

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 Harrison	County Clare
Fiscal Year End 12-31-07	Opinion Date 3-6-08	Date Audit Report Submitted to State 3-17-08	

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 type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Letter to the Board - SAS 114	
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH		Telephone Number 989-386-3481	
Street Address 601 BEECH STREET		City CLARE	State Zip MI 48617
Authorizing CPA Signature 		Printed Name SHANNON WILSON, CPA	
		License Number 688802	



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CITY OF HARRISON
CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS
DECEMBER 31, 2007

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INDEPENDENT AUDITORS' REPORT

March 6, 2008

Members of the City Council
City of Harrison
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harrison, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund and the aggregate remaining fund information of the City of Harrison as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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Members of the City Council
City of Harrison
March 6, 2008
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrison'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.

Weinlander Fitzhugh

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Our discussion and analysis of the City of Harrison's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2007.

Financial Highlights

The General Fund reported an increase in fund balance of \$65,000 resulting in a balance of \$711,000 at the end of the year. Ending fund balance for the City's other major funds was \$111,000 for the Library Operating Fund, \$273,000 for the Fire Fund and \$570,000 for the Local Improvement Fund.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Harrison financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the Government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Library Operating Fund, Fire Fund and Local Improvement Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Government acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the Major Governmental Funds (Required Supplemental Information)

Other Supplemental Information

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

These two statements report the City's net assets as a way to measure the City's financial position. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the City.

Reporting the City's Most Significant Funds

Fund Financial Statements

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

Proprietary Funds

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities and garbage collection.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Fiduciary Funds

The City is the trustee, or fiduciary, for tax collections. All of the City's fiduciary activities are reported in separate Statements of Net Assets. We excluded these activities from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the City as a whole. Exhibit A provides a summary of the City's net assets as of December 31, 2007 and 2006.

<u>Exhibit A</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Current and other assets	\$ 1,941	\$ 1,743	\$ 1,622	\$ 1,624	\$ 3,563	\$ 3,367
Capital assets - net of accumulated depreciation	<u>2,071</u>	<u>2,132</u>	<u>14,308</u>	<u>14,223</u>	<u>16,379</u>	<u>16,355</u>
Total Assets	<u>4,012</u>	<u>3,875</u>	<u>15,930</u>	<u>15,847</u>	<u>19,942</u>	<u>19,722</u>
Liabilities						
Current liabilities	21	29	87	83	108	112
Long-term liabilities	<u>712</u>	<u>728</u>	<u>4,947</u>	<u>5,030</u>	<u>5,659</u>	<u>5,758</u>
Total Liabilities	<u>733</u>	<u>757</u>	<u>5,034</u>	<u>5,113</u>	<u>5,767</u>	<u>5,870</u>
Net Assets						
Invested in property and equipment -net of related debt	1,341	1,384	9,278	9,114	10,619	10,498
Restricted	0	0	493	485	493	485
Unrestricted	<u>1,938</u>	<u>1,734</u>	<u>1,125</u>	<u>1,135</u>	<u>3,063</u>	<u>2,869</u>
Total Net Assets	<u>\$ 3,279</u>	<u>\$ 3,118</u>	<u>\$ 10,896</u>	<u>\$ 10,734</u>	<u>\$ 14,175</u>	<u>\$ 13,852</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Exhibit A , on the previous page, focuses on net assets. The City's total net assets were approximately \$14.2 million at December 31, 2007. Capital assets, net of related debt, totaling approximately \$10.6 million compares the original costs, less depreciation of the City's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$500,000 are reported separately to show legal constraints from debt requirements and legislation that limit the City's ability to use those net assets for day-to-day operations.

The \$3.1 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2007. Exhibit B provides a summary of the City's operations for 2007 and 2006.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Exhibit B</u>						
Revenue						
Program revenue:						
Charges for services	\$ 414	\$ 376	\$ 907	\$ 876	\$ 1,321	\$ 1,252
Grants and contributions	26	5	328	0	354	5
General revenue:						
Property taxes	732	709	0	0	732	709
State revenue sharing	369	372	0	0	369	372
Interest and investment earnings	61	68	72	61	133	129
Transfers in (out)	0	(14)	0	14	0	0
Other	162	195	33	16	195	211
Total revenue	<u>1,764</u>	<u>1,711</u>	<u>1,340</u>	<u>967</u>	<u>3,104</u>	<u>2,678</u>
Function/Program Expenses						
General government	319	335	0	0	319	335
Public safety	413	439	0	0	413	439
Public service	310	345	0	0	310	345
Highways and streets	225	181	0	0	225	181
Recreation and culture	288	223	0	0	288	223
Sewer	0	0	645	588	645	588
Water	0	0	423	398	423	398
Garbage and rubbish	0	0	111	110	111	110
Interest on long-term debt	34	35	0	0	34	35
Total expenses	<u>1,589</u>	<u>1,558</u>	<u>1,179</u>	<u>1,096</u>	<u>2,768</u>	<u>2,654</u>
Increase (Decrease) in Net Assets	<u>\$ 175</u>	<u>\$ 153</u>	<u>\$ 161</u>	<u>\$ (129)</u>	<u>\$ 336</u>	<u>\$ 24</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was \$2.8 million. Certain activities were partially funded by \$1.3 million from those who benefited from the programs, or by the other Cities and organizations that subsidized certain programs with operating grants and contributions of \$369,000. We paid for the remaining “public benefit” portion of our governmental and business-type activities with approximately \$732,000 in taxes, \$369,000 in State revenue sharing and with our other revenues, such as interest and miscellaneous revenues.

The City experienced an increase in net assets of \$336,000 mainly due to actual expenditures being less than anticipated. Grants and contributions, property tax and other revenue increased this year. The increase in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

The City's Funds

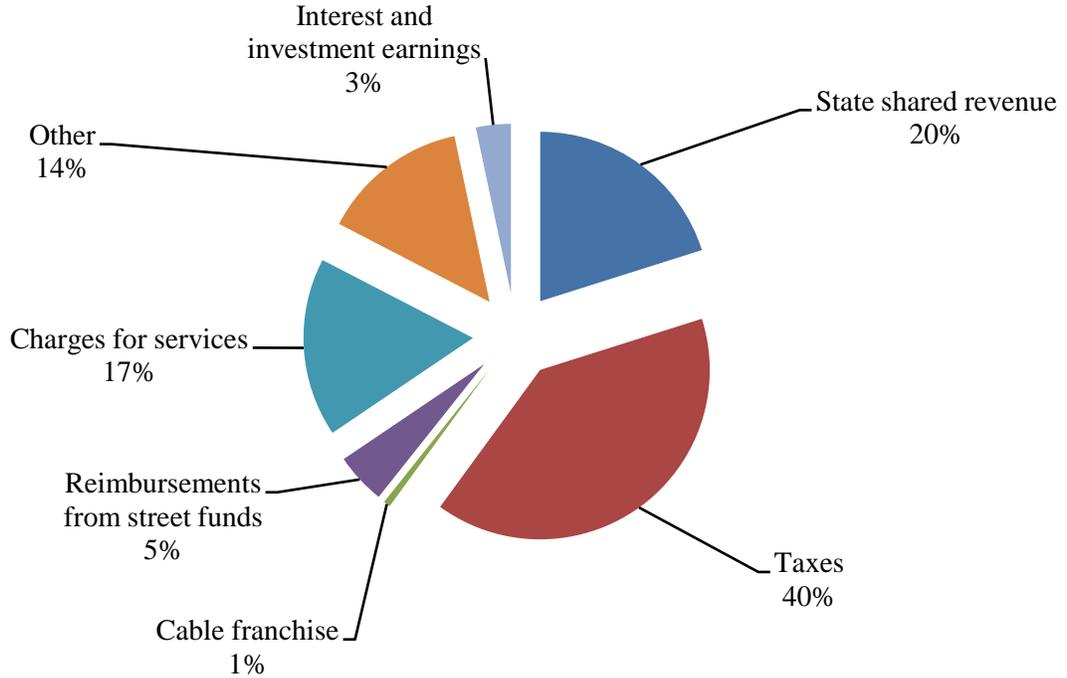
The City uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the City is being accountable for the resources taxpayers and others provide to it and may provide more insight into the City's overall financial health.

The City's Governmental funds reported a combined fund balance of \$1.9 million which is up from last year's total of \$1.7 million. The schedule below details the fund balance (in thousands) and the total change in fund balances as of December 31, 2007 and 2006.

	<u>Fund Balance</u> <u>December 31, 2007</u>	<u>Fund Balance</u> <u>December 31, 2006</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 711,000	\$ 646,000	\$ 65,000
Major Streets	131,000	155,000	(24,000)
Local Streets	52,000	57,000	(5,000)
Budd Lake	87,000	79,000	8,000
Building Authority	3,000	4,000	(1,000)
Library Operating	111,000	83,000	28,000
Fire	273,000	157,000	116,000
Local Improvement	570,000	526,000	44,000
Total	<u>\$ 1,938,000</u>	<u>\$ 1,707,000</u>	<u>\$ 231,000</u>

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

The graph below details the major sources of the City's governmental fund revenue.



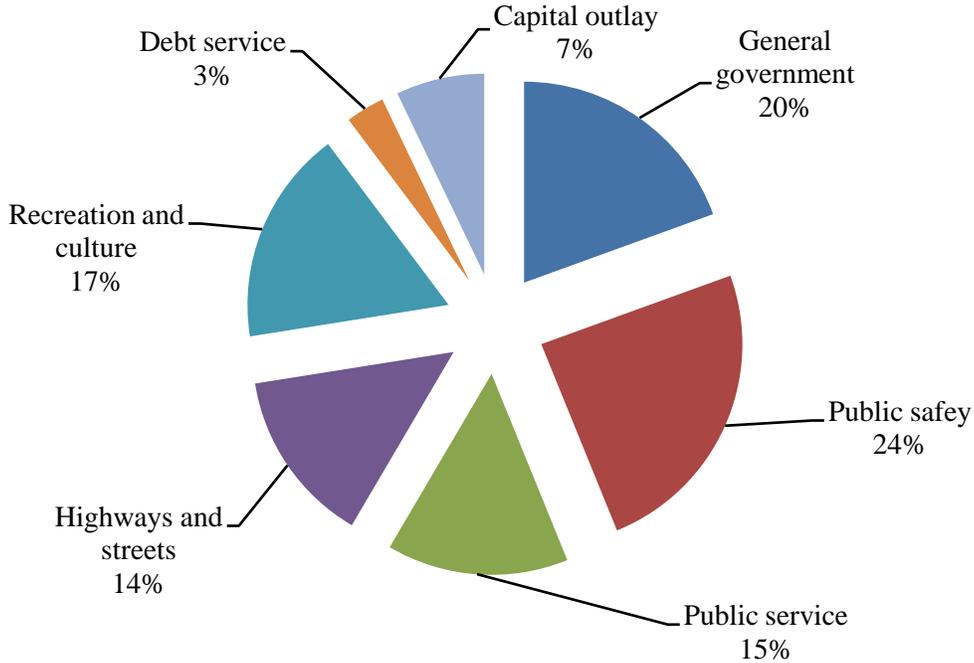
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	<u>2007</u>	<u>2006</u>
State shared revenue	\$ 369,000	\$ 372,000
Taxes	732,000	708,000
Cable franchise	12,000	12,000
Reimbursements from street funds	89,000	60,000
Charges for services	313,000	301,000
Other	203,000	204,000
Interest and investment earnings	61,000	68,000
Total	<u>\$ 1,779,000</u>	<u>\$ 1,725,000</u>

Revenues are up \$104,000 due to increased Library penal fines collected and more tax revenue as a result of a higher tax millage and a rise in property values.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

The graph below details the major expenditure categories of the City.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	<u>2007</u>	<u>2006</u>
General government	\$ 312,000	\$ 292,000
Public safety	326,000	351,000
Public service	234,000	256,000
Highways and streets	225,000	181,000
Recreation and culture	272,000	205,000
Debt service	50,000	50,000
Capital outlay	114,000	206,000
Total	<u>\$ 1,533,000</u>	<u>\$ 1,541,000</u>

Expenditures are up \$57,000 from the prior year due to an increase in the cost of street paving. Public safety's increase is due to the purchase of new fire equipment which the City received a USDA-RD grant. The increase in recreation and culture is the addition of a seawall.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Business-Type Activities -The City's Proprietary Funds show the activity of the Water Fund, Sewer Fund and Garbage Collection Fund. The Water Fund reported net assets of \$2.9 million and a net decrease in net assets of \$36,000. The decrease in net assets is mainly due to the increase in building and equipment maintenance and increases in personnel costs. The Sewer Fund reported net assets of \$7.9 million and a net increase of \$198,000. The increase in net assets is mainly due to a grant received in 2007. The Garbage Collection Fund reported net assets of \$23,000 and a net decrease of \$300. The net decrease in net assets is mainly due to increase in charges for services of \$200, an increase of \$100 of miscellaneous revenues and an increase in contractual services of \$600.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

General Fund Budgetary Highlights

Over the course of the year, the City revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the City's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

There were immaterial differences between the original and final budgeted revenue.

Budget expenditures were decreased primarily due to delaying certain projects until the next year and they were anticipating more expenditures in personnel costs earlier in the year than what they occurred. The actual expenditures were in-line with the final budget.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Capital Assets

At December 31, 2007, the City had \$16.4 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net increase (including additions and disposals) of approximately \$24,000 or 0.2%, from last year. The amounts below are shown in thousands.

	Governmental		Business-Type		Totals	
	Activities		Activities			
	(in thousands)		(in thousands)		(in thousands)	
	2007	2006	2007	2006	2007	2006
Land	\$ 356	\$ 356	\$ 317	\$ 317	\$ 673	\$ 673
Construction in progress	0	0	0	17	0	17
Buildings and improvements	1,157	1,157	3,887	3,887	5,044	5,044
Land improvements	216	194	0	0	216	194
Vehicles	1,025	1,025	0	0	1,025	1,025
Machinery and equipment	769	753	1,006	1,006	1,775	1,759
Water system	0	0	4,236	4,203	4,236	4,203
Sewer system	0	0	8,659	8,187	8,659	8,187
Total capital assets	3,523	3,485	18,105	17,617	21,628	21,102
Less accumulated depreciation	1,452	1,353	3,797	3,394	5,249	4,747
Net capital assets	\$ 2,071	\$ 2,132	\$ 14,308	\$ 14,223	\$ 16,379	\$ 16,355

This year's governmental activities additions of \$114,000 included wheel loader for the DPW, a camera and rescue jack for the Fire Department and a sea wall. This year's business-type activities additions of \$505,000 included the completion of the sewer capacity project and the donation of sewer and water lines to the City.

CITY OF HARRISON
Management's Discussion and Analysis
For the Year Ended December 31, 2007

Debt

At the end of this year, the City had \$5.8 million in long-term debt outstanding versus \$5.9 million in the previous year – a decrease of \$100,000. The City's debt includes revenue bonds for its sewer and water systems and general obligation bonds for its fire hall. This debt is summarized as follows:

	<u>2007</u>	<u>2006</u>
	(in thousands)	(in thousands)
Revenue Bonds	\$ 5,030	\$ 5,109
General Obligation Bonds	728	744
	<u>\$ 5,758</u>	<u>\$ 5,853</u>

Factors Expected to Have an Effect on Future Operations

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust City expenditures in response to any revenue shortfall.

Contacting The City's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors 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, contact the City Clerk's Office at PO Box 378, Harrison, Michigan 48625.

CITY OF HARRISON
Statement of Net Assets
December 31, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 1,845,557	\$ 1,578,998	\$ 3,424,555
Receivables (net)	90,699	43,291	133,990
Prepaid expenses	3,824	0	3,824
Capital assets - less accumulated depreciation of \$5,248,229	<u>2,071,379</u>	<u>14,307,634</u>	<u>16,379,013</u>
Total Assets	<u>4,011,459</u>	<u>15,929,923</u>	<u>19,941,382</u>
<u>Liabilities</u>			
Accounts payable	616	0	616
Customers' deposits	0	4,490	4,490
Deferred revenue	1,500	0	1,500
Interest payable	2,835	0	2,835
Noncurrent liabilities:			
Due within one year	16,000	83,000	99,000
Due in more than one year	<u>712,000</u>	<u>4,947,000</u>	<u>5,659,000</u>
Total Liabilities	<u>732,951</u>	<u>5,034,490</u>	<u>5,767,441</u>
<u>Net Assets</u>			
Invested in capital assets net of related debt	1,340,544	9,277,634	10,618,178
Restricted for other purposes	0	492,572	492,572
Unrestricted	<u>1,937,964</u>	<u>1,125,227</u>	<u>3,063,191</u>
Total Net Assets	<u>\$ 3,278,508</u>	<u>\$ 10,895,433</u>	<u>\$ 14,173,941</u>

See accompanying notes to financial statements

CITY OF HARRISON
Statement of Activities
For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
General government	\$ 318,757	\$ 108,634	\$ 0	\$ 0	\$ (210,123)	\$ 0	\$ (210,123)
Public safety	413,131	0	0	17,000	(396,131)	0	(396,131)
Public service	310,428	253,765	0	0	(56,663)	0	(56,663)
Highways and streets	224,415	0	0	0	(224,415)	0	(224,415)
Recreation and cultural	288,228	51,373	2,735	7,126	(226,994)	0	(226,994)
Interest on long-term debt	34,410	0	0	0	(34,410)	0	(34,410)
Total governmental activities	<u>1,589,369</u>	<u>413,772</u>	<u>2,735</u>	<u>24,126</u>	<u>(1,148,736)</u>	<u>0</u>	<u>(1,148,736)</u>
Business-type activities:							
Sewer	644,658	465,803	0	327,777	0	148,922	148,922
Water	423,142	316,438	0	0	0	(106,704)	(106,704)
Garbage and collection	110,756	110,483	0	0	0	(273)	(273)
Total business-type activities	<u>1,178,556</u>	<u>892,724</u>	<u>0</u>	<u>327,777</u>	<u>0</u>	<u>41,945</u>	<u>41,945</u>
Total primary government	<u>\$ 2,767,925</u>	<u>\$ 1,306,496</u>	<u>\$ 2,735</u>	<u>\$ 351,903</u>	<u>(1,148,736)</u>	<u>41,945</u>	<u>(1,106,791)</u>
General Revenues:							
Taxes and penalties					731,685	0	731,685
State shared revenues					369,594	0	369,594
Interest income					60,703	71,885	132,588
Miscellaneous					161,566	47,487	209,053
Total general revenues					<u>1,323,548</u>	<u>119,372</u>	<u>1,442,920</u>
Change in net assets					<u>174,812</u>	<u>161,317</u>	<u>336,129</u>
Net assets - beginning of year, as previously stated					<u>3,118,413</u>	<u>10,734,116</u>	<u>13,852,529</u>
Prior period adjustment					<u>(14,717)</u>	<u>0</u>	<u>(14,717)</u>
Net assets - beginning of year, restated					<u>3,103,696</u>	<u>10,734,116</u>	<u>13,837,812</u>
Net assets - end of year					<u>\$ 3,278,508</u>	<u>\$ 10,895,433</u>	<u>\$ 14,173,941</u>

See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Balance Sheet
December 31, 2007

	<u>General Fund</u>	<u>Library Operating Fund</u>	<u>Fire Fund</u>	<u>Local Improvement Fund</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and investments	\$ 641,073	\$ 109,152	\$ 273,119	\$ 570,379	\$ 251,834	\$ 1,845,557
Receivables - net	69,894	0	0	0	20,805	90,699
Prepaid expenditures and advances	0	3,824	0	0	0	3,824
 Total Assets	 <u>\$ 710,967</u>	 <u>\$ 112,976</u>	 <u>\$ 273,119</u>	 <u>\$ 570,379</u>	 <u>\$ 272,639</u>	 <u>\$ 1,940,080</u>
 <u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accounts payable	\$ 0	\$ 616	\$ 0	\$ 0	\$ 0	\$ 616
Deferred revenue	0	1,500	0	0	0	1,500
 Total liabilities	 <u>0</u>	 <u>2,116</u>	 <u>0</u>	 <u>0</u>	 <u>0</u>	 <u>2,116</u>
 <u>Fund Balance</u>						
Unreserved	710,967	110,860	273,119	570,379	272,639	1,937,964
 Total fund balance	 <u>710,967</u>	 <u>110,860</u>	 <u>273,119</u>	 <u>570,379</u>	 <u>272,639</u>	 <u>1,937,964</u>
 Total Liabilities and Fund Balance	 <u>\$ 710,967</u>	 <u>\$ 112,976</u>	 <u>\$ 273,119</u>	 <u>\$ 570,379</u>	 <u>\$ 272,639</u>	 <u>\$ 1,940,080</u>

See accompanying notes to financial statements

CITY OF HARRISON
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
December 31, 2007

Total fund balance - governmental funds	\$ 1,937,964
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:	
Cost of the capital assets	3,522,854
Accumulated depreciation	(1,451,475)
Accrued interest payable is not included as a liability in governmental activities	(2,835)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	<u>(728,000)</u>
Total net assets - governmental activities	<u>\$ 3,278,508</u>

See accompanying notes to financial statements

CITY OF HARRISON
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended December 31, 2007

	General Fund	Library Operating Fund	Fire Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>						
State shared revenue	\$ 189,067	\$ 10,246	\$ 0	\$ 0	\$ 170,281	\$ 369,594
Taxes and penalties	697,689	0	0	0	33,996	731,685
Cable franchise	12,029	0	0	0	0	12,029
Reimbursements from street funds	88,938	0	0	0	0	88,938
Charges for services	7,517	51,373	253,765	0	0	312,655
Penal fines	0	80,080	0	0	0	80,080
Miscellaneous	4,920	38,416	53,369	20,432	5,885	123,022
Interest	29,175	5,673	13,637	1,125	11,061	60,671
Sales	150	0	0	0	0	150
Total revenues	<u>1,029,485</u>	<u>185,788</u>	<u>320,771</u>	<u>21,557</u>	<u>221,223</u>	<u>1,778,824</u>
<u>Expenditures</u>						
General government	312,021	0	0	0	0	312,021
Public safety	201,459	0	124,081	0	0	325,540
Public service	174,534	0	0	30,690	28,965	234,189
Highways and streets	0	0	0	0	224,415	224,415
Recreation and cultural	70,237	201,662	0	0	0	271,899
Capital outlay	0	0	15,063	99,379	0	114,442
Debt service:						
Principal	0	0	0	0	16,000	16,000
Interest	0	0	0	0	34,410	34,410
Total expenditures	<u>758,251</u>	<u>201,662</u>	<u>139,144</u>	<u>130,069</u>	<u>303,790</u>	<u>1,532,916</u>
Excess (deficiency) of revenues over expenditures	<u>271,234</u>	<u>(15,874)</u>	<u>181,627</u>	<u>(108,512)</u>	<u>(82,567)</u>	<u>245,908</u>
<u>Other Financing Sources (Uses)</u>						
Transfers in	0	43,376	0	163,000	102,521	308,897
Transfers (out)	(206,376)	0	(65,084)	(10,000)	(42,111)	(323,571)
Total other financing sources (uses)	<u>(206,376)</u>	<u>43,376</u>	<u>(65,084)</u>	<u>153,000</u>	<u>60,410</u>	<u>(14,674)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>64,858</u>	<u>27,502</u>	<u>116,543</u>	<u>44,488</u>	<u>(22,157)</u>	<u>231,234</u>
Fund balance - beginning of year, as previously stated	646,109	110,395	156,576	525,891	294,796	1,733,767
Prior period adjustment	0	(27,037)	0	0	0	(27,037)
Fund balance - beginning of year, restated	<u>646,109</u>	<u>83,358</u>	<u>156,576</u>	<u>525,891</u>	<u>294,796</u>	<u>1,706,730</u>
Fund balance - end of year	<u>\$ 710,967</u>	<u>\$ 110,860</u>	<u>\$ 273,119</u>	<u>\$ 570,379</u>	<u>\$ 272,639</u>	<u>\$ 1,937,964</u>

See accompanying notes to financial statements

CITY OF HARRISON
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2007

Net change in fund balance - total governmental funds	\$ 231,234
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(186,896)
Capital outlay	114,442
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	
	32
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	
	<u>16,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 174,812</u></u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Net Assets
December 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 781,219	\$ 782,009	\$ 15,770	\$ 1,578,998
Accounts receivable	923	34,759	7,609	43,291
Total current assets	782,142	816,768	23,379	1,622,289
Capital assets less accumulated depreciation of \$3,796,754	4,126,564	10,181,070	0	14,307,634
Total Assets	<u>\$4,908,706</u>	<u>\$10,997,838</u>	<u>\$ 23,379</u>	<u>\$ 15,929,923</u>
<u>Liabilities</u>				
Current liabilities:				
Customer deposits	\$ 4,490	\$ 0	\$ 0	\$ 4,490
Current portion of bonds payable	36,000	47,000	0	83,000
Total current liabilities	40,490	47,000	0	87,490
Bonds payable	1,930,000	3,017,000	0	4,947,000
Total Liabilities	<u>1,970,490</u>	<u>3,064,000</u>	<u>0</u>	<u>5,034,490</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	2,160,564	7,117,070	0	9,277,634
Restricted	197,500	295,072	0	492,572
Unrestricted	580,152	521,696	23,379	1,125,227
Total Net Assets	<u>\$2,938,216</u>	<u>\$ 7,933,838</u>	<u>\$ 23,379</u>	<u>\$ 10,895,433</u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for services	\$ 280,487	\$ 460,377	\$ 108,720	\$ 849,584
Miscellaneous	5,432	5,426	1,763	12,621
Total operating revenues	<u>285,919</u>	<u>465,803</u>	<u>110,483</u>	<u>862,205</u>
<u>Operating Expenses</u>				
Wages and salaries	73,888	73,194	0	147,082
Fringe benefits	38,605	48,183	0	86,788
Operating expenses	7,524	14,493	0	22,017
Contractual services	12,011	22,282	110,399	144,692
Building and equipment maintenance	29,368	23,774	0	53,142
Utilities	18,756	45,118	0	63,874
Insurance	6,461	8,284	0	14,745
Depreciation	143,817	258,940	0	402,757
Other expenses	1,467	4,550	357	6,374
Total operating expenses	<u>331,897</u>	<u>498,818</u>	<u>110,756</u>	<u>941,471</u>
Operating income (loss)	<u>(45,978)</u>	<u>(33,015)</u>	<u>(273)</u>	<u>(79,266)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Rental income	30,519	0	0	30,519
Interest income	30,336	41,549	0	71,885
Grant revenue	0	308,587	0	308,587
Donation	0	19,190	0	19,190
Miscellaneous	32,745	68	0	32,813
Transfers in	7,337	7,337	0	14,674
Interest expenses and fees	<u>(91,245)</u>	<u>(145,840)</u>	<u>0</u>	<u>(237,085)</u>
Total nonoperating revenues (expenses)	<u>9,692</u>	<u>230,891</u>	<u>0</u>	<u>240,583</u>
Change in net assets	(36,286)	197,876	(273)	161,317
Net assets - beginning of year	<u>2,974,502</u>	<u>7,735,962</u>	<u>23,652</u>	<u>10,734,116</u>
Net assets - end of year	<u>\$2,938,216</u>	<u>\$7,933,838</u>	<u>\$ 23,379</u>	<u>\$10,895,433</u>

See accompanying notes to financial statements

CITY OF HARRISON
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 286,145	\$ 448,067	\$ 109,301	\$ 843,513
Cash payments to suppliers for goods and services	(79,277)	(100,765)	(110,756)	(290,798)
Cash payments to employees for services	(112,493)	(121,377)	0	(233,870)
Net cash provided (used) by operating activities	<u>94,375</u>	<u>225,925</u>	<u>(1,455)</u>	<u>318,845</u>
<u>Cash flows from capital and related financing activities</u>				
Acquisition and construction of capital assets	0	(454,974)	0	(454,974)
Principal paid on long-term debt	(35,000)	(44,000)	0	(79,000)
Interest paid on long-term debt	(91,245)	(145,840)	0	(237,085)
Net cash (used) by capital and related financing activities	<u>(126,245)</u>	<u>(644,814)</u>	<u>0</u>	<u>(771,059)</u>
<u>Cash flows from noncapital and related financing activities</u>				
Rental and other income	35,008	308,655	0	343,663
Transfers in	7,337	7,337	0	14,674
Net cash provided by noncapital and related financing activities	<u>42,345</u>	<u>315,992</u>	<u>0</u>	<u>358,337</u>
<u>Cash flows from investing activities</u>				
Interest income	30,336	41,549	0	71,885
Net increase (decrease) in cash and investments	40,811	(61,348)	(1,455)	(21,992)
Cash and investments - beginning of year	740,408	843,357	17,225	1,600,990
Cash and investments - end of year	<u>\$ 781,219</u>	<u>\$ 782,009</u>	<u>\$ 15,770</u>	<u>\$ 1,578,998</u>
<u>Reconciliation of Cash Flows from Operations</u>				
Operating income (loss)	\$ (45,978)	\$ (33,015)	\$ (273)	\$ (79,266)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	143,817	258,940	0	402,757
Changes in operating assets and liabilities:				
Accounts receivable	226	(17,736)	(1,182)	(18,692)
Accounts payable	0	17,736	0	17,736
Customer deposits	(3,690)	0	0	(3,690)
Net cash provided (used) by operating activities	<u>\$ 94,375</u>	<u>\$ 225,925</u>	<u>\$ (1,455)</u>	<u>\$ 318,845</u>

See accompanying notes to financial statements.

CITY OF HARRISON
Fiduciary Fund
Statement of Net Assets
December 31, 2007

	<u>Agency Fund Type (Property Tax Collection Fund)</u>
<u>Assets</u>	
Cash	<u>\$ 51,418</u>
<u>Liabilities</u>	
Undistributed taxes	<u>\$ 51,418</u>

See accompanying notes to financial statements

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Harrison conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harrison:

Reporting Entity

The City of Harrison is governed by an elected council with a City Clerk overseeing daily operations. The accompanying financial statements present the financial position and results of operations for the City.

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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund 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.

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. 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 and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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. The non-major funds are presented in a single column in the fund financial statements and are detailed in the other supplemental information. On the proprietary fund statements, the Garbage Collection Fund is a non-major fund.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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. 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.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

The City reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Library Operating Fund – The Library Operating Fund is used to maintain and update the library facilities.

Fire Fund – The Fire Fund is used operate the City’s fire protection and rescue services.

Local Improvement Fund – The Local Improvement Fund is used to record transactions relative to the local improvement services provided by the City.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major proprietary funds:

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

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

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing 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 are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Cash - \$485,500 of the Enterprise Fund's cash and investments is restricted for required bond reserves (Note 11).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

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

Water system	25 to 30 Years
Sewer system	50 Years
Buildings and improvements	20 to 40 Years
Vehicles	5 to 7 Years
Machinery and equipment	3 to 12 Years

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The City of Harrison follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed budget prior to December 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 2 – BUDGETS (CONTINUED)

4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Library Operating Fund, Local Streets Fund and Local Improvement Fund are presented as Required Supplemental Information.

During the year ended December 31, 2007, the Library Operating Fund incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Special Revenue Fund:			
Library Operating Fund	\$ 189,452	\$ 201,662	\$ (12,210)

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature 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 which are legal for direct investment by local units of government in Michigan. The City's deposits are in accordance with statutory authority.

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

Governmental activities	\$ 1,845,557
Business-type activities	1,578,998
Fiduciary funds	<u>51,418</u>
Total	<u>\$ 3,475,973</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 3,475,873
Petty cash and cash on hand	<u>100</u>
Total	<u><u>\$ 3,475,973</u></u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2007, \$3,445,270 of the City's bank balance of \$3,745,270 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 4 - CAPITAL ASSETS

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 356,201	\$ 0	\$ 0	\$ 356,201
Capital assets being depreciated:				
Buildings and improvements	1,156,379	0	0	1,156,379
Land improvements	193,800	22,489	0	216,289
Vehicles	1,025,187	0	0	1,025,187
Machinery and equipment	765,345	91,953	88,500	768,798
Subtotal	<u>3,140,711</u>	<u>114,442</u>	<u>88,500</u>	<u>3,166,653</u>
Less accumulated depreciation for:				
Buildings and improvements	246,756	37,909	88,500	196,165
Land improvements	44,125	1,430	0	45,555
Vehicles	477,772	94,248	0	572,020
Machinery and equipment	584,426	53,309	0	637,735
Subtotal	<u>1,353,079</u>	<u>186,896</u>	<u>88,500</u>	<u>1,451,475</u>
Net capital assets being depreciated	<u>1,787,632</u>	<u>(72,454)</u>	<u>0</u>	<u>1,715,178</u>
Governmental activities, total capital assets - net of depreciation	<u>\$ 2,143,833</u>	<u>\$ (72,454)</u>	<u>\$ 0</u>	<u>\$ 2,071,379</u>
<u>Business-type activities</u>				
Capital assets not being depreciated:				
Land	\$ 316,997	\$ 0	\$ 0	\$ 316,997
Construction in progress	16,942	0	16,942	0
Total capital assets not being depreciated:	<u>333,939</u>	<u>0</u>	<u>16,942</u>	<u>316,997</u>
Capital assets being depreciated:				
Water system	4,203,048	32,745	0	4,235,793
Sewer system	8,186,301	471,947	0	8,658,248
Buildings	3,887,148	0	0	3,887,148
Machinery and equipment	1,006,202	0	0	1,006,202
Total capital assets being depreciated	<u>17,282,699</u>	<u>504,692</u>	<u>0</u>	<u>17,787,391</u>
Less accumulated depreciation for:				
Water system	792,909	92,125	0	885,034
Sewer system	1,992,913	164,693	0	2,157,606
Buildings	262,007	81,382	0	343,389
Machinery and equipment	346,168	64,557	0	410,725
	<u>3,393,997</u>	<u>402,757</u>	<u>0</u>	<u>3,796,754</u>
Net capital assets being depreciated	<u>13,888,702</u>	<u>101,935</u>	<u>0</u>	<u>13,990,637</u>
Business-type activities, total capital assets, net of depreciation	<u>\$ 14,222,641</u>	<u>\$ 101,935</u>	<u>\$ 0</u>	<u>\$ 14,307,634</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 6,737
Public safety	87,591
Culture and recreation	16,329
Public service	<u>76,239</u>
Total governmental activities depreciation expense	<u>\$ 186,896</u>
Business-type activities:	
Water	\$ 143,817
Sewer	<u>258,940</u>
Total business-type activities depreciation expense	<u>\$ 402,757</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A summary of inter-fund transfers made during the year ended December 31, 2007 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 0	\$ 206,376
Library Fund	43,376	0
Fire Fund	0	65,084
Local Improvement Fund	163,000	10,000
Major Street Fund	0	42,111
Local Street Fund	52,111	0
Building Authority Fund	50,410	0
Water Fund	7,337	0
Sewer Fund	<u>7,337</u>	<u>0</u>
	<u>\$ 323,571</u>	<u>\$ 323,571</u>

There were no inter-fund receivables or payables at December 31, 2007.

The General Fund transferred \$163,000 to the Local Improvement Fund and \$43,376 to the Library Fund to cover operational costs

The Fire Fund transferred \$7,337 to the Sewer Fund, \$7,337 to the Water Fund and \$50,410 to the Building Authority Fund to cover operational costs.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)

The Local Improvement Fund transferred \$10,000 to the Local Street Fund to cover costs for improving the local streets.

The Major Street Fund transferred \$42,111 to the Local Streets Fund to cover operational costs.

The fund balance of the Library Fund was decreased by \$27,037 for payroll that should have been recorded in 2006.

NOTE 6 - LONG-TERM DEBT

A summary of the City's long term debt is as follows:

Government Activities

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Building Authority Bonds, due in annual installments of \$1,000 to \$25,000 through December 1, 2031, with an interest rate of 4.625%.	\$ 744,000	\$ (16,000)	\$ 728,000

Business-Type Activities

1984 Water System Revenue Bonds, due in annual installments of \$5,000 to \$30,000 through December 31, 2020 with an interest rate of 5.0%.	\$ 315,000	\$ (15,000)	\$ 300,000
2002 Water Supply System Junior Lien Revenue bonds, due in annual installments of \$1,000 to \$94,000 through July 1, 2040 with an interest rate of 4.5%.	1,686,000	(20,000)	1,666,000

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

Business-Type Activities (Continued)

1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	\$ 1,017,000	\$ (18,000)	\$ 999,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	179,000	(3,000)	176,000
2002 Sewage Disposal System Junior Lien Revenue Bonds, due in annual installments of \$3,000 to \$105,000 through September 1, 2041 with an interest rate of 4.5%.	<u>1,912,000</u>	<u>(23,000)</u>	<u>1,889,000</u>
Total Business-Type Activities	<u>\$ 5,109,000</u>	<u>\$ (79,000)</u>	<u>\$ 5,030,000</u>

Long-term obligation activity can be summarized as follows:

	Balance January 1, 2007	Additions	Retirements and Payments	Balance December 31, 2007	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds	<u>\$ 744,000</u>	<u>\$ 0</u>	<u>\$ 16,000</u>	<u>\$ 728,000</u>	<u>\$ 16,000</u>
<u>Business-Type Activities</u>					
Revenue Bonds	<u>\$ 5,109,000</u>	<u>\$ 0</u>	<u>\$ 79,000</u>	<u>\$ 5,030,000</u>	<u>\$ 83,000</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 6 - LONG-TERM DEBT (CONTINUED)

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

Year Ended December 31	Government-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 16,000	\$ 33,670	\$ 83,000	\$ 233,253
2009	17,000	32,930	90,000	229,305
2010	18,000	32,144	96,000	225,018
2011	19,000	31,311	98,000	220,445
2012	20,000	30,433	102,000	215,783
2013-2017	117,000	137,317	594,000	1,000,498
2018-2022	147,000	107,485	682,000	847,011
2023-2027	187,000	69,977	752,000	684,091
2028-2032	187,000	22,153	948,000	489,326
2033-2037	0	0	840,000	269,316
2038-2041	0	0	745,000	77,760
Total	<u>\$ 728,000</u>	<u>\$ 497,420</u>	<u>\$ 5,030,000</u>	<u>\$ 4,491,806</u>

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The City of Harrison participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Harrison. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City of Harrison's competitive bargaining units and requires a contribution from the employees of 3% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual Pension Costs – For year ended December 31, 2007, the City of Harrison's annual pension cost of \$55,859 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal actuarial cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increase of 4.5% per year, and (iii) 2.5% per year cost of living adjustments. These assumptions were determined using techniques that smooth the effects of short-term volatility over a four-year period.

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)

Three year trend information as of December 31, 2007 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 48,248	\$ 49,080	\$ 55,859
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	1,491,275	1,586,727	1,716,196
Actuarial accrued liability	1,859,516	2,007,200	2,098,742
Unfunded AAL	368,241	420,473	382,546
Funded ration	80%	79%	82%
Covered payroll	413,509	432,593	425,846
UAL as a percentage of covered payroll	89%	97%	90%

NOTE 8 – POST-EMPLOYMENT BENEFITS

The City has elected to provide post-employment health benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Currently, two retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 2007, the City made payments for post-employment health benefit premiums of \$12,600.

NOTE 9 – OPERATING LEASE

The City leases office and storage space in its fire station to the Department of Natural Resources under an operating lease that expires in June 2013. Annual rent is \$30,815 and the lessee has two five-year options. Minimum future rentals are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 30,815
2009	30,815
2010	30,815
2011	30,815
2012	30,815
Thereafter	15,408
	<u>\$ 169,483</u>

CITY OF HARRISON
Notes to Financial Statements
For the Year Ended December 31, 2007

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts and errors and omissions. The City has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

NOTE 11 - NET ASSETS - RESTRICTED

As required by various bond ordinances, the City has established and funded reserves for bond retirement of \$197,500 for the Water Fund and \$288,000 for the Sewer Fund

NOTE 12 - PRIOR PERIOD ADJUSTMENT

The Statement of Activities on page 5 shows that net assets of the City were decreased at January 1, 2007 by \$14,717 for two items that should have been recorded in 2006 – unrecorded payroll for the Library Fund of \$27,037 and voting equipment of \$12,320 that had been donated to the City. Page 8 shows that the fund balance of the Library Fund was also decreased for the unrecorded payroll.

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 162,400	\$ 162,400	\$ 189,067	\$ 26,667
Taxes and penalties	674,157	674,157	697,689	23,532
Cable franchise	9,000	9,000	12,029	3,029
Reimbursements from street funds	50,000	50,000	88,938	38,938
Charges for services	7,500	7,500	7,517	17
Miscellaneous	2,500	2,500	4,920	2,420
Interest	8,000	9,000	29,175	20,175
Sales	1,000	1,000	150	(850)
Total revenues	<u>914,557</u>	<u>915,557</u>	<u>1,029,485</u>	<u>113,928</u>
<u>Expenditures</u>				
General government	407,071	419,347	312,021	107,326
Public safety	221,935	218,816	201,459	17,357
Public service	209,600	212,300	174,534	37,766
Recreation and cultural	86,575	87,575	70,237	17,338
Contingency	80,514	92,148	0	92,148
Total expenditures	<u>1,005,695</u>	<u>1,030,186</u>	<u>758,251</u>	<u>271,935</u>
Excess (deficiency) of revenues over expenditures	(91,138)	(114,629)	271,234	385,863
<u>Other Financing (Uses)</u>				
Operating transfers out	(93,376)	(206,376)	(206,376)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(184,514)	(321,005)	64,858	385,863
Fund balance - beginning of year	<u>646,109</u>	<u>646,109</u>	<u>646,109</u>	<u>0</u>
Fund balance - end of year	<u>\$ 461,595</u>	<u>\$ 325,104</u>	<u>\$ 710,967</u>	<u>\$ 385,863</u>

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Library Operating Fund
For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
State shared revenue	\$ 9,600	\$ 10,246	\$ 10,246	\$ 0
Charges for services	51,373	51,373	51,373	0
Penal fines	62,000	80,080	80,080	0
Miscellaneous	19,765	27,692	38,416	10,724
Interest	2,107	4,171	5,673	1,502
	<u>144,845</u>	<u>173,562</u>	<u>185,788</u>	<u>12,226</u>
<u>Expenditures</u>				
Recreation and cultural	<u>188,123</u>	<u>189,452</u>	<u>201,662</u>	<u>(12,210)</u>
Excess (deficiency) of revenues over expenditures	(43,278)	(15,890)	(15,874)	16
<u>Other Financing Sources</u>				
Operating transfer in	<u>43,376</u>	<u>43,376</u>	<u>43,376</u>	<u>0</u>
Excess of revenues and other financing sources over expenditures	<u>98</u>	<u>27,486</u>	<u>27,502</u>	<u>16</u>
Fund Balance - beginning of year as previously stated	110,395	110,395	110,395	0
Prior period adjustment	<u>(27,037)</u>	<u>(27,037)</u>	<u>(27,037)</u>	<u>0</u>
Fund balance - beginning of year, restated	<u>83,358</u>	<u>83,358</u>	<u>83,358</u>	<u>0</u>
Fund balance - end of year	<u>\$ 83,456</u>	<u>\$ 110,844</u>	<u>\$ 110,860</u>	<u>\$ 16</u>

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Fire Fund
For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Charges for services	\$ 253,765	\$ 253,765	\$ 253,765	\$ 0
Miscellaneous	50,915	56,415	53,369	(3,046)
Interest	3,000	5,000	13,637	8,637
Total revenues	307,680	315,180	320,771	5,591
<u>Expenditures</u>				
Public safety	362,713	406,786	139,144	267,642
Excess (deficiency) of revenues over expenditures	(55,033)	(91,606)	181,627	(262,051)
<u>Other Financing Sources (Uses)</u>				
Transfers in	0	0	0	0
Transfers out	(64,970)	(64,970)	(65,084)	(114)
Total other financing sources (uses)	(64,970)	(64,970)	(65,084)	(114)
Excess (deficiency) of revenues over expenditures	(120,003)	(156,576)	116,543	(262,165)
Fund balance - beginning of year	156,576	156,576	156,576	0
Fund balance - end of year	<u>\$ 36,573</u>	<u>\$ 0</u>	<u>\$ 273,119</u>	<u>\$ (262,165)</u>

CITY OF HARRISON
 Required Supplemental Information
 Budgetary Comparison Schedule - Local Improvement Fund
For the Year Ended December 31, 2007

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variances with Final Budget Favorable (Unfavorable)</u>
<u>Revenues</u>				
Miscellaneous	\$ 7,000	\$ 8,000	\$ 20,432	\$ 12,432
Interest	0	0	1,125	1,125
Total revenues	7,000	8,000	21,557	13,557
<u>Expenditures</u>				
Public service	540,834	686,891	130,069	556,822
Excess (deficiency) of revenues over expenditures	(533,834)	(678,891)	(108,512)	570,379
<u>Other Financing Sources (Uses)</u>				
Transfers in	50,000	163,000	163,000	0
Transfers out	(10,000)	(10,000)	(10,000)	0
Total other financing sources (uses)	40,000	153,000	153,000	0
Excess (deficiency) of revenues and other financing sources over expenditures and other financing (uses)	(493,834)	(525,891)	44,488	570,379
Fund balance - beginning of year	525,891	525,891	525,891	0
Fund balance - end of year	<u>\$ 32,057</u>	<u>\$ 0</u>	<u>\$ 570,379</u>	<u>\$ 570,379</u>

CITY OF HARRISON
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007

	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Budd Lake Improvement</u>	<u>Building Authority Fund</u>	<u>Totals</u>
<u>Assets</u>					
Cash and investments	\$ 130,216	\$ 52,121	\$ 66,380	\$ 3,117	\$ 251,834
Taxes receivable	<u>0</u>	<u>0</u>	<u>20,805</u>	<u>0</u>	<u>20,805</u>
Total Assets	<u>\$ 130,216</u>	<u>\$ 52,121</u>	<u>\$ 87,185</u>	<u>\$ 3,117</u>	<u>\$ 272,639</u>
 <u>Fund Balance</u>					
Unreserved	<u>\$ 130,216</u>	<u>\$ 52,121</u>	<u>\$ 87,185</u>	<u>\$ 3,117</u>	<u>\$ 272,639</u>

CITY OF HARRISON
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	Major Streets Fund	Local Streets Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Revenues</u>					
State shared revenue	\$ 106,922	\$ 63,359	\$ 0	\$ 0	\$ 170,281
Taxes and penalties	0	0	33,996	0	33,996
Interest	6,470	1,932	2,633	26	11,061
Other	5,885	0	0	0	5,885
Total revenues	<u>119,277</u>	<u>65,291</u>	<u>36,629</u>	<u>26</u>	<u>221,223</u>
<u>Expenditures</u>					
Public service	0	0	28,565	400	28,965
Highways and streets	101,821	122,594	0	0	224,415
Debt service:					
Principal	0	0	0	16,000	16,000
Interest	0	0	0	34,410	34,410
Total expenditures	<u>101,821</u>	<u>122,594</u>	<u>28,565</u>	<u>50,810</u>	<u>303,790</u>
Excess (deficiency) of revenues over expenditures	<u>17,456</u>	<u>(57,303)</u>	<u>8,064</u>	<u>(50,784)</u>	<u>(82,567)</u>
<u>Other Financing Sources (Uses)</u>					
Transfers in	0	52,111	0	50,410	102,521
Transfers (out)	(42,111)	0	0	0	(42,111)
Total other financing sources (uses)	<u>(42,111)</u>	<u>52,111</u>	<u>0</u>	<u>50,410</u>	<u>60,410</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(24,655)	(5,192)	8,064	(374)	(22,157)
Fund balance - beginning of year	<u>154,871</u>	<u>57,313</u>	<u>79,121</u>	<u>3,491</u>	<u>294,796</u>
Fund balance - end of year	<u>\$ 130,216</u>	<u>\$ 52,121</u>	<u>\$ 87,185</u>	<u>\$ 3,117</u>	<u>\$ 272,639</u>

CITY OF HARRISON
City of Harrison Water Extension Project
Selected Information
For the Year Ended December 31, 2007

1. A separate report on internal control can be found on page 36.
2. The accounting records and methods were satisfactorily maintained.
3. Proper physical controls over assets were exercised.
4. Deposited funds of \$300,000 are in institutions insured by the Federal Government. However, auto investment sweep accounts (formerly municipal investment fund accounts) of \$500,977 are not insured.
5. The financial records reflected in the audit are in agreement with the accounting records of the Water Supply System.
6. The aging of accounts receivable is as follows:

0 - 30 days	\$	243
31 - 60 days		150
61 - 90 days		309
91 days and older		221
		221
	\$	923

7. The loan agreement requires the maintenance of cash reserves in the amount of \$1,000 and \$500 be deposited quarterly to the Junior Lien Bond Reserve Account and Replacement Account, respectively, until a total of \$32,000 and \$5,000 has been reached, respectively. The loan agreement also requires the maintenance of a cash reserve deposited in the Junior Lien Redemption Account for payment of principal and interest on the Bonds. A sum equal to at least ½ of the interest due on the next ensuing interest due date and not less than ¼ of the principal maturing on the next ensuing principal payment date is required. The Bond Reserve Account and the Replacement Account have a balance of \$32,000 and \$5,000, respectively, as of December 31, 2007. The Junior Lien Redemption Account has a balance of \$16,500 as of December 31, 2007.
8. The City of Harrison carries the following insurance policies:
 - a. Comprehensive general liability and public officials errors and omissions, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/08.

CITY OF HARRISON
 City of Harrison Water Extension Project
 Selected Information
For the Year Ended December 31, 2007

- b. Property policy to cover the fixed assets of Water Supply System, policy number MML001303121, policy amount of \$1,197,155, expiration date 1/1/08.
 - c. Business auto liability, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/08.
 - d. Fidelity bond covering city treasurer, policy number BSH-1795522, policy amount of \$60,000, expiration date 9/1/08.
9. The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the City of Harrison City Council.

Mayor

Brook Wood November 2008
 1380 Byfield
 Harrison, MI 48625

Council Members

Chris Damvelt November 2010 2600 Mostetler Harrison, MI 48625	Don Kolander November 2010 220 E. Spruce Harrison, MI 48625
Linda O'Leary November 2010 202 N. Lake Street Harrison, MI 48625	Stacey Stocking November 2008 314 S. Second Street Harrison, MI 48625
David Rowe November 2008 209 W. Park Harrison, MI 48625	Daniel Sullivan November 2008 292 E. Pine Street Harrison, MI 48625

Dates shown are term expiration dates.

- 10. No further information is necessary for full disclosure.



WEINLANDER FITZHUGH

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& CONSULTANTS

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March 6, 2008

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

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

Members of the City Council
City of Harrison
Clare County, Michigan

We have audited the financial statements of City of Harrison as of and for the year ended December 31, 2007, and have issued our report thereon dated March 6, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Harrison's internal control over financial reporting as a basis for designing 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 City of Harrison's internal control over financial reporting.

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

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 over financial reporting. We consider the

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Members of the City Council
City of Harrison
March 6, 2008
Page 2

deficiencies described in the accompanying schedule of findings and responses to be significant in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be presented 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. However, we believe that the significant deficiency described in the accompanying schedule of findings and responses as item 2007-02 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harrison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2007-01 and 2007-02.

City of Harrison's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit City of Harrison's response and, accordingly, we express no opinion on it.

This report is intended for the information of the Members of the City Council, management, others within the organization, 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.

Weinlander Fitzhugh

CITY OF HARRISON
Schedule of Findings and Responses
For the Year Ended December 31, 2007

2007-01

Criteria

Properly calculating and recording of cash collections, cash disbursements and utility billing and collection.

Condition

Lack of complete segregation of duties with respect to cash collections, cash disbursements and utility billing and collection.

Context

Applicable to cash collections, cash disbursements and utility billing and collection.

Effect

Errors in calculation, recording and use of City funds.

Cause

Lack of complete segregation of duties with respect to the cash collections, cash disbursements and utility billing and collection and implementation of compensating controls.

Recommendation

Increase oversight and implement proper segregation of duties regarding the cash collections, cash disbursements and utility billing and collection functions.

Views of responsible officials and planned corrective actions

Management will evaluate internal control items identified above and determine appropriate changes for the size of the City.

CITY OF HARRISON
Schedule of Findings and Responses
For the Year Ended December 31, 2007

SECTION II - Financial Statement Findings (Continued)

2007-02

Criteria

Establishment and maintenance of internal controls over the financial reporting process.

Condition

Personnel responsible for financial reporting do not possess the skills necessary to monitor and report annual financial activity without auditor intervention.

Context

Internal controls should be in place to provide reasonable assurance to the City that management possesses the skills necessary to monitor and report annual financial activity without auditor intervention.

Effect

The effect of this condition places a reliance on the independent auditor to be part of the City's internal controls over financial reporting.

Recommendation

The City should review and implement the necessary education and procedural activities to monitor and report annual financial activity as funding is available.

Views of the Responsible Officials and Planned Corrective Action

Currently the City does not have the funding to implement such a program. We intend to re-evaluate once funding becomes available for the additional education and monitoring.



WEINLANDER FITZHUGH

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March 6, 2008

Members of the City Council
City of Harrison
Harrison, Michigan

We have audited the 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 Harrison for the year ended December 31, 2007 and have issued our report thereon dated March 6, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated January 7, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Harrison. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the City of Harrison's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on January 7, 2008.

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Members of the City Council
City of Harrison
March 6, 2008
Page 2

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Harrison are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.



WEINLANDER FITZHUGH

Members of the City Council
City of Harrison
March 6, 2008
Page 3

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 6, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Weinlander Fitzhugh