated. The City continues to look for ways to increase its tax base to generate more property tax revenue. Sales of tax-reverted properties for the Harbor Shores initiative (discussed below) generated \$513,000 and \$970,000 of General Fund revenue in 2007 and 2006, respectively, and will provide additional tax base in the future. The court challenge resolved favorably in 2005 related to the sale of a parcel of Jean Klock Park for residential development provided approximately \$632,000 and \$557,000 of revenue in 2007 and 2006, respectively, from additional lot sales. This entire parcel will be developed into 27 high-income residential lots. As lots are sold, the City is entitled to receive 75 percent of the sales price, which will range from \$100,000 to \$400,000 per lot. It is anticipated that lot sales will occur over the next two to three years. Infrastructure for two more residential developments was completed in 2006. The Harbor Town subdivision will consist of 26 houses built for middle-income families. At the date of these financial statements, 13 lots have been sold and the remaining 13 have purchase options. Phase one of the \$20 million HOPE VI housing project to provide replacement low-income housing was partially complete at year end. As construction is completed, these properties will add significant dollars to the City's property tax base over the next five years.

To facilitate the above projects, the City incurred significant up-front costs in fiscal years 2005 through 2007. This investment, which will not be returned for several years, consisted mostly of infrastructure such as replacement of water mains in the Belview/Brunson Avenue area, replacement of water and sewer mains and streetscape improvements in the arts district, replacement of the Stevens Avenue sewer lift station, demolition and replacement of the North Shore Drive bridge, reconstruction/resurfacing of Colfax, Broadway, and Pipestone Avenues, and recreation area improvements including Riverfront Park and a new bike path connecting points of interest throughout the City. The Paw Paw River Bridge was completed and opened in December 2005 and provides another traffic connection between the cities of Benton Harbor and St. Joseph.

A major economic development effort which involves not only the City of Benton Harbor, but also the City of St. Joseph and Benton Charter Township, began in late fiscal 2007. The Harbor Shores initiative will include development in the areas of water and land recreation facilities, residential housing, retail trade, and arts and culture opportunities. As part of this initiative, the City of Benton Harbor agreed to lease portions of Jean Klock Park to Harbor Shores. Three holes of a Jack Nicklaus signature golf course will be built on this land. When complete, this project could triple the City's existing tax base over the next five years.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager, Dwight P. Mitchell, at 200 E. Wall Street, Benton Harbor, Michigan 49022.

City of Benton Harbor, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 724,105	\$ 60,892	\$ 784,997	\$ 24,169
Receivables (Note 4):				
Receivables from sales to customers on account	389,813	1,137,965	1,527,778	-
Other receivables	-	-	-	78,178
Due from other governmental units	586,751	19,539	606,290	192,551
Allowance for doubtful accounts	(15,115)	(171,332)	(186,447)	-
Internal balances	1,885,095	(1,885,095)	-	-
Prepaid expenses and other assets	-	74,860	74,860	50,365
Restricted assets	-	331,749	331,749	-
Investment in joint ventures	98,701	9,950,308	10,049,009	-
Notes receivable	279,769	-	279,769	-
Capital assets (Note 5):				
Assets not subject to depreciation	4,485,752	6,736	4,492,488	62,700
Assets subject to depreciation	12,137,906	3,732,460	15,870,366	817,922
Intangible assets	-	5,486	5,486	-
Total assets	20,572,777	13,263,568	33,836,345	1,225,885
Liabilities				
Accounts payable	1,849,527	517,099	2,366,626	104,051
Due to other governmental units	1,255,173	122,167	1,377,340	-
Refundable deposits, bonds, etc.	-	100,188	100,188	-
Accrued liabilities and other	241,940	60,017	301,957	-
Deferred revenue	240,000	-	240,000	-
Note payable	-	15,000	15,000	-
Noncurrent liabilities (Note 8):				
Due within one year:				
Compensated absences	304,732	59,788	364,520	-
Net pension obligation	603,913	213,729	817,642	-
Current portion of long-term debt	300,134	608,034	908,168	-
Due in more than one year:				
Compensated absences - Net of current portion	60,000	29,499	89,499	-
Long-term debt - Net of current portion	1,193,251	434,280	1,627,531	-
Total liabilities	6,048,670	2,159,801	8,208,471	104,051
Net Assets				
Invested in capital assets - Net of related debt	16,430,273	3,573,081	20,003,354	880,622
Restricted for:				
Debt service	1,177,030	-	1,177,030	-
Other purposes	711,876	-	711,876	-
Cemetery Perpetual Care	-	326,245	326,245	-
Unrestricted	(3,795,072)	7,204,441	3,409,369	241,212
Total net assets	\$ 14,524,107	\$ 11,103,767	\$ 25,627,874	\$ 1,121,834

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Benton Harbor, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 2,361,705	\$ 423,735	\$ 106,369	\$ -
Public safety:				
Police and fire	4,578,093	87,119	531,652	51,721
Building inspections	181,519	-	-	-
Public works	2,336,428	369,756	766,934	-
Community and economic development	1,214,855	282,730	695,571	1,241,801
Recreation and culture	277,141	96,599	-	-
Total governmental activities	10,949,741	1,259,939	2,100,526	1,293,522
Business-type activities:				
Utility service	5,566,401	4,860,820	-	-
Cemetery	212,904	150,277	-	-
Total business-type activities	5,779,305	5,011,097	-	-
Total primary government	\$ 16,729,046	\$ 6,271,036	\$ 2,100,526	\$ 1,293,522
Component units:				
Twin Cities Transportation Authority	\$ 1,929,567	\$ 298,402	\$ 1,166,439	\$ 321,030
Brownfield Redevelopment	292,682	-	-	98,010
Total component units	\$ 2,222,249	\$ 298,402	\$ 1,166,439	\$ 419,040
General revenues:				
Property taxes				
State-shared revenue				
Unrestricted investment income				
Cable franchise fees				
Other miscellaneous income				
Sale of fixed assets				
Total general revenues				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

**Statement of Activities
Year Ended June 30, 2007**

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (1,831,601)	\$ -	\$ (1,831,601)	\$ -
(3,907,601)	-	(3,907,601)	-
(181,519)	-	(181,519)	-
(1,199,738)	-	(1,199,738)	-
1,005,247	-	1,005,247	-
(180,542)	-	(180,542)	-
(6,295,754)	-	(6,295,754)	-
-	(705,581)	(705,581)	-
-	(62,627)	(62,627)	-
-	(768,208)	(768,208)	-
(6,295,754)	(768,208)	(7,063,962)	-
-	-	-	(143,696)
-	-	-	(194,672)
-	-	-	(338,368)
2,584,795	-	2,584,795	341,693
2,197,844	-	2,197,844	-
92,506	10,178	102,684	7,691
85,809	-	85,809	-
(29,736)	-	(29,736)	10,489
1,294,037	-	1,294,037	500
6,225,255	10,178	6,235,433	360,373
(414,334)	414,334	-	-
(484,833)	(343,696)	(828,529)	22,005
15,008,940	11,447,463	26,456,403	1,099,829
\$ 14,524,107	\$ 11,103,767	\$ 25,627,874	\$ 1,121,834

City of Benton Harbor, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Federal and State Grants	Debt Service	Nonmajor Funds	Total
Assets					
Cash and cash equivalents	\$ -	\$ 1,115,106	\$ 1,232	\$ 1,445	\$ 1,117,783
Receivables - Net	373,293	1,405	-	-	374,698
Due from other governmental units	383,657	72,887	-	130,207	586,751
Due from other funds	2,004,149	-	-	-	2,004,149
Advances to other funds	311,313	4,272	1,175,798	754,460	2,245,843
Notes receivable	34,196	245,573	-	-	279,769
Total assets	\$ 3,106,608	\$ 1,439,243	\$ 1,177,030	\$ 886,112	\$ 6,608,993
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ 1,615,265	\$ 232,190	\$ -	\$ 2,072	\$ 1,849,527
Checks issued in excess of available cash	393,678	-	-	-	393,678
Due to other governmental units	1,255,173	-	-	-	1,255,173
Due to other funds	-	320,367	-	-	320,367
Advances from other funds	1,484,793	-	-	559,737	2,044,530
Accrued liabilities and other	228,401	14,539	-	(1,000)	241,940
Deferred revenue	-	485,574	-	-	485,574
Total liabilities	4,977,310	1,052,670	-	560,809	6,590,789
Fund Balances (Deficit)					
Reserved for:					
Debt service	-	792,559	-	-	792,559
Advances	311,313	4,272	1,175,798	754,460	2,245,843
Long-term receivables	34,196	-	-	-	34,196
Restricted contribution	211,200	-	-	-	211,200
Unreserved, reported in:					
General Fund	(2,427,411)	-	-	-	(2,427,411)
Debt Service Funds	-	-	1,232	-	1,232
Special Revenue Funds	-	(410,258)	-	(427,910)	(838,168)
Capital Projects Funds	-	-	-	(1,247)	(1,247)
Total fund balances (deficit)	(1,870,702)	386,573	1,177,030	325,303	18,204
Total liabilities and fund balances (deficit)	\$ 3,106,608	\$ 1,439,243	\$ 1,177,030	\$ 886,112	\$ 6,608,993

City of Benton Harbor, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2007

Fund Balance Reported in Governmental Funds	\$	18,204
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		16,623,658
Investments in joint ventures are not financial resources and are not reported in the funds		98,701
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures		245,574
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds		(1,493,385)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities		(364,732)
Net pension obligation does not represent a claim on current resources; therefore, it is not reported as a fund liability		(603,913)
Net Assets of Governmental Activities	\$	<u>14,524,107</u>

City of Benton Harbor, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Enterprise Zone	Federal and State Grants	Debt Service	Nonmajor Funds	Total
Revenue						
Property taxes	\$ 2,223,104	\$ 21,400	\$ -	\$ 192,881	\$ 147,410	\$ 2,584,795
Licenses and permits	59,355	-	-	-	-	59,355
Federal grants	498,645	494,823	695,571	-	-	1,689,039
State-shared revenue and grants	2,395,022	89,198	-	-	766,934	3,251,154
Local donations	106,369	545,330	-	-	-	651,699
Charges for services	381,993	-	-	-	-	381,993
Charges to other funds	225,000	-	-	-	-	225,000
Fines and forfeitures	197,699	-	-	-	-	197,699
Investment income	10,558	81,245	-	8	695	92,506
Rental income	113,162	-	-	-	-	113,162
Other revenue:						
Cable franchise fees	85,809	-	-	-	-	85,809
Collections on loans	-	282,730	-	-	-	282,730
Other miscellaneous income	125,594	12,664	5	-	8,700	146,963
Total revenue	<u>6,422,310</u>	<u>1,527,390</u>	<u>695,576</u>	<u>192,889</u>	<u>923,739</u>	<u>9,761,904</u>
Expenditures						
General government	2,205,184	-	-	-	-	2,205,184
Public safety	4,634,459	-	-	-	-	4,634,459
Public works	943,746	-	-	-	1,252,097	2,195,843
Community and economic development	210,316	746,758	717,290	-	2,740	1,677,104
Recreation and culture	229,940	-	-	-	-	229,940
Total expenditures	<u>8,223,645</u>	<u>746,758</u>	<u>717,290</u>	<u>-</u>	<u>1,254,837</u>	<u>10,942,530</u>
Excess of Revenue Over (Under) Expenditures	(1,801,335)	780,632	(21,714)	192,889	(331,098)	(1,180,626)
Other Financing Sources (Uses)						
Sale of fixed assets	1,294,037	-	-	-	-	1,294,037
Transfers in	1,720,754	-	792,559	-	538,902	3,052,215
Transfers out	(254,142)	(2,725,046)	-	(202,601)	(284,760)	(3,466,549)
Total other financing sources (uses)	<u>2,760,649</u>	<u>(2,725,046)</u>	<u>792,559</u>	<u>(202,601)</u>	<u>254,142</u>	<u>879,703</u>
Net Change in Fund Balance	959,314	(1,944,414)	770,845	(9,712)	(76,956)	(300,923)
Fund Balance (Deficit) - Beginning of year	(2,830,016)	1,944,414	(384,272)	1,186,742	402,259	319,127
Fund Balance (Deficit) - End of year	<u>\$ (1,870,702)</u>	<u>\$ -</u>	<u>\$ 386,573</u>	<u>\$ 1,177,030</u>	<u>\$ 325,303</u>	<u>\$ 18,204</u>

City of Benton Harbor, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (300,923)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	1,030,892
Depreciation expense	(846,055)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(198,274)
The government's investment in its joint venture is not a financial resource and, therefore, the change in the investment is not reported in the funds	21,574
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	241,728
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment	36,378
Annual required pension contributions not paid do not require the use of current resources and, therefore, are not reported in the fund statements until they are paid	(470,153)
Change in Net Assets of Governmental Activities	<u>\$ (484,833)</u>

City of Benton Harbor, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Enterprise Funds		
	Utility Service	Cemetery Combined	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 51,833	\$ 9,059	\$ 60,892
Receivables - Net (Note 4)	986,172	-	986,172
Prepaid expenses and other assets	5,715	69,145	74,860
Total current assets	1,043,720	78,204	1,121,924
Noncurrent assets:			
Restricted assets	-	331,749	331,749
Advances to other funds	34,758	-	34,758
Investment in joint ventures	9,950,308	-	9,950,308
Capital assets (Note 5)	3,704,214	34,982	3,739,196
Intangible assets - Net	5,486	-	5,486
Total noncurrent assets	13,694,766	366,731	14,061,497
Total assets	14,738,486	444,935	15,183,421
Liabilities			
Current liabilities:			
Accounts payable	490,183	26,916	517,099
Notes payable	-	15,000	15,000
Due to other governmental units	122,167	-	122,167
Due to other funds	1,683,782	-	1,683,782
Refundable deposits, bonds, etc.	100,188	-	100,188
Accrued liabilities and other	55,842	4,175	60,017
Compensated absences (Note 8)	40,288	19,500	59,788
Net pension obligation	213,729	-	213,729
Current portion of long-term debt (Note 8)	601,683	6,351	608,034
Total current liabilities	3,307,862	71,942	3,379,804
Noncurrent liabilities:			
Advances from other funds	-	236,071	236,071
Compensated absences - Net of current portion (Note 8)	10,000	19,499	29,499
Long-term debt - Net of current portion (Note 8)	425,224	9,056	434,280
Total noncurrent liabilities	435,224	264,626	699,850
Total liabilities	3,743,086	336,568	4,079,654
Net Assets			
Invested in capital assets - Net of related debt	3,553,506	19,575	3,573,081
Restricted:			
Perpetual care	-	326,245	326,245
Advances	34,758	-	34,758
Unrestricted	7,407,136	(237,453)	7,169,683
Total net assets	<u>\$ 10,995,400</u>	<u>\$ 108,367</u>	<u>\$ 11,103,767</u>

City of Benton Harbor, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Enterprise Funds		
	Utility Service	Cemetery	Total
Operating Revenue			
Sale of water	\$ 2,665,663	\$ -	\$ 2,665,663
Sewage disposal charges	1,163,081	-	1,163,081
Other sales to customers	301,487	149,467	450,954
Interest and penalty charges	103,374	-	103,374
Other miscellaneous revenues	280	810	1,090
Total operating revenue	4,233,885	150,277	4,384,162
Operating Expenses			
Cost of water	3,739,315	-	3,739,315
Cost of sewage treatment	819,734	-	819,734
Other operation and maintenance costs	-	202,614	202,614
Billing and administrative costs	636,467	-	636,467
Depreciation	294,485	8,423	302,908
Total operating expenses	5,490,001	211,037	5,701,038
Operating Loss	(1,256,116)	(60,760)	(1,316,876)
Nonoperating Revenue (Expenses)			
Investment income	-	10,178	10,178
Income from joint venture	626,935	-	626,935
Interest expense	(62,960)	(1,867)	(64,827)
Amortization of bond issuance costs	(13,440)	-	(13,440)
Loss - Before transfers	(705,581)	(52,449)	(758,030)
Transfers In	431,211	-	431,211
Transfers Out	(16,877)	-	(16,877)
Change in Net Assets	(291,247)	(52,449)	(343,696)
Net Assets - Beginning of year	11,286,647	160,816	11,447,463
Net Assets - End of year	<u>\$ 10,995,400</u>	<u>\$ 108,367</u>	<u>\$ 11,103,767</u>

City of Benton Harbor, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Utility Service	Cemetery	Total
Cash Flow from Operating Activities			
Receipts from customers	\$ 4,649,035	\$ 150,277	\$ 4,799,312
Receipts from interfund services and reimbursements	538,086	43,396	581,482
Payments to suppliers	(3,131,204)	(18,697)	(3,149,901)
Payments to employees	(1,533,346)	(161,866)	(1,695,212)
Net cash provided by operating activities	522,571	13,110	535,681
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	431,211	-	431,211
Transfers to other funds	(16,877)	-	(16,877)
Net cash provided by noncapital financing activities	414,334	-	414,334
Cash Flows from Capital and Related Financing Activities			
Issuance of notes payable	-	15,000	15,000
Purchase of capital assets	(397,056)	-	(397,056)
Principal and interest paid on capital debt	(620,054)	(19,347)	(639,401)
Net cash used in capital and related financing activities	(1,017,110)	(4,347)	(1,021,457)
Cash Flows from Investment Activities			
Interest received on investments	-	10,178	10,178
Purchase of investment securities	-	(9,926)	(9,926)
Net cash provided by investing activities	-	252	252
Net Increase (Decrease) in Cash and Cash Equivalents	(80,205)	9,015	(71,190)
Cash and Cash Equivalents - Beginning of year	132,038	44	132,082
Cash and Cash Equivalents - End of year	\$ 51,833	\$ 9,059	\$ 60,892
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (1,256,116)	\$ (60,760)	\$ (1,316,876)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation and amortization	294,485	8,423	302,908
Changes in assets and liabilities:			
Receivables	415,150	-	415,150
Accounts payable	325,830	13,457	339,287
Due to other funds	538,086	43,396	581,482
Accrued and other liabilities	(62,970)	-	(62,970)
Due to others	122,167	-	122,167
Compensated absences	(7,823)	8,594	771
Net pension obligation	153,762	-	153,762
Net cash provided by operating activities	\$ 522,571	\$ 13,110	\$ 535,681

City of Benton Harbor, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets - Pension Trust Funds June 30, 2007

Assets	
Cash and cash equivalents	\$ 5,275
Investments - Mutual funds	17,707,190
Receivables	<u>1,119,511</u>
Total assets	18,831,976
Liabilities - Due to resigned employees	<u>14,094</u>
Net Assets Held in Trust for Pension and Other Employee Benefits	<u><u>\$ 18,817,882</u></u>

City of Benton Harbor, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Pension Trust Funds Year Ended June 30, 2007

Additions

Investment income:	
Interest and dividends	\$ 84,447
Net increase in fair value of investments	<u>2,501,739</u>
Net investment income	2,586,186
Contributions:	
Employer	93,222
Employee	<u>216,303</u>
Total contributions	309,525
Property taxes	<u>240,928</u>
Total additions	<u>3,136,639</u>

Deductions

Benefit payments	1,173,581
Administrative expenses	<u>126,480</u>
Total deductions	<u>1,300,061</u>

Net Increase in Net Assets Held in Trust	1,836,578
Net Assets Held in Trust for Pension and Other Employee Benefits - Beginning of year	<u>16,981,304</u>
Net Assets Held in Trust for Pension and Other Employee Benefits - End of year	<u>\$ 18,817,882</u>

City of Benton Harbor, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2007

	Twin Cities Transportation Authority*	Brownfield Redevelopment Authority	Total
Assets			
Cash and cash equivalents	\$ 24,169	\$ -	\$ 24,169
Receivables	156,818	113,911	270,729
Prepaid expenses and other assets	50,365	-	50,365
Capital assets	880,622	-	880,622
Total assets	1,111,974	113,911	1,225,885
Liabilities - Accounts payable	24,228	79,823	104,051
Net Assets			
Invested in capital assets - Net of related debt	880,622	-	880,622
Unrestricted	207,124	34,088	241,212
Total net assets	\$ 1,087,746	\$ 34,088	\$ 1,121,834

* The Twin Cities Transportation Authority is presented as of its fiscal year end, September 30, 2006.

City of Benton Harbor, Michigan

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Twin Cities Transportation Authority - Public works*	\$ 1,929,567	\$ 298,402	\$ 1,166,439	\$ 321,030
Brownfield Redevelopment Authority - Community and economic development	<u>292,682</u>	<u>-</u>	<u>-</u>	<u>98,010</u>
Total governmental activities	<u>\$ 2,222,249</u>	<u>\$ 298,402</u>	<u>\$ 1,166,439</u>	<u>\$ 419,040</u>
General revenues:				
Property taxes				
Unrestricted investment income				
Other miscellaneous income				
Total general revenues				
Sale of fixed assets				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

* The Twin Cities Transportation Authority is presented as of its fiscal year end, September 30, 2006.

**Component Units
Statement of Activities
Year Ended June 30, 2007**

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Twin Cities Transportation Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
\$ (143,696)	\$ -	\$ (143,696)
<u>-</u>	<u>(194,672)</u>	<u>(194,672)</u>
(143,696)	(194,672)	(338,368)
101,108	240,585	341,693
7,691	-	7,691
<u>10,489</u>	<u>-</u>	<u>10,489</u>
119,288	240,585	359,873
<u>500</u>	<u>-</u>	<u>500</u>
(23,908)	45,913	22,005
<u>1,111,654</u>	<u>(11,825)</u>	<u>1,099,829</u>
<u>\$ 1,087,746</u>	<u>\$ 34,088</u>	<u>\$ 1,121,834</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the City of Benton Harbor (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Benton Harbor.

Reporting Entity

The City of Benton Harbor is governed by an elected nine-member commission. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City'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 City (see discussion below for description).

Blended Component Units - The City of Benton Harbor blends one component unit, the Economic Development Corporation (the "Corporation"). The Corporation was established to encourage the location and expansion of industrial/commercial enterprises within the City limits on the City's behalf. The City provides all administrative functions of the Corporation and appoints two commission members to the Corporation's nine-member board. The Economic Development Corporation had no assets and no activity during 2007.

Discretely Presented Component Units - The City discretely presents two component units in these financial statements, the Twin Cities Area Transportation Authority (the "Transportation Authority") and the Brownfield Redevelopment Authority.

The Transportation Authority was incorporated in the state of Michigan on July 1, 1974 under Public Act 55 of 1963. The purpose of the Authority is to acquire, own, operate, and manage a public transportation system within the boundaries of the City of Benton Harbor, its only participating municipality. Given that the City has significant influence over the Authority and is the only participating municipality, the Twin Cities Area Transportation Authority is a component unit of the City of Benton Harbor. The Twin Cities Area Transportation Authority is, for financial purposes within generally accepted accounting principles, an Enterprise Fund of the City of Benton Harbor. A complete financial report can be obtained from the Twin Cities Area Transportation Authority at 275 East Wall Street, Benton Harbor, MI 49023-0837 or (269) 927-2268.

The Brownfield Redevelopment Authority (the "Authority") was established pursuant to Act 381 of the Public Acts of 1996, as amended. The purpose of the Authority is to treat and revitalize environmentally distressed brownfield zones. The Authority's budget is subject to approval by the City Commission.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Jointly Governed Organization

Southwest Michigan Regional Airport Authority - In fiscal year 1998, four municipalities approved the establishment of an Airport Authority to oversee airport operations. Operations are partially funded by property taxes. In late July 1998, control of airport operations was transferred to the Authority. The Authority is governed by a board of four members, including one from each participating municipality. Upon dissolution, net assets will be shared on a pro rata basis based on amounts contributed to the Authority. The City's equity share was 4.9 percent at June 30, 2007. Based on audited financial statements, an equity interest has been recorded in the City's basic financial statements as a governmental activity.

Benton Harbor-St. Joseph Joint Sewage Disposal Plant - The City is a participant with the City of St. Joseph in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Benton Harbor-St. Joseph joint wastewater treatment plant was created for that purpose. Upon dissolution of the plant, the net assets will be shared on an equal basis with the City of St. Joseph. The plant is governed by a board of eight members consisting of three members each from Benton Harbor and St. Joseph and two members chosen from neighboring communities. The City's net investment and its share of the operating results of the plant are reported in the City's Utility Services Fund (a business-type activity).

"Corridor" Corporation - The City of Benton Harbor formed a development corporation with Cornerstone Alliance (Cornerstone), a nonprofit organization established to promote economic growth in Benton Harbor and surrounding communities. The intent of this organization is to promote economic development in the "Benton Harbor Airport Corridor." The entity is owned 50 percent by the City and 50 percent by Cornerstone. The City contributed City-owned property to the corporation. Cornerstone Alliance has incurred expenses on behalf of this corporation totaling \$117,650. These amounts are reflected as accounts receivable on Cornerstone's records, repayment which is dependent on future development of property held by the "Corridor" Corporation. The only significant activity in the "Corridor" Corporation to date is the contribution of the property. In the future, when development activity begins, this investment will be accounted for on the equity method.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Enterprise Zone is a Special Revenue Fund that accounts for property taxes provided by the Michigan Enterprise Zone Act that are restricted for capital/infrastructure improvements.
- The Federal and State Grants Fund is a Special Revenue Fund that accounts for various grants received and administered by the City.
- The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The City reports the following major proprietary fund:

- The Utility Services Fund accounts for the activities of the City's water distribution and wastewater treatment systems.

Additionally, the City reports the following fund types:

- Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- The Permanent Fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.
- The Pension Trust Funds account for the activities of both the general employees and police and fire employees retirement systems, which accumulates resources for pension benefit payments to qualified employees.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The Utility Services Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include 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.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements 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."

All trade and property tax receivables are shown net of allowances for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. 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, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Roads and sidewalks	10 to 15 years
Land improvements	5 to 75 years
Buildings and building improvements	10 to 30 years
Water and sewer distribution systems	12 to 75 years
Vehicles	5 years
Computer equipment	5 years
Office equipment	7 years
Office furnishings	7 years
Other tools and equipment	7 years

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note I - Nature of Business and Significant Accounting Policies (Continued)

Infrastructure has only been recorded for projects that occurred subsequent to June 30, 2002. Retroactive infrastructure to 1980 has not been recorded.

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave except for amounts accumulated by police and fire employees. Vacation pay for all employees and sick pay for police and fire employees is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data is not included in the City's financial statements.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The City's 2006 tax is levied and collectible on July 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled approximately \$130.6 million, on which taxes levied consisted of 17.9512 mills for operating purposes, 1.6084 mills for debt service, 1.0043 mills for Dial-A-Ride, 1.6103 mills for permanent public improvement, and 2.1937 mills for police and fire pensions. This resulted in approximately \$2.3 million for operating, \$210,000 for debt service, \$131,000 for Dial-A-Ride, \$210,000 for permanent public improvement, and \$287,000 for police and fire pensions. These amounts, net of estimated uncollectible amounts, are recognized in the respective General Fund, Special Revenue Fund, Debt Service Fund, and component unit financial statements as tax revenue.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since July 1, 2006 is as follows:

Shortfall at July 1, 2006	\$ (553,014)
Current year permit revenue	48,096
Related expenses - Estimated indirect costs	<u>181,519</u>
Current year shortfall	<u>(133,423)</u>
Cumulative shortfall at June 30, 2007	<u>\$ (686,437)</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

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

Fund Deficits - The City has accumulated unreserved fund deficits in the following individual funds:

Fund	Balance
General Fund	\$ (2,427,411)
Special Revenue Funds:	
Federal and State Grants	(410,258)
Local Streets	(526,051)
Capital Projects Funds - Permanent Public Improvements	(1,247)
Enterprise Funds - Cemetery	(237,453)

Deficit Reduction Plan - The City of Benton Harbor General Fund has a total deficit fund balance of \$1,870,702 for the year ended June 30, 2007 and has structured a five-year plan to reduce this deficit. This deficit reduction was included in the City's budget beginning in fiscal year 2007 and will continue to be included until the deficit is eliminated. Overall, the plan will seek to increase revenues and reduce costs while maintaining service levels. In addition, the City is looking at a reduction in normal expenditures by management controls and restructuring processes and procedures. The City hopes to achieve this through improved rubbish collections, land sales of beach-front property, sales of tax-reverted property, and property reassessments. The City looks to control expenditures through staff reductions and management/departmental oversight of cell phone usage and gasoline consumption, as well as other general costs.

Net Pension Obligation - The City did not contribute the total annual required contribution to the General Employees' Retirement System and the Police and Fire Pension System during fiscal year 2007.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as noted above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$136,643 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, \$17,707,190 of investment securities was uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

Concentration of Credit Risk - The City places no limit on the amount the district may invest in any one issuer. More than 5 percent of the City's investments are in the following investments:

Investment	Market Value	Percent of Total Market Value
JPMorgan Chase Bk Diversified Plus Fund	\$ 11,048,656	100%
JPMorgan Chase Bk Diversified Plus Fund	6,658,534	100%

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Receivables and Deferred Revenue

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

	General Fund	Federal and State Grants	Nonmajor Funds	Utility Service	Component Units	Total
Receivables:						
Receivables from sales to customers on account	\$ 388,408	\$ 1,405	\$ -	\$ 1,137,965	\$ -	\$ 1,527,778
Other receivables	-	-	-	-	78,178	78,178
Due from other governmental units	383,657	72,887	130,207	19,539	192,551	798,841
Note	34,196	245,573	-	-	-	279,769
Less allowance for uncollectibles	(15,115)	-	-	(171,332)	-	(186,447)
Net receivables	<u>\$ 791,146</u>	<u>\$ 319,865</u>	<u>\$ 130,207</u>	<u>\$ 986,172</u>	<u>\$ 270,729</u>	<u>\$ 2,498,119</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. 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 Federal and State Grants Fund reports deferred revenue as follows:

	Governmental Funds	
	Unavailable	Unearned
Long-term receivables	\$ 245,574	\$ -
Grant payment received prior to meeting all eligibility requirements	-	240,000
Total	<u>\$ 245,574</u>	<u>\$ 240,000</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2006	Reclassifications	Additions	Balance June 30, 2007
Capital assets not being depreciated:				
Land	\$ 1,559,996	\$ -	\$ -	\$ 1,559,996
Construction in progress	200,328	167,671	624,849	992,848
Airport land	1,932,908	-	-	1,932,908
Subtotal	3,693,232	167,671	624,849	4,485,752
Capital assets being depreciated:				
Roads and sidewalks	5,508,567	(167,671)	108,549	5,449,445
Airport depreciable property	9,112,065	-	-	9,112,065
Land improvements	577,604	-	142,278	719,882
Buildings and improvements	6,446,504	-	-	6,446,504
Vehicles	1,991,199	-	51,068	2,042,267
Computer equipment	631,131	-	3,465	634,596
Office equipment	501,728	-	-	501,728
Office furnishings	194,269	-	25,795	220,064
Other tools and equipment	1,945,143	-	74,889	2,020,032
Subtotal	26,908,210	(167,671)	406,044	27,146,583
Accumulated depreciation:				
Roads and sidewalks	549,065	-	240,099	789,164
Airport depreciable property	6,428,196	-	149,531	6,577,727
Land improvements	337,320	-	11,103	348,423
Buildings and improvements	2,559,818	-	246,870	2,806,688
Vehicles	1,794,475	-	40,282	1,834,757
Computer equipment	498,536	-	33,175	531,711
Office equipments	223,591	-	28,236	251,827
Office furnishings	188,043	-	4,640	192,683
Other tools and equipment	1,583,578	-	92,119	1,675,697
Subtotal	14,162,622	-	846,055	15,008,677
Net capital assets being depreciated	12,745,588	(167,671)	(440,011)	12,137,906
Net capital assets	\$ 16,438,820	\$ -	\$ 184,838	\$ 16,623,658

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2006	Additions	Balance June 30, 2007
Capital assets not being depreciated - Land	\$ 6,736	\$ -	\$ 6,736
Capital assets being depreciated:			
Water and sewer distribution systems	8,720,059	381,607	9,101,666
Land improvements	99,785	-	99,785
Buildings and building improvements	2,437,150	-	2,437,150
Vehicles	397,056	-	397,056
Other tools and equipment	2,242,213	15,449	2,257,662
Subtotal	13,896,263	397,056	14,293,319
Accumulated depreciation:			
Water and sewer distribution systems	6,361,364	171,181	6,532,545
Land improvements	67,936	1,131	69,067
Buildings and building improvements	1,458,218	55,127	1,513,345
Vehicles	345,723	16,007	361,730
Other tools and equipment	2,024,710	59,462	2,084,172
Subtotal	10,257,951	302,908	10,560,859
Net capital assets being depreciated	3,638,312	94,148	3,732,460
Net capital assets	<u>\$ 3,645,048</u>	<u>\$ 94,148</u>	<u>\$ 3,739,196</u>

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

Governmental activities:		
General government		\$ 142,448
Public safety		96,760
Public works		338,284
Economic development		193,714
Recreation and culture		74,849
Total governmental activities		<u>\$ 846,055</u>
Business-type activities:		
Water		\$ 232,898
Sewer		61,587
Cemetery		8,423
Total business-type activities		<u>\$ 302,908</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Utility Service Fund	\$ 1,683,782
	Federal and State Grants	320,367
	Total General Fund	<u>\$ 2,004,149</u>
Advances from/to Other Funds		
General Fund	Nonmajor governmental funds	\$ 110,000
	Cemetery	201,313
	Total General Fund	311,313
Federal and State Grants	General Fund	4,272
Debt Service Fund	General Fund	1,175,798
Nonmajor governmental funds	General Fund	304,723
	Nonmajor governmental funds	<u>449,737</u>
	Total nonmajor governmental funds	754,460
Utility Service Fund	Cemetery Fund	<u>34,758</u>
	Total	<u>\$ 2,280,601</u>

Interfund receivables are the result of timing differences in the transfer of funds to cover expenditures from shared bank accounts and grant funds where draws were received subsequent to the year when expenditures occurred. Interfund receivables that are not expected to be repaid within one year are classified as advances.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Enterprise Zone Fund	General Fund	\$ 12,664
	Utility Service Fund	228,610
	Total Enterprise Zone Fund	241,274
Utility Service Fund	General Fund	16,877
Debt Service Fund	Utility Service Fund	202,601
Nonmajor governmental funds	Nonmajor governmental funds	284,760
General Fund	Nonmajor governmental funds	254,142
	Total	<u>\$ 999,654</u>

The transfers from the Enterprise Zone Fund to the General and Utility Service Funds represent the use of restricted revenue sources for eligible expenditures; the transfer from the Utility Service Fund to the General Fund represents the sharing of leased equipment costs; the transfer from the Debt Service Fund to the Utility Service Fund represents the movement of resources to be used to service water bond debt; the transfer from General Fund to the Major Streets Fund (nonmajor governmental fund) represents forgiveness of a previous interfund debt; and the transfer from the Major Streets Fund to the Local Streets Fund (nonmajor governmental funds) represents the movement of State Act 51 grant resources for routine street expenditures.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Capital Leases

Capital Leases - The City has entered into lease agreements as lessee for financing the purchase of various pieces of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2008	\$ 113,767
2009	52,456
2010	<u>17,492</u>
Total minimum lease payments	183,715
Less amount representing interest	<u>(9,215)</u>
Present value	<u>\$ 174,500</u>

Note 8 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

The City has the following long-term debt outstanding as of June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Core communities loan	\$ 200,000	\$ -	\$ -	\$ 200,000	\$ -
HUD Section 108 loan (Modern Plastics)	150,000	-	(100,000)	50,000	50,000
HUD Section 108 loan (Family Dollar)	50,000	-	-	50,000	50,000
HUD Section 108 loan (Spence Technology)	100,000	-	-	100,000	-
HUD Section 108 loan (other)	900,000	-	-	900,000	100,000
USDA note payable	51,000	-	(16,000)	35,000	-
Dump trucks	45,416	-	(25,279)	20,137	20,137
Photocopiers	58,021	-	(32,583)	25,438	25,438
Computers	42,589	-	(29,032)	13,557	13,557
Telephone system	<u>138,087</u>	<u>-</u>	<u>(38,834)</u>	<u>99,253</u>	<u>41,002</u>
Total	<u>\$ 1,735,113</u>	<u>\$ -</u>	<u>\$ (241,728)</u>	<u>\$ 1,493,385</u>	<u>\$ 300,134</u>
Compensated absences	<u>\$ 401,108</u>	<u>\$ -</u>	<u>\$ (36,376)</u>	<u>\$ 364,732</u>	<u>\$ 304,732</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
General obligations -					
1997 Water bonds	\$ 335,000	\$ -	\$ (185,000)	\$ 150,000	\$ 150,000
Note payable - Benton Township	1,247,406	-	(371,207)	876,199	450,975
Cemetery equipment	10,991	-	(10,991)	-	-
Photocopier	1,595	-	(887)	708	708
Pickup truck	21,896	-	(6,489)	15,407	6,351
Total	\$ 1,616,888	\$ -	\$ (574,574)	\$ 1,042,314	\$ 608,034
Compensated absences	\$ 88,518	\$ 769	\$ -	\$ 89,287	\$ 59,788

Total interest expense for the year was approximately \$83,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 200,000	\$ 4,228	\$ 204,228	\$ 600,975	\$ 45,587	\$ 646,562
2009	417,000	3,504	420,504	408,005	11,995	420,000
2010	118,000	829	118,829	17,219	72	17,291
2011	150,000	602	150,602	-	-	-
2012	250,000	1,003	251,003	-	-	-
2013-2017	200,000	-	200,000	-	-	-
Total	\$ 1,335,000	\$ 10,166	\$ 1,345,166	\$ 1,026,199	\$ 57,654	\$ 1,083,853

Note 9 - Line of Credit

The Cemetery Fund has a line of credit available for \$15,000. The line of credit is uncollateralized and bears interest at 6.17 percent. The line of credit was used to pay off a loan for equipment. The balance outstanding on the line of credit is \$15,000 at June 30, 2007. Interest payments are made monthly with the balance due one year from the date of the draw.

Note 10 - Risk Management

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

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Defined Benefit Pension Plan - General Employees' Retirement System

Plan Description - The City's General Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Benton Harbor General Employees' Retirement System. This plan covers all appointed officers and employees of the City (except for personnel of the fire and police departments) and appointed officers and employees of the Southwest Michigan Regional Airport Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At July 1, 2006, the date of the most recent actuarial valuation, membership consisted of 37 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 75 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 3 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$488,323 for the plan consisted of \$17,621 of contributions made, plus a net pension obligation of \$470,702. The annual required contribution of \$488,323 was determined as part of an actuarial valuation at June 30, 2005, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) a 7.75 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component. The actuarial value of assets was determined using fair market values. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis, over 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost	\$ 125,617	\$ 367,717	\$ 488,323
Percentage of APC contributed	100.0 %	48.3 %	3.6 %

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Defined Benefit Pension Plan - Police and Fire Retirement System

Plan Description - The Police and Fire Pension Plan is a single-employer defined benefit pension plan that is administered by the City of Benton Harbor Police and Fire Employees Retirement System; this plan covers all full-time police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At July 1, 2005, the date of the most recent actuarial valuation, membership consisted of 59 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 37 current active employees. The plan does not issue a separate financial report.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 5 percent of gross wages for police employees and 6 percent of gross wages for fire employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$231,779 for the plan consisted of \$75,601 of contributions made, plus a net pension obligation of \$156,178. In addition, \$240,928 was funded by the tax levy described below and recorded as "property taxes" on the statement of changes in plan net assets. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) a 7.75 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) 4 percent per year cost of living adjustments (firemen only). Both (a) and (b) include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

On August 14, 1984, the Circuit Court for Berrien County ordered the City of Benton Harbor to pay off the then calculated \$2,597,299 unfunded liability over the next 30 years. The City must levy a sufficient additional millage on an annual basis to pay the portion of this 30-year amortization plus normal operating costs that are not covered under the general operating budget. As indicated above, during the year, \$240,928 was recorded as property tax revenue. Due to the age of this commitment, the actuary has not included this as a net pension obligation.

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Defined Benefit Pension Plan - Police and Fire Retirement System (Continued)

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 214,644	\$ 215,239	\$ 472,707
Percentage of APC contributed	100.0 %	100.0 %	67.0 %

Note 13 - Jean Klock Park Lease

On December 12, 2006, the City entered into an operating lease with Harbor Shores Community Redevelopment, Inc. (HSCRI), a not-for-profit organization, for approximately 22 acres of Jean Klock Park for the purpose of constructing three holes of a Jack Nicklaus signature golf course that is being built as part of the Harbor Shore development project. The lease will run for 35 years with renewal options for two additional 35-year terms.

The initial annual lease payment of \$30,000 was payable no later than June 30, 2007. Subsequent annual payments will increase by 1 percent per year. Rent income of \$30,000 was received in 2006 and is recorded in the General Fund.

Future minimum lease commitments are as follows:

Years Ending December 31	Amount
2008	\$ 30,300
2009	30,603
2010	30,909
2011	31,218
2012	31,530
Thereafter	<u>1,065,248</u>
Total	<u>\$ 1,219,808</u>

City of Benton Harbor, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Jean Klock Park Lease (Continued)

Additional lease terms are as follows:

- The HSCRI will construct and pay for certain road improvements related to the project totaling approximately \$2,800,000.
- The HSCRI will deed over approximately 39 acres to the City of Benton Harbor as "expansion properties" to be added to Jean Klock Park. The estimated value of these expansion properties is approximately \$1,350,000.
- The HSCRI will construct and pay for improvements to the expansion properties at an estimated cost of \$500,000, as well as construct and pay for improvements to existing Jean Klock Park estimated at a cost of \$1,000,000.
- The HSCRI agrees to provide specified percentages of construction and ongoing maintenance jobs to City of Benton Harbor residents.
- The HSCRI agrees to provide various community benefit programs, including transportation, small business development, adult education, reduced golf course rates, and golf course for various youth events.

Note 14 - Contingent Liabilities

The City is arbitrating several illegal discharge cases. In all of these cases, retroactive pay or pay adjustments may be required. Currently, the City is unable to presently predict the outcome of the range of potential loss, which may result from the disposition of these matters.

The City is also the defendant in various litigations involving wrongful death, challenges to various City ordinances, various real estate disputes, breach of contract, and violation of civil rights. The civil suits will likely be covered by the City's liability insurance.

City management considers the City's exposure under all suits to be immaterial. No provision for any loss has been made in the financial statements.

Required Supplemental Information

City of Benton Harbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original/Final Budget	Actual	Variance with Amended Budget
Revenue			
Property taxes	\$ 2,440,000	\$ 2,223,104	\$ (216,896)
Licenses and permits	125,000	59,355	(65,645)
Federal grants	416,909	498,645	81,736
State-shared revenue and grants	2,322,500	2,395,022	72,522
Local donations	-	106,369	106,369
Charges for services	659,000	381,993	(277,007)
Charges to other funds	225,000	225,000	-
Fines and forfeitures	116,374	197,699	81,325
Investment income	50,000	10,558	(39,442)
Rental income	246,500	113,162	(133,338)
Other revenue:			
Cable franchise fees	42,000	85,809	43,809
Other miscellaneous income	27,500	125,594	98,094
Total revenue	6,670,783	6,422,310	(248,473)
Expenditures - Current			
General government:			
Mayor and commission	134,650	201,803	(67,153)
City manager	134,890	163,447	(28,557)
Finance	313,800	286,258	27,542
Purchasing/Risk management	-	741	(741)
General administration	600,000	467,041	132,959
Assessor	206,302	208,682	(2,380)
Aid to other agencies	123,500	103,013	20,487
Clerk	183,743	169,470	14,273
Elections	31,500	16,679	14,821
Buildings and grounds	234,630	313,382	(78,752)
City attorney	150,000	162,026	(12,026)
Personnel	129,095	112,642	16,453
Public safety:			
Police	2,920,268	3,227,080	(306,812)
Fire	1,122,990	1,236,820	(113,830)
Building inspections	158,306	170,559	(12,253)
Public works:			
Department of public works	157,875	124,750	33,125
Rubbish disposal	550,000	603,035	(53,035)
Other public works activities	234,500	215,961	18,539
Community and economic development	155,202	210,316	(55,114)
Recreation and culture:			
Parks and recreation	16,500	115,720	(99,220)
Armory	25,000	74,693	(49,693)
Communications	-	39,527	(39,527)
Total expenditures	7,582,751	8,223,645	(640,894)

City of Benton Harbor, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2007

	Original/Final Budget	Actual	Variance with Amended Budget
Excess of Expenditures Over Revenue	\$ (911,968)	\$ (1,801,335)	\$ (889,367)
Other Financing Sources (Uses)			
Sale of fixed assets	915,000	1,294,037	379,037
Transfers in	-	1,720,754	1,720,754
Transfers out	-	(254,142)	(254,142)
Total other financing sources (uses)	<u>915,000</u>	<u>2,760,649</u>	<u>1,845,649</u>
Net Change in Fund Balance	3,032	959,314	956,282
Fund Balance (Deficit) - Beginning of year	<u>(2,357,311)</u>	<u>(2,830,016)</u>	<u>(472,705)</u>
Fund Balance (Deficit) - End of year	<u><u>\$ (2,354,279)</u></u>	<u><u>\$ (1,870,702)</u></u>	<u><u>\$ 483,577</u></u>

City of Benton Harbor, Michigan

Note to Required Supplemental Information Year Ended June 30, 2007

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and most Special Revenue Funds except the Federal and State Grant Fund and the Enterprise Zone Fund. These funds are excluded from the budget statement. The annual budget is prepared by the City management and adopted by the City Commission. There were no budget amendments during the year. All annual appropriations lapse at fiscal year end and encumbrances are not included as expenditures.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

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

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Benton Harbor incurred significant budget overruns, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Mayor and commission	\$ 134,650	\$ 201,803
City manager	134,890	163,447
Buildings and grounds	234,630	313,382
City attorney	150,000	162,026
Police	2,920,268	3,227,080
Fire	1,122,990	1,236,820
Building inspections	158,306	170,559
Rubbish disposal	550,000	603,035
Community and economic development	155,202	210,316
Parks and recreation	16,500	115,720
Armory	25,000	74,693
Communications	-	39,527
Transfers out	-	254,142

City of Benton Harbor, Michigan

Required Supplemental Information General Employees' Retirement System Schedule of Funding Progress Year Ended June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/00	\$ 6,674,675	\$ 5,245,864	\$ 1,428,811	127.2	\$ 2,506,666	N/A
6/30/01	6,167,942	5,541,517	626,425	111.3	2,533,613	N/A
6/30/02	6,253,841	6,173,546	80,295	101.3	2,610,223	N/A
6/30/03	6,436,460	6,276,034	160,426	102.6	2,592,799	N/A
6/30/04	6,548,522	6,569,423	(20,901)	99.7	2,805,811	0.7
6/30/05	6,698,508	8,360,324	(1,661,816)	80.1	2,576,165	64.5
6/30/06	6,910,619	9,412,291	(2,501,672)	73.4	2,883,603	86.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/01	6/30/00	\$ -	100.0
6/30/02	6/30/01	-	100.0
6/30/03	6/30/02	97,228	100.0
6/30/04	6/30/03	93,006	100.0
6/30/05	6/30/04	125,617	100.0
6/30/06	6/30/05	367,717	48.3
6/30/07	6/30/06	488,323	3.6

* The required contribution is expressed to the City as a percentage of payroll.

City of Benton Harbor, Michigan

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/98	\$ 10,089,128	\$ 9,030,330	\$ 1,058,798	111.7	\$ 1,515,908	N/A
6/30/00	10,856,074	10,811,520	44,554	100.4	1,346,128	N/A
6/30/01	10,004,228	11,672,480	(1,668,252)	85.7	1,351,244	123.5
6/30/02	10,210,869	12,109,175	(1,898,306)	84.3	1,231,468	154.1
6/30/03	10,235,411	11,884,761	(1,649,350)	86.1	1,349,989	122.2
6/30/04	10,184,702	14,548,269	(4,363,567)	70.0	1,439,856	303.1
6/30/05	10,337,642	14,618,145	(4,280,503)	70.7	1,610,145	265.8

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/01	6/30/98	\$ 45,584	100.0
6/30/02	6/30/00	362,562	100.0
6/30/03	6/30/01	370,738	100.0
6/30/04	6/30/02	318,048	100.0
6/30/05	6/30/03	214,644	100.0
6/30/06	6/30/04	215,240	100.0
6/30/07	6/30/05	472,707	67.0

* The required contribution is expressed to the City as a percentage of payroll.

Other Supplemental Information

City of Benton Harbor, Michigan

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

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Total	Permanent Public Improvement	
Assets					
Cash and cash equivalents	\$ 620	\$ -	\$ 620	\$ 825	\$ 1,445
Advances to other funds	449,737	-	449,737	304,723	754,460
Due from other governmental units	98,626	31,581	130,207	-	130,207
Total assets	\$ 548,983	\$ 31,581	\$ 580,564	\$ 305,548	\$ 886,112
Liabilities and Fund Balances (Deficit)					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 2,072	\$ 2,072
Advances from other funds	-	559,737	559,737	-	559,737
Accrued liabilities and other	1,105	(2,105)	(1,000)	-	(1,000)
Total liabilities	1,105	557,632	558,737	2,072	560,809
Fund Balances (Deficit)					
Reserved for advances	449,737	-	449,737	304,723	754,460
Unreserved, reported in:					
Special Revenue Funds	98,141	(526,051)	(427,910)	-	(427,910)
Capital Projects Funds	-	-	-	(1,247)	(1,247)
Total fund balances (deficit)	547,878	(526,051)	21,827	303,476	325,303
Total liabilities and fund balances (deficit)	\$ 548,983	\$ 31,581	\$ 580,564	\$ 305,548	\$ 886,112

City of Benton Harbor, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Major Streets	Local Streets	Total	Permanent Public Improvement	
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ 147,410	\$ 147,410
State-shared revenue and grants	574,766	192,168	766,934	-	766,934
Investment income	-	-	-	695	695
Other revenue - Other miscellaneous income	8,700	-	8,700	-	8,700
Total revenue	583,466	192,168	775,634	148,105	923,739
Expenditures - Current					
Public works	425,106	451,935	877,041	375,056	1,252,097
Community and economic development	-	-	-	2,740	2,740
Total expenditures	425,106	451,935	877,041	377,796	1,254,837
Excess of Revenue Over (Under) Expenditures	158,360	(259,767)	(101,407)	(229,691)	(331,098)
Other Financing Sources (Uses)					
Transfers in	254,142	284,760	538,902	-	538,902
Transfers out	(284,760)	-	(284,760)	-	(284,760)
Total other financing sources (uses)	(30,618)	284,760	254,142	-	254,142
Net Change in Fund Balances	127,742	24,993	152,735	(229,691)	(76,956)
Fund Balances (Deficits) - Beginning of year	420,136	(551,044)	(130,908)	533,167	402,259
Fund Balances (Deficits) - End of year	\$ 547,878	\$ (526,051)	\$ 21,827	\$ 303,476	\$ 325,303

City of Benton Harbor, Michigan

Other Supplemental Information Combining Statement of Net Assets Fiduciary Funds June 30, 2007

	Pension Trust Funds		
	General Pension	Police/Fire Pension	Total Pension Trust Funds
Assets			
Cash and cash equivalents	\$ 4,547	\$ 728	\$ 5,275
Investment - Mutual funds	6,658,534	11,048,656	17,707,190
Receivables	824,317	295,194	1,119,511
Total assets	7,487,398	11,344,578	18,831,976
Liabilities - Due to resigned employees	5,007	9,087	14,094
Net Assets Held in Trust for Pension Benefits	\$ 7,482,391	\$ 11,335,491	\$ 18,817,882

City of Benton Harbor, Michigan

Other Supplemental Information Combining Statement of Changes in Fiduciary Net Asset Fiduciary Funds Year Ended June 30, 2007

	General Pension	Police/Fire Pension	Total
Additions			
Investment income:			
Interest and dividends	\$ 32,426	\$ 52,021	\$ 84,447
Net increase in fair value of investments	946,347	1,555,392	2,501,739
Net investment income	978,773	1,607,413	2,586,186
Contributions:			
Employer	17,621	75,601	93,222
Employee	92,771	123,532	216,303
Total contributions	110,392	199,133	309,525
Property taxes	-	240,928	240,928
Total additions	1,089,165	2,047,474	3,136,639
Deductions			
Benefit payments	278,460	895,121	1,173,581
Administrative expenses	59,421	67,059	126,480
Total deductions	337,881	962,180	1,300,061
Net Increase in Net Assets Held in Trust	751,284	1,085,294	1,836,578
Net Assets Held in Trust for Pension Benefits - Beginning of year	6,731,107	10,250,197	16,981,304
Net Assets Held in Trust for Pension Benefits - End of year	\$ 7,482,391	\$ 11,335,491	\$ 18,817,882

CITY OF BENTON HARBOR
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2007

CITY OF BENTON HARBOR

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Benton Harbor, Michigan

We have audited the general-purpose financial statements of the City of Benton Harbor, Michigan as of and for the year ended June 30, 2007 and have issued our report thereon dated February 28, 2008. Those general purpose financial statements are the responsibility of the management of the City of Benton Harbor, Michigan. Our responsibility was to express an opinion on those general- purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose 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 opinion.

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements of the City of Benton Harbor, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the general-purpose financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Alan C. Young & Assoc.

February 28, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Commission
City of Benton Harbor, Michigan

We have audited the financial statements of the City of Benton Harbor, Michigan as of and for the year ended June 30, 2007 and have issued our report thereon dated February 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Benton Harbor, Michigan's internal control over financial reporting as a basis for designating our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Benton Harbor's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Benton Harbor's internal control over financing.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a control deficiency.

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with Government Auditing
Standards (Continued)

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving internal control over financial reporting and its operation that we consider to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether the City of Benton Harbor's financial statements are free of material misstatement, we performed tests of the City of Benton Harbor's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, our objective was not to provide an opinion on overall compliance with such provisions and accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The report is intended solely for the information and use of the City Commission, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young; Assoc.

February 28, 2008

**Alan C.
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**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the City Commission
City of Benton Harbor, Michigan

Compliance

We have audited the compliance of the City of Benton Harbor, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Benton Harbor, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of the City of Benton Harbor, Michigan's management. Our responsibility is to express an opinion on the City of Benton Harbor, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Benton Harbor, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Benton Harbor, Michigan's compliance with those requirements. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 07-1 thru 07-2.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Benton Harbor, Michigan did comply, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Report Letter on Compliance with Laws and Regulations applicable
to each Major Program and Internal Control over Compliance
in accordance With OMB Circular A-133
(Continued)

Internal Control over Compliance

The management of the City of Benton Harbor, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulation, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Benton Harbor, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Benton Harbor, Michigan's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 07-1 to be a material weakness.

The management of the City of Benton Harbor, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned cost. We did not audit the management's response and accordingly, we express no opinion on it.

This report is intended solely for the information of City Commission, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young, Assoc.

February 28, 2008

**CITY OF BENTON HARBOR, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

<u>FEDERAL AGENCY/PASS THROUGH AGENCY PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>		
Community Development Block Grant		
B-05-MC-26-0035	14.218	\$225,100
B-06-MC-26-0035	14.218	481,719
B-07-MC-26-0035	14.218	37,067
Section 108 Loan Guarantee Program	14.248	250,000
Brownfield Economic Development	14.248	2,220
Total U.S. Department of Housing and Urban Development		<u>996,106</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>		
Community Oriented Policing Service		
COPS in School	16.710	468,201
Secure Our School	16.710	28,705
PASSED-THROUGH STATE OF MICHIGAN-DEPARTMENT OF COMMUNITY HEALTH		
BYME/JAG Formula Grant	16.738	32,076
Total U.S. Department of Justice		<u>528,982</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>		
Surveys-Studies-Investigations and Special Purpose Grant	66.606	525,616
Arts District Infrastructure and Beautification Project	66.202	33,745
Total U.S. Department of EPA		<u>559,361</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
Assistance to FireFighters Grant	97.044	51,721
TOTAL FEDERAL EXPENDITURES		<u><u>\$2,136,170</u></u>

See notes to schedule of expenditures of federal awards.

**CITY OF BENTON HARBOR
RECONCILIATION OF BASIC FINANCIAL STATEMENTS
FEDERAL REVENUE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Federal Revenue Reported in the Basic Financial Statements	\$1,689,039
Less:	
Excess Revenue Reported in Prior Year	15,000
Current Year Deferred Revenue	201,839
Prior Year Deferred Revenue Received	
Current Fiscal Year	(19,708)
Section 108 Loan is not a revenue	<u>250,000</u>
Federal Expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$2,136,170</u></u>

**CITY OF BENTON HARBOR
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

NOTE A - SUMMARY SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards presents the activity of federal award programs of the City of Benton Harbor.

Basis of Accounting

The accompanying schedule of expenditures of Federal Awards includes the federal grant activity of the City of Benton Harbor and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit organizations*.

**CITY OF BENTON HARBOR
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material Weakness(es) identified? Yes No
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? Yes No
- Non-Compliance material to financial Statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material Weakness(es) identified? Yes No
- Significant Deficiency(ies) identified that are not considered to be material weakness? Yes No

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
16.710	COPS in School
66.606	Special Appropriation Project

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low risk auditee? Yes No

**CITY OF BENTON HARBOR
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

CURRENT YEAR FINDINGS

Section II – Financial Statement Audit Findings

NONE

**CITY OF BENTON HARBOR
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

Reference Number	Findings
07-1	<p>Program Name – U.S. Department of Justice-Community Oriented Policing Services; CFDA # 16.710.</p> <p>Finding Type – Material Noncompliance, Reportable Condition, and Significant Deficiency.</p> <p>Criteria – The City is required to submit quarterly Financial Status Reports to the Granting Agency within 30 days of the end of the quarter.</p> <p>Condition – The City did not submit the required FSRs in time for the Secure our School program. Further several of the FSRs did not match the actual expenditure for the respective quarters.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – The City could lose Federal funding due to the submission of inaccurate and non-timely FSRs.</p> <p>Recommendation – The City should implement a procedure to ensure that all the required FSRs are properly completed, reviewed and submitted within the stipulated time frame.</p> <p>View of Responsible officials – The City will amend the FSRs that did not match actual expenditures and submit those reports to the U.S. Department of Justice. The City will also review existing procedures for preparation and filing of FSRs and implement changes to make sure that future reports are accurate and timely filed.</p>

**CITY OF BENTON HARBOR
SCHEDULE OF FINDING AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS (Continued)

**Reference
Number**

Findings

07-2

Program Name – U.S. Environmental Protection Agency-Special Appropriations Project; CFDA # 66.202

Finding Type – Material Noncompliance

Criteria – The City is required to submit quarterly MBE/WBE reports to the granting Agency within 30 days of the end of the quarter, semi-annual technical performance reports within 30 days following the end of each six-month period, and an Environmental Results-Recipient Performance Report.

Condition – The City did not submit the required reports as noted above.

Questioned Costs – None

Cause/Effect – The City could lose federal funding due to the non-submission of the required reports.

Recommendation – The City should implement a procedure to ensure that all the required reports are properly prepared, reviewed and submitted within the stipulated time frame.

View of Responsible Officials – The City will prepare and submit those reports that should have been submitted previously. The City will also review existing procedures for preparation and filing of all required reports and implement changes to make sure future reports are accurate and timely filed.

**CITY OF BENTON HARBOR
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007**

SECTION I – FINANCIAL STATEMENT AUDIT FINDINGS

<u>Reference Number</u>	<u>Findings</u>
Finding 06-1	<p>Internal Controls Over Cash Disbursements</p> <p>Condition – The City did not prepare timely bank reconciliations for significant accounts during significant portion of the year.</p> <p>Status: We noted that bank reconciliations were performed timely.</p>

<u>Reference Number</u>	<u>Findings</u>
Finding 06-2	<p>HUD-Community Development Block Grant- Allowable Costs</p> <p>Condition – It was found that the City was not consistently applying its own policies. Out of a sample of 212 disbursements tested, it was noted that 80 items were missing check requests, posting instructions, and/or authorizing signatures. This condition created the risk that disbursements may be made improperly and not be detected by management.</p> <p>Status: This finding is not repeated in 2007.</p>

**CITY OF BENTON HARBOR
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION II – FEDERAL PROGRAM AUDIT FINDINGS

<u>Reference Number</u>	<u>Findings</u>
Finding 06-3	Community Development Block Grant; CFDA #14.218 Condition – The City did not demonstrate certification, that a vendor was not suspended or debarred, had been verified prior to the contract being awarded. Status: This finding is not repeated in 2007. We found that the City did obtain certification from vendors that they are not suspended or debarred from federal procurement.

<u>Reference Number</u>	<u>Findings</u>
Finding 06-4	U.S. Department of Justice – COPS; Secure Our School Program CFDA # 16.710. Condition – The City did not demonstrate certification that a vendor was not suspended or debarred had been verified prior to contract being awarded. Status: This finding is not repeated in 2007. We found that the City did obtain certification from vendors that they are not suspended or debarred from federal procurement.

**CITY OF BENTON HARBOR
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION II – FEDERAL PROGRAM AUDIT FINDINGS

<u>Reference Number</u>	<u>Findings</u>
Finding 06-5	<p>U.S. Department of Justice – Community Oriented Policing Services, CFDA #16.710</p> <p>Condition – The City did not submit the required FSRs in time for the Secure our School program. Further several of the FSRs did not match the actual expenditure for the respective quarters.</p> <p>Status: This finding is repeated in 2007 as finding # 07-1.</p>

<u>Reference Number</u>	<u>Findings</u>
Finding 06-6	<p>U.S. Environmental Protection Agency – Special Appropriation Project; CFDA # 66.602</p> <p>Condition – The City is required to submit quarterly MBE/WBE reports to the granting Agency within 30 days of the end of the quarter, semi-annual technical performance reports within 30 days following the end of each six-month period, and an Environmental Results-Recipient Performance Report.</p> <p>Status: The City did not submit the required reports as noted above. This finding is repeated in 2007 as Finding #07-2.</p>

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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February 28, 2008

Honorable Mayor and
Members of the City Commission
City of Benton Harbor
175 Territorial
Benton Harbor, MI 49022

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Benton Harbor, Michigan, (the City), for the year ended June 30, 2007, and have issued our report thereon dated February 28, 2008.

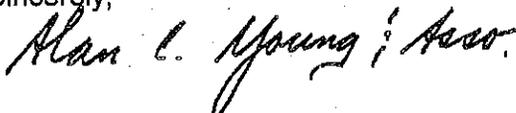
In planning and performing our audit of the basic financial statements of the City for the year ended June 30, 2007, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of this report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. These comments and recommendations, all of which have been discussed with the appropriate members of the management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A.

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

This letter is intended solely for the information of officials of the City of Benton Harbor, management, and others within the City. However, this letter is a matter of public record, and its distribution is not limited.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants

OVERALL FINANCIAL CONDITION

As management is keenly aware, the City has been experiencing some extremely tough economic times. Despite having placed a deficit elimination plan in effect (as disclosed in Note 2 to the financial statements), the City has a total deficit fund balance of \$1.8 M for the year ended June 30, 2007. In addition, the City reported a fund deficit of \$526,051 in the local streets fund.

The City management needs to critically review its budgeted fund balance positions and cash flow availability to evaluate the likelihood of meeting its initial budgeted targets. The analysis should include a detailed assessment of the primary revenue sources such as taxes, state shared revenue, permit fees and court fines and expenditures such as labor costs including pension and healthcare obligations including the level of citizens' services planned versus what can be afforded. City management has indicated that this financial review is an ongoing and continuous process.

REFUNDING OF EMPLOYEE CONTRIBUTIONS TO THE PENSION SYSTEM

Our review of the City's liability accounts revealed some rather old balances owed to terminated employees. When an employee leaves the City, he or she is entitled to a refund of any employee contributions made to the retirement system. However, under the City's current operating procedure, these amounts are only disbursed upon specific request of the employee.

We recommend that the City provide each employee with the necessary paperwork to request a distribution of employee contributions to the pension system at the time of separation from the City. If an employee does not file a request for these funds within a reasonable timeframe, such amounts should be escheated in accordance with the state law.