

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 type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

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 type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address	City	State Zip
Authorizing CPA Signature <i>P. W. Sawman</i>	Printed Name	License Number

CITY OF WALKER
Kent County, Michigan

Comprehensive Annual Financial Report

For the year ended June 30, 2007

CITY OF WALKER
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For the year ended June 30, 2007

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

December 14, 2007

The City Commission
City of Walker
Kent County, Michigan

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Walker (the "City") 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 elected officials and management of the City. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Walker. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Denton, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

As management of the City of Walker ("the City"), we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which immediately follow this section.

Financial Highlights

- The City's expenses exceeded revenues by \$390,370.
- Total expenses of the City's programs were \$17,842,463.
- Total revenues, including all program and general revenues, were \$17,452,093.
- Total net assets were increased by \$51,007,417 as of July 1, 2006 by the recording of the "Net Infrastructure Assts" of the City, as required by Governmental Accounting Standards Board Statement No. 34.
- At the close of the current year, the City's governmental funds reported combined ending fund balances of \$5,010,235, a decrease of \$468,248 from the prior year.
- At the end of the current year, unreserved undesignated fund balance for the General Fund was \$3,375,983, or 26 percent of total General Fund expenditures and transfers out.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the City:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *Government-wide financial statements* that provide both short-term and long-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City, reporting the City's operations in more detail than the Government-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as City administration, court, public safety, public works, recreation and cultural, etc. were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

Government-wide Statements

The Government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the City's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Government-wide statements report the City's net assets, and how they have changed. Net assets - the difference between the City's assets and liabilities - is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the City's overall health, one should consider additional non-financial factors such as changes in the City's property tax-base and the condition of City buildings and other facilities.

In the Government-wide financial statements, the City's activities are presented as follows:

- *Governmental activities:* The City's basic services are included here, such as general government, public safety, public works, recreation and cultural and other services. State revenue sharing and income and property taxes finance most of these activities.

Government-Wide Financial Statements

The Statement of Net Assets provides financial information on the City as a whole.

	2007	2006
Assets		
Current assets	\$ 5,874,581	\$ 6,307,084
Noncurrent assets	81,238,488	30,933,066
Total Assets	87,113,069	37,240,150
Liabilities		
Current liabilities	3,843,519	3,920,287
Noncurrent liabilities	14,670,012	15,337,372
Total Liabilities	18,513,531	19,295,221
Net Assets		
Invested in capital assets, net of related debt	65,254,256	14,236,305
Restricted	566,713	1,549,932
Unrestricted	2,778,569	2,196,254
Total Net Assets	\$ 68,599,538	\$ 17,982,491

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

The Statement of Activities presents changes in net assets from operating results:

	<u>2007</u>	<u>2006</u>
Program Revenues		
Charges for services	\$ 4,212,740	\$ 3,402,867
Operating grants and contributions	1,568,775	1,579,574
Capital grants and contributions		193,504
General Revenues		
Income taxes	7,828,845	7,693,996
Property taxes	1,691,821	1,638,937
State/intergovernmental revenue	1,716,766	1,762,801
Interest earnings	342,105	274,000
Gain on sale of capital assets	14,413	51,813
Other	76,628	78,872
Total Revenues	<u>17,452,093</u>	<u>16,676,364</u>
Expenses		
General government	4,498,588	4,304,219
Judicial	810,278	909,549
Public safety	6,825,329	6,321,759
Public works	3,059,913	3,198,424
Community and economic development	130,760	125,762
Recreation and cultural	1,835,570	1,822,934
Interest on long-term debt	682,025	560,553
Total Expenses	<u>17,842,463</u>	<u>17,243,200</u>
Increase (decrease) in net assets	(390,370)	(566,836)
Net Assets - Beginning of Year –		
As Restated	<u>68,989,908</u>	<u>18,549,327</u>
Net Assets - End of Year	<u>\$ 68,599,538</u>	<u>\$ 17,982,491</u>

Financial Analysis of the City as a Whole

The City's financial position is the product of many factors. Growth during the year in income and property tax collections and interest income were the significant contributors to the operating revenue increase. A reduction in state revenue sharing reduced anticipated state shared revenues. Total net assets decreased by only \$390,370 during the year due to these revenue factors and close budgetary control of City expenses.

Income taxes accounted for most of the City's revenue, contributing about 45 cents of every dollar raised. Property taxes contributed 10 percent of revenues. Licenses, permits, fines and forfeitures and other user fees accounted for 24 percent of revenues; another 19 percent came from state and other intergovernmental sources, and the remainder from interest earnings and miscellaneous sources.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

The City's expenses were predominantly related to public safety (38 percent); general government (25 percent); public works (17 percent) and recreation and cultural (10 percent). Interest on long-term debt totaled 4 percent of expenses for the year.

Income tax revenues, our biggest source of revenue, increased by approximately \$134,850 from 2005-06 to 2006-07. Property tax collections increased by approximately \$52,885. The City of Walker continues to grow in the construction of new industrial and commercial buildings and new single family housing. Commercial development increased by \$4,729,994 with 9 new permits. Industrial sites are being built in Walker for a total of \$7,301,500 in new building structures. Permits were issued for 34 new family homes totaling \$5,847,000.

The construction of the new Fire Station No. 2 on Lake Michigan Drive has been completed. City staff assisted in the Brownfield clean-up site and the approval of the first Renaissance Zone in the City, at the old Lear site on Alpine Avenue. The City, assisted by the City of Wyoming and the State of Michigan, has developed an agreeable Brownfield plan for the Orchard Park Project on 4 Mile Road.

The Downtown Development Authority Board, with the City Commission, has approved a master plan for downtown Standale, which includes a marketing plan to spur redevelopment in the downtown district.

The State continues to threaten future decreases in revenue sharing. City staff is monitoring the activities of the State and will take measures necessary to account for any decreases.

Financial Analysis of the City's Funds

The fund financial statements provide more detailed information about the City's funds, focusing on its most significant or "major" funds - not the City as a whole. Funds are accounting devices the City uses to keep track of specific sources of funding and spending on particular programs.

The City utilizes two kinds of funds:

- *Governmental funds:* Most of the City's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed, short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the City-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The City is the trustee, or fiduciary, for assets that belong to others, such as property taxes. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and/or paid to those to whom the assets belong. The City excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

The City uses funds to record and analyze financial information. The City of Walker's funds are described as follows:

Major Funds

The *General Fund* is our primary operating fund. The General Fund had total revenues of \$13,344,214, total expenditures of \$11,278,102, and transfers to other funds of \$1,691,896. It ended the fiscal year with a fund balance of \$3,375,983, up from \$3,001,767 at June 30, 2006.

The *Major and Local Streets Funds* collect distributions of motor vehicle highway taxes from the State of Michigan for use in maintaining City roads. The Funds had total revenues of \$1,598,994, total expenditures of \$2,941,479, and transfers from other funds of \$385,287 resulting in an decrease in fund balances of \$957,198 from June 30, 2006. Fund balances at June 30, 2007 consisted of \$323,123 in the Major Streets Fund and \$104,471 in the Local Streets Fund.

The *Improvement Revolving Fund* collects connection fees for sewer and water hookups to be used for the construction of extensions to the utility systems benefiting City residents. The Fund had total revenues of \$85,279, total expenditures of \$9,145, and transfers to other funds of \$56,000. It ended the year with a fund balance of \$568,808, up from \$548,674 at June 30, 2006.

The *Ice and Fitness Program Fund* operates the City's Ice and Fitness Center. The Fund had total revenues of \$1,183,659, transfers from the General Fund for debt service of \$679,913, total expenditures of \$1,058,501 and transfers out for debt service of \$699,913. It ended the year with a fund balance of \$228,127, up from \$122,969 at June 30, 2006.

Nonmajor Funds

The *Special Vice Investigation Fund* collects fines and forfeitures for law enforcement use. Total revenues were \$31,087 and expenditures totaled \$22,322. It ended the year with a fund balance of \$200,123, up from \$191,358 at June 30, 2006.

The *Downtown Development Authority Streetscape Maintenance and Parking Lot Funds* collect special assessments from benefiting property owners to be used for street and parking lot improvements. Total revenues were \$179,747 and expenditures totaled \$173,049. The funds ended the year with a fund balance of \$70,481, up from \$63,783 at June 30, 2006.

The City operates four *Debt Service Funds* which collect special assessments and transfers from other City Funds to be used for bond principal retirement and interest payments. Total revenues were \$22,834, total expenditures were \$1,401,329, and transfers in from other funds totaled \$1,352,474. The ending fund balances totaled \$139,119, down from \$165,140 at June 30, 2006.

The *Department of Public Works Internal Service Fund* collects equipment rental fees from other City funds to be used for future maintenance and public safety vehicles and equipment. Total revenues were \$826,607, transfers in totaled \$30,135 and expenses were \$885,685 for the year. It ended the year with net assets of \$2,190,761, down from \$2,219,704 at June 30, 2006.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

The *Pension Trust Fund* balances were disbursed to the Municipal Employees' Retirement Fund of Michigan as of July 1, 2006.

The *District Court, Trust, Tax, Flexible Spending and Other Fiduciary Funds* are operated as Agency Funds of the City. The assets of these funds are being held for the future payment to the governmental units and businesses and individuals entitled to the monies. Balances on hand at June 30, 2007 totaled \$858,928.

General Fund Budgetary Highlights

Each City department provides a budget amount at the beginning of the fiscal year. This amount is an expected expenditure amount for each department. Overall, the departments stayed well within their budgets, and the budget was not amended during the fiscal year.

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the City had a \$113,815,758 investment in a broad range of capital assets, including land, land improvements, infrastructure, buildings and improvements, vehicles and furniture and equipment. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.)

Capital asset purchases totaled \$2,057,301 for the fiscal year. Net infrastructure capital assets of \$51,007,417 were compiled and added to the City's balances as of July 1, 2006 to comply with GASB No. 34 accounting requirements. Accumulated depreciation increased by \$2,628,248. The net book value of capital assets at June 30, 2007 is detailed as follows:

Land	\$ 2,820,745
Land improvements	1,104,885
Infrastructure	57,022,902
Buildings and improvements	14,761,276
Office furnishings	220,729
Other tools and equipment	2,840,839
Vehicles	<u>214,585</u>
Net Capital Assets	<u><u>\$ 78,985,961</u></u>

Long-Term Debt

At year end, the City had \$16,318,044 in bonds (general obligation and special assessment), loans, installment purchase agreements, capital leases and unused vacation and sick pay. Debt increases were \$1,080,889 during the current year, and debt payments were \$1,547,798 during the current year. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

CITY OF WALKER
Management's Discussion and Analysis
June 30, 2007

Factors Bearing on the City's Future

At the time these financial statements were prepared and audited, the City was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The City's initial General Fund budget for 2007-08 anticipates a net reduction in year end fund balance of \$533,996. This estimate reflects property tax growth within the City, continuing reductions in state shared revenues and a continuing effort to control/reduce costs within the City, while continuing to maintain a high quality of taxpayer service.

Contacting the City's Financial Management

This financial report is designed to provide the City's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager, City of Walker, 4243 Remembrance Rd. NW, Walker, MI, 49534.

BASIC FINANCIAL STATEMENTS

CITY OF WALKER
Statement of Net Assets
June 30, 2007

	Primary Governmental Activities	Component Units
Assets		
Current Assets		
Cash	\$ 1,800	\$ -
Cash equivalents, deposits and investments (Note B)	4,406,483	344,168
Receivables:		
Income taxes	182,158	-
Accounts	87,605	-
Accrued interest	16,465	-
Special assessments, current portion	60,000	-
Internal balances (Note D)	77,674	-
Due from component units	56,913	-
Due from other governmental units	813,105	-
Inventories (Note A)	171,984	-
Prepaid expenses	394	-
Total Current Assets	5,874,581	344,168
Noncurrent Assets		
Capital assets, net of accumulated depreciation (Note E)	78,985,961	4,037,821
Accounts receivable	-	1,171,621
Special assessments, net of current portion	1,506,256	-
Unamortized bond issuance costs	181,786	27,760
Intangible assets (Note E)	564,485	-
Total Noncurrent Assets	81,238,488	5,237,202
Total Assets	87,113,069	5,581,370
Liabilities		
Current Liabilities		
Accounts payable	425,115	63,867
Refundable income taxes	15,308	-
Due to primary government	-	56,913
Accrued payroll	136,356	-
Accrued interest payable	103,002	21,608
Deferred revenue	1,515,706	-
Current portion of noncurrent liabilities (Note F)	1,648,032	190,472
Total Current Liabilities	3,843,519	332,860
Noncurrent Liabilities (Notes A, F)		
Michigan Transportation Fund bonds payable	1,630,000	-
Building Authority bonds payable	12,205,000	-
Downtown Development Authority bonds payable	-	2,805,000
Special assessment bonds payable	125,000	-
Loan payable	-	1,216,691
Land contracts payable	-	176,969
Installment purchase agreements payable	401,591	185,000
Capital lease payable	13,383	-
Accumulated vacation pay	430,770	-
Accumulated sick leave	1,512,300	-
Current portion of noncurrent liabilities (Note F)	(1,648,032)	(190,472)
Total Noncurrent Liabilities	14,670,012	4,193,188
Total Liabilities	18,513,531	4,526,048
Net Assets		
Invested in capital assets, net of related debt	65,254,256	866,566
Restricted for:		
Roads	427,594	-
Debt Service	139,119	-
Unrestricted	2,778,569	188,756
Total Net Assets	\$ 68,599,538	\$ 1,055,322

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants	Primary Government	Component Units
Primary Government					
Governmental activities:					
General government	\$ 4,498,588	\$ 297,440	\$ -	\$(4,201,148)	\$ -
Judicial	810,278	-	-	(810,278)	-
Public safety	6,825,329	1,573,555	-	(5,251,774)	-
Public works	3,059,913	1,158,086	1,568,775	(333,052)	-
Community and economic development	130,760	-	-	(130,760)	-
Recreation and cultural	1,835,570	1,183,659	-	(651,911)	-
Interest on long-term debt	682,025	-	-	(682,025)	-
Total Primary Government	<u>\$17,842,463</u>	<u>\$ 4,212,740</u>	<u>\$ 1,568,775</u>	<u>(12,060,948)</u>	<u>-</u>
Component Units					
Downtown Development Authority	278,653	-	219,080	-	(59,573)
Brownfield Redevelopment Authority	101,040	-	-	-	(101,040)
Total Component Units	<u>\$ 379,693</u>	<u>\$ -</u>	<u>\$ 219,080</u>	<u>\$ -</u>	<u>\$ (160,613)</u>
General revenues:					
Income taxes				7,828,845	-
Property taxes				1,691,821	599,658
State/intergovernmental sources				1,716,766	-
Interest and investment earnings				342,105	53,546
Gain on sale of capital assets				14,413	-
Other				76,628	-
Total General Revenues				<u>11,670,578</u>	<u>653,204</u>
Change in Net Assets				<u>(390,370)</u>	<u>492,591</u>
Net Assets (Original) - Beginning of Year				17,982,491	522,044
Add Infrastructure Net Assets as of July 1, 2006				<u>51,007,417</u>	<u>40,687</u>
Net Assets (Restated) - Beginning of Year				<u>68,989,908</u>	<u>562,731</u>
Net Assets - End of Year				<u>\$68,599,538</u>	<u>\$1,055,322</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Balance Sheet
Governmental Funds
June 30, 2007

Assets	Special Revenue			
	General	Major Streets	Local Streets	Improvement Revolving
Cash	\$ 500	\$ -	\$ -	\$ -
Cash equivalents, deposits and investments (Note B)	2,806,550	165,382	98,201	564,043
Receivables:				
Income taxes	182,158	-	-	-
Accounts	72,496	-	-	2,531
Special assessments	-	-	-	1,528,554
Accrued interest	9,001	-	-	972
Due from other funds (Note D)	77,674	2,017	-	-
Due from component units	56,913	-	-	-
Due from other governmental units	567,914	181,242	63,949	-
Inventories (Note A)	-	-	-	-
Prepaid expenditures	394	-	-	-
Total Assets	\$ 3,773,600	\$ 348,641	\$ 162,150	\$2,096,100
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 266,879	\$ 17,184	\$ 52,090	\$ 11,586
Due to other funds (Note D)	-	-	2,017	-
Accrued payroll	115,430	8,334	3,572	-
Refundable income taxes	15,308	-	-	-
Deferred revenue	-	-	-	1,515,706
Total Liabilities	397,617	25,518	57,679	1,527,292
Fund Balances				
Reserved for:				
Debt service	-	-	-	-
Unreserved:				
Undesignated, reported in:				
General fund	3,375,983	-	-	-
Special revenue funds	-	323,123	104,471	568,808
Total Fund Balances	3,375,983	323,123	104,471	568,808
Total Liabilities and Fund Balances	\$ 3,773,600	\$ 348,641	\$ 162,150	\$2,096,100

See accompanying notes to basic financial statements.

<u>Ice and Fitness Program</u>	<u>Other Governmental</u>	<u>Total</u>
\$ 1,300	\$ -	\$ 1,800
137,841	420,725	4,192,742
-	-	182,158
12,578	-	87,605
-	37,702	1,566,256
-	6,492	16,465
-	-	79,691
-	-	56,913
-	-	813,105
135,868	-	135,868
-	-	394
<u>\$ 287,587</u>	<u>\$ 464,919</u>	<u>\$ 7,132,997</u>
\$ 53,002	\$ 18,181	\$ 418,922
-	-	2,017
6,458	-	133,794
-	-	15,308
-	37,015	1,552,721
<u>59,460</u>	<u>55,196</u>	<u>2,122,762</u>
-	139,119	139,119
-	-	3,375,983
<u>228,127</u>	<u>270,604</u>	<u>1,495,133</u>
<u>228,127</u>	<u>409,723</u>	<u>5,010,235</u>
<u>\$ 287,587</u>	<u>\$ 464,919</u>	<u>\$ 7,132,997</u>

CITY OF WALKER
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total governmental fund balances	\$ 5,010,235
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$107,946,209 and accumulated depreciation is \$31,352,325	76,593,884
Intangible assets reported in governmental activities are not financial resources and are not reported in the funds.	564,485
Net bond premium and refunding and issuance costs are not expensed but are amortized over the life of the new bond issue.	181,786
Long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds: Special assessments receivable	37,015
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Michigan Transportation Fund bonds	\$ (1,630,000)
Building Authority bonds	(12,205,000)
Special assessment bonds	(125,000)
Accumulated vacation pay	(430,770)
Accumulated sick leave	(1,484,856)
	(15,875,626)
Accrued interest is not included as a liability in governmental funds.	(103,002)
Internal Service Funds are included as part of governmental activities.	2,190,761
Total net assets - governmental activities	\$ 68,599,538

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2007

	General	Special Revenue		
		Major Streets	Local Streets	Improvement Revolving
Revenues				
Income taxes	\$ 7,828,845	\$ -	\$ -	\$ -
Property taxes	1,691,821	-	-	-
Licenses and permits	616,816	-	-	-
State sources	1,700,034	1,160,759	408,016	-
Intergovernmental sources	16,732	-	-	-
Charges for services	226,086	-	-	-
Fines and forfeitures	934,961	-	-	-
Interest and rentals	251,671	27,223	2,996	26,368
Other revenue	77,248	-	-	58,911
Total Revenues	13,344,214	1,187,982	411,012	85,279
Expenditures				
Current:				
Judicial	806,010	-	-	-
General government	2,149,724	-	-	-
Public safety	6,559,050	-	-	-
Public works	502,154	1,119,474	487,722	-
Community and economic development	130,760	-	-	-
Recreation and cultural	468,499	-	-	-
Other	588,094	-	-	-
Capital outlay	73,811	850,038	313,187	9,145
Debt service:				
Principal repayment	-	100,000	-	-
Interest and fiscal charges	-	71,058	-	-
Total Expenditures	11,278,102	2,140,570	800,909	9,145
Excess (Deficiency) of Revenues Over Expenditures	2,066,112	(952,588)	(389,897)	76,134
Other Financing Sources (Uses)				
Transfers in	-	-	385,287	-
Transfers out	(1,691,896)	-	-	(56,000)
Total Other Financing Sources (Uses)	(1,691,896)	-	385,287	(56,000)
Net Change in Fund Balances	374,216	(952,588)	(4,610)	20,134
Fund Balances, July 1	3,001,767	1,275,711	109,081	548,674
Fund Balances, June 30	\$ 3,375,983	\$ 323,123	\$ 104,471	\$ 568,808

See accompanying notes to basic financial statements.

<u>Ice and Fitness Program</u>	<u>Other Governmental</u>	<u>Total</u>
\$ -	\$ -	\$ 7,828,845
-	-	1,691,821
-	-	616,816
-	-	3,268,809
-	21,778	38,510
815,408	-	1,041,494
-	-	934,961
366,246	24,147	698,651
2,005	187,743	325,907
<u>1,183,659</u>	<u>233,668</u>	<u>16,445,814</u>
-	22,322	828,332
-	-	2,149,724
-	-	6,559,050
-	173,049	2,282,399
-	-	130,760
1,058,501	-	1,527,000
-	-	588,094
-	-	1,246,181
-	785,000	885,000
-	616,329	687,387
<u>1,058,501</u>	<u>1,596,700</u>	<u>16,883,927</u>
<u>125,158</u>	<u>(1,363,032)</u>	<u>(438,113)</u>
679,913	1,385,570	2,450,770
(699,913)	(33,096)	(2,480,905)
<u>(20,000)</u>	<u>1,352,474</u>	<u>(30,135)</u>
105,158	(10,558)	(468,248)
122,969	420,281	5,478,483
<u>\$ 228,127</u>	<u>\$ 409,723</u>	<u>\$ 5,010,235</u>

CITY OF WALKER
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2007

Net change in fund balances - total governmental funds \$(468,248)

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, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

	Capital outlays	\$1,549,516	
	Depreciation expense	<u>(2,292,195)</u>	(742,679)

In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (1,633)

Governmental funds report intangible assets as expenditures; however in the Statement of Activities, these costs are allocated over their estimated useful lives as amortization. (39,223)

Net bond premium and refunding and issuance costs are not recognized/expensed but are amortized over the life of the new bond issue. (14,022)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:
 Special assessments 181,305

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:

Repayment of Michigan Transportation Fund bonds	100,000	
Repayment of building authority bonds	750,000	
Repayment of special assessment bonds	<u>35,000</u>	885,000

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. 5,362

In the Statement of Net Assets, accumulated vacation/sick pay is measured by the amount earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$786,889) exceeded the amounts used/paid (\$619,600). (167,289)

Internal Service Funds are included as part of governmental activities. (28,943)

Total changes in net assets - governmental activities \$(390,370)

See accompanying notes to basic financial statements.

CITY OF WALKER
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Income taxes	\$ 7,500,000	\$ 7,500,000	7,828,845	\$ 328,845
Property taxes	1,700,900	1,700,900	1,691,821	(9,079)
Licenses and permits	620,650	620,650	616,816	(3,834)
State sources	1,776,000	1,776,000	1,700,034	(75,966)
Intergovernmental sources	12,000	12,000	16,732	4,732
Charges for services	213,298	213,298	226,086	12,788
Fines and forfeitures	952,634	952,634	934,961	(17,673)
Interest and rentals	137,300	137,300	251,671	114,371
Other revenue	70,300	70,300	77,248	6,948
Total Revenues	12,983,082	12,983,082	13,344,214	361,132
Expenditures				
Current:				
Judicial:				
District/municipal court	852,839	852,839	806,010	46,829
General government:				
Supervisor	82,760	82,760	79,090	3,670
Manager	617,526	617,526	607,744	9,782
Accounting	145,815	145,815	141,595	4,220
Clerk	184,612	184,612	176,892	7,720
Treasurer	137,349	137,349	132,272	5,077
Income tax	314,362	314,362	295,981	18,381
Assessor	234,862	234,862	228,780	6,082
Elections	46,000	46,000	38,447	7,553
Buildings and grounds	449,222	449,222	448,923	299
Total general government	2,212,508	2,212,508	2,149,724	62,784
Public safety:				
Law enforcement	4,614,635	4,614,635	4,646,995	(32,360)
Fire department	1,436,785	1,436,785	1,355,981	80,804
Inspections	579,668	579,668	556,074	23,594
Total public safety	6,631,088	6,631,088	6,559,050	72,038
Public works:				
Storm sewer/drains	60,000	60,000	21,278	38,722
Engineering	307,534	307,534	295,172	12,362
Street lighting	170,000	170,000	185,704	(15,704)
Total public works	537,534	537,534	502,154	35,380
Community and economic development:				
Planning	120,098	120,098	127,932	(7,834)
Zoning	4,500	4,500	2,828	1,672
Total community and economic development	124,598	124,598	130,760	(6,162)

(Continued)

CITY OF WALKER
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Continued)				
Recreation and cultural:				
Parks	\$ 279,088	\$ 279,088	\$ 267,829	\$ 11,259
Recreation	211,351	211,351	180,390	30,961
Historical	21,750	21,750	20,280	1,470
Total recreation and cultural	512,189	512,189	468,499	43,690
Other city	566,600	566,600	588,094	(21,494)
Capital outlay	115,000	115,000	73,811	41,189
Total Expenditures	11,552,356	11,552,356	11,278,102	274,254
Excess of Revenues Over Expenditures	1,430,726	1,430,726	2,066,112	635,386
Other Financing Sources (Uses)				
Transfers out	(1,698,128)	(1,698,128)	(1,691,896)	6,232
Net Change in Fund Balances	(267,402)	(267,402)	374,216	641,618
Fund Balances, July 1	3,001,767	3,001,767	3,001,767	-
Fund Balances, June 30	\$ 2,734,365	\$ 2,734,365	\$ 3,375,983	\$ 641,618

See accompanying notes to basic financial statements.

CITY OF WALKER
Major Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
State sources	\$ 1,230,000	\$ 1,160,759	\$ (69,241)
Interest and rentals	15,000	27,223	12,223
Total Revenues	<u>1,245,000</u>	<u>1,187,982</u>	<u>(57,018)</u>
Expenditures			
Current:			
Public works	1,205,328	1,119,474	85,854
Capital outlay	800,000	850,038	(50,038)
Debt service:			
Principal repayment	100,000	100,000	-
Interest and fiscal charges	86,000	71,058	14,942
Total Expenditures	<u>2,191,328</u>	<u>2,140,570</u>	<u>50,758</u>
Net Change in Fund Balances	(946,328)	(952,588)	(6,260)
Fund Balances, July 1	<u>1,275,711</u>	<u>1,275,711</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 329,383</u>	<u>\$ 323,123</u>	<u>\$ (6,260)</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Local Streets Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
State sources	\$ 434,000	\$ 408,016	\$ (25,984)
Interest and rentals	1,500	2,996	1,496
Total Revenues	<u>435,500</u>	<u>411,012</u>	<u>(24,488)</u>
Expenditures			
Current:			
Public works	530,634	487,722	42,912
Capital outlay	323,000	313,187	9,813
Total Expenditures	<u>853,634</u>	<u>800,909</u>	<u>52,725</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(418,134)</u>	<u>(389,897)</u>	<u>28,237</u>
Other Financing Sources			
Transfers in	385,287	385,287	-
Net Change in Fund Balances	(32,847)	(4,610)	28,237
Fund Balances, July 1	<u>109,081</u>	<u>109,081</u>	<u>-</u>
Fund Balances, June 30	<u>\$ 76,234</u>	<u>\$ 104,471</u>	<u>\$ 28,237</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Improvement Revolving Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 22,200	\$ 26,368	\$ 4,168
Other revenue	20,300	58,911	38,611
Total Revenues	<u>42,500</u>	<u>85,279</u>	<u>42,779</u>
Expenditures			
Capital outlay	20,000	9,145	10,855
Excess of Revenues Over Expenditures	<u>22,500</u>	<u>76,134</u>	<u>53,634</u>
Other Financing Sources (Uses)			
Transfers out	(100,000)	(56,000)	44,000
Net Change in Fund Balances	(77,500)	20,134	97,634
Fund Balances, July 1	<u>548,674</u>	<u>548,674</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 471,174</u></u>	<u><u>\$ 568,808</u></u>	<u><u>\$ 97,634</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Ice and Fitness Program Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Charges for services	\$ 730,800	\$ 806,448	\$ 75,648
Interest and rentals	336,100	366,246	30,146
Other revenue	21,600	10,965	(10,635)
Total Revenues	<u>1,088,500</u>	<u>1,183,659</u>	<u>95,159</u>
Expenditures			
Current:			
Recreation and cultural	1,068,546	1,058,501	10,045
Excess of Revenues Over Expenditures	<u>19,954</u>	<u>125,158</u>	<u>105,204</u>
Other Financing Sources (Uses)			
Transfers in	683,721	679,913	(3,808)
Transfers out	(703,675)	(699,913)	3,762
Total Other Financing Sources (Uses)	<u>(19,954)</u>	<u>(20,000)</u>	<u>(46)</u>
Net Change in Fund Balances	-	105,158	105,158
Fund Balances, July 1	<u>122,969</u>	<u>122,969</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 122,969</u></u>	<u><u>\$ 228,127</u></u>	<u><u>\$ 105,158</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Net Assets
Internal Service Fund
June 30, 2007

	<u>Capital Equipment Replacement</u>
Assets	
Current Assets	
Cash equivalents, deposits and investments (Note B)	\$ 213,741
Inventories (Note A)	36,116
Total Current Assets	<u>249,857</u>
Noncurrent Assets	
Capital assets (Note E)	5,869,549
Less accumulated depreciation	(3,477,472)
Total Noncurrent Assets	<u>2,392,077</u>
Total Assets	<u>2,641,934</u>
Liabilities	
Current Liabilities	
Accounts payable	6,193
Accrued expenses:	
Payroll	2,562
Vacation and sick pay	27,444
Current portion of noncurrent liabilities	98,032
Total Current Liabilities	<u>134,231</u>
Noncurrent Liabilities	
Installment purchase agreements payable	401,591
Capital lease payable	13,383
Less current portion	(98,032)
Total Noncurrent Liabilities	<u>316,942</u>
Total Liabilities	<u>451,173</u>
Net Assets	
Invested in capital assets, net of related debt	1,977,103
Unrestricted	213,658
Total Net Assets	<u><u>\$ 2,190,761</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Revenues, Expenses and Changes in Fund Net Assets
Internal Service Fund
For the year ended June 30, 2007

	<u>Capital Equipment Replacement</u>
Operating Revenues	
Equipment rental fees	\$ 801,481
Operating Expenses	
Salaries	142,869
Employee insurance	19,656
Social Security taxes	11,268
Pension plan contribution	35,616
Supplies	22,596
Gas and oil	178,174
Uniforms	17,369
Training	4,201
Workers' compensation insurance	393
Vehicle maintenance	1,099
Equipment maintenance	106,584
Equipment rental	202
Miscellaneous	1,615
Small equipment	1,187
Interest and fiscal charges	6,803
Depreciation	336,053
	<u>885,685</u>
Total Operating Expenses	<u>885,685</u>
	<u>(84,204)</u>
Operating Loss	<u>(84,204)</u>
Nonoperating Revenues	
Transfers in	30,135
Interest earnings	9,700
Gain on disposition of capital assets	10,318
Other	5,108
	<u>55,261</u>
Total Nonoperating Revenues	<u>55,261</u>
	(28,943)
Change in Net Assets	(28,943)
Net assets, Beginning of Year	<u>2,219,704</u>
Net assets, End of Year	<u><u>\$ 2,190,761</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Statement of Cash Flows
Internal Service Fund
For the year ended June 30, 2007

	<u>Capital Equipment Replacement</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 801,481
Payments to suppliers	(393,025)
Payments to employees	(209,940)
	<hr/>
Net Cash Provided By (Used For) Operating Activities	198,516
	<hr/>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	13,519
Other revenue	5,108
Loan proceeds	294,000
Transfers in	30,135
Principal paid on long-term debt	(43,198)
Purchase of capital assets	(507,785)
	<hr/>
Net Cash Provided By (Used For) Capital and Related Financing Activities	(208,221)
	<hr/>
Cash Flows From Investing Activities	
Interest received	9,700
	<hr/>
Net Increase (Decrease) In Cash and Cash Equivalents	(5)
	<hr/>
Cash and Cash Equivalents, Beginning of Year	213,746
	<hr/>
Cash and Cash Equivalents, End of Year	\$ 213,741
	<hr/> <hr/>
Reconciliation of Operating Income (Loss) To Net Cash Provided By (Used For) Operating Activities	
Operating loss	\$ (84,204)
	<hr/>
Adjustments to reconcile operating loss to net cash provided by (used for) by operating activities:	
Depreciation	336,053
Changes in assets and liabilities:	
Increase (decrease) in accounts payable	(53,195)
Increase (decrease) in accrued expenses	(138)
	<hr/>
Total adjustments	282,720
	<hr/>
Net Cash Provided By (Used For) Operating Activities	\$ 198,516
	<hr/> <hr/>

See accompanying notes to basic financial statements.

CITY OF WALKER
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2007

Assets	<u>Agency Funds</u>
Cash equivalents, deposits and investments (Note B)	\$ 854,286
Accrued interest receivable	<u>4,642</u>
Total Assets	<u><u>\$ 858,928</u></u>
Liabilities	
Accounts payable	\$ 2,816
Due to other funds (Note D)	77,674
Due to other governmental units	94,063
Escrow/customer deposits	<u>684,375</u>
Total Liabilities	<u><u>\$ 858,928</u></u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Fiduciary Fund
Statement of Changes In Fiduciary Net Assets
For the year ended June 30, 2007

	Pension Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 14,371
Deductions	
Net decrease in fair value of investments	66,617
Transfer of assets to the Municipal Employees' Retirement System of Michigan	8,413,641
Total Deductions	8,480,258
Change In Net Assets	(8,465,887)
Net Assets, Beginning of Year	8,465,887
Net Assets, End of Year	\$ -

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Net Assets
June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Current Assets			
Cash equivalents, deposits and investments (Note B)	\$ 176,306	\$ 167,862	\$ 344,168
Noncurrent Assets			
Capital assets, net of accumulated depreciation (Note E)	4,037,821	-	4,037,821
Accounts receivable	50,000	1,121,621	1,171,621
Unamortized bond issuance costs	27,760	-	27,760
Total Noncurrent Assets	4,115,581	1,121,621	5,237,202
Total Assets	4,291,887	1,289,483	5,581,370
Liabilities			
Current Liabilities			
Accounts payable	4,947	58,920	63,867
Due to primary government	56,913	-	56,913
Accrued interest payable	20,186	1,422	21,608
Current portion of noncurrent liabilities (Note F)	165,448	25,024	190,472
Total Current Liabilities	247,494	85,366	332,860
Noncurrent Liabilities (Notes A, F)			
Downtown Development Authority bonds payable	2,805,000	-	2,805,000
Loans payable	-	1,216,691	1,216,691
Land contracts payable	176,969	-	176,969
Installment purchase agreements payable	185,000	-	185,000
Less current portion of noncurrent liabilities	(165,448)	(25,024)	(190,472)
Total Noncurrent Liabilities	3,001,521	1,191,667	4,193,188
Total Liabilities	3,249,015	1,277,033	4,526,048
Net Assets			
Invested in capital assets, net of related debt	866,566	-	866,566
Unrestricted	176,306	12,450	188,756
Total Net Assets	\$ 1,042,872	\$ 12,450	\$ 1,055,322

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Activities
For the year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues <u>Operating Grants</u>	Net (Expense) Revenue and Changes in Net Assets		Total
			Downtown Development Authority	Brownfield Redevelopment Authority	
Downtown Development Authority					
Public works	\$145,039	\$ 219,080	\$ 74,041	\$ -	\$ 74,041
Interest expense	133,614		(133,614)	-	(133,614)
Brownfield Redevelopment Authority					
Public works	95,774	-	-	(95,774)	(95,774)
Interest expense	5,266	-	-	(5,266)	(5,266)
Total Component Units	<u>\$379,693</u>	<u>\$ 219,080</u>	<u>(59,573)</u>	<u>(101,040)</u>	<u>(160,613)</u>
General revenues:					
Property taxes levied for:					
			500,015	-	500,015
			-	99,643	99,643
			42,881	10,665	53,546
			<u>542,896</u>	<u>110,308</u>	<u>653,204</u>
			<u>483,323</u>	<u>9,268</u>	<u>492,591</u>
Net Assets (Original) - Beginning of Year			518,862	3,182	522,044
Add Infrastructure Net Assets at July 1, 2006			40,687	-	40,687
Net Assets (Restated) - Beginning of Year			<u>559,549</u>	<u>3,182</u>	<u>562,731</u>
Net Assets - End of Year			<u>\$1,042,872</u>	<u>\$ 12,450</u>	<u>\$1,055,322</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Balance Sheet
June 30, 2007

Assets	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Cash equivalents, deposits and investments (Note B)	\$ 176,306	\$ 167,862	\$ 344,168
Accounts receivable	50,000	-	50,000
Total Assets	<u>\$ 226,306</u>	<u>\$ 167,862</u>	<u>\$ 394,168</u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 4,947	\$ 58,920	\$ 63,867
Due to primary government	56,913	-	56,913
Total Liabilities	<u>61,860</u>	<u>58,920</u>	<u>120,780</u>
Fund Balances			
Unreserved:			
Undesignated, reported in:			
Special revenue funds	164,446	108,942	273,388
Total Fund Balances	<u>164,446</u>	<u>108,942</u>	<u>273,388</u>
Total Liabilities and Fund Balances	<u>\$ 226,306</u>	<u>\$ 167,862</u>	<u>\$ 394,168</u>

See accompanying notes to basic financial statements.

CITY OF WALKER
Component Units
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2007

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Revenues			
Local sources:			
Property taxes	\$ 500,015	\$ 99,643	\$ 599,658
Interest and rentals	42,881	10,665	53,546
Total local sources	<u>542,896</u>	<u>110,308</u>	<u>653,204</u>
State sources	<u>219,080</u>	<u>-</u>	<u>219,080</u>
Total Revenues	<u>761,976</u>	<u>110,308</u>	<u>872,284</u>
Expenditures			
Current:			
Public works	58,858	67,074	125,932
Capital outlay	2,022,595	915,121	2,937,716
Debt service:			
Principal repayment	330,081	24,474	354,555
Interest and fiscal charges	<u>134,611</u>	<u>5,426</u>	<u>140,037</u>
Total Expenditures	<u>2,546,145</u>	<u>1,012,095</u>	<u>3,558,240</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,784,169)</u>	<u>(901,787)</u>	<u>(2,685,956)</u>
Other Financing Sources			
Loan proceeds	<u>60,000</u>	<u>1,000,000</u>	<u>1,060,000</u>
Net Change In Fund Balances	<u>(1,724,169)</u>	<u>98,213</u>	<u>(1,625,956)</u>
Fund Balances, July 1	<u>1,888,615</u>	<u>10,729</u>	<u>1,899,344</u>
Fund Balances, June 30	<u><u>\$ 164,446</u></u>	<u><u>\$ 108,942</u></u>	<u><u>\$ 273,388</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Note A – Summary of Significant Accounting Policies

The City of Walker (the “City”) is governed by a seven member elected Commission and administered by a Manager appointed by the aforementioned Commission. The City provides, or contributes to the providing of, the following services to its residents as provided by statute: public safety (police, fire, inspection), highways and streets, parks and recreation, cultural, public improvements, planning and zoning, general administrative and other services.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the City’s accounting policies are described below.

1. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

The component units discussed below are included in the reporting entity because of the significance of their operational or financial relationships to the City.

- 59th District Court
- City of Walker Building Authority
- City of Walker Downtown Development Authority
- City of Walker Brownfield Redevelopment Authority

Blended Component Units

Entities whose governing bodies are substantially the same as the governing body of the primary government, or those which provide services entirely, or virtually entirely, for the benefit of the primary government, are disclosed as blended component units.

The 59th District Court has been blended into the General Fund of the City’s financial statements. Although the Court operates under the direction of the district judge, it is reported as if it was part of the primary government because of the fiduciary responsibility the City retains relative to the operations of the Court.

The *City of Walker Building Authority* is governed by a five-member board that is appointed by the City Commission. Although it is legally separate from the City, it is reported as if it was part of the primary government because its primary purpose is to monitor and finance the construction of the City’s public buildings.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Discretely Presented Component Units

These component units are reported in a separate column to emphasize that, while legally separate, the City of Walker remains financially accountable for these entities, or the nature and significance of the relationship between these entities and the City of Walker is such that exclusion of these entities would render the financial statements misleading or incomplete.

The *City of Walker Downtown Development Authority* is responsible for the improvement and ongoing maintenance and debt service of the Downtown Development Improvement District. The Authority's governing body, which consists of eight individuals, is selected by the City Commission. Separate financial statements are not prepared for the Downtown Development Authority.

The *City of Walker Brownfield Redevelopment Authority* was created to account for the redevelopment of environmentally contaminated and other underutilized sites within the City. The Authority's governing body, which consists of five individuals, is selected by the City Commission. Separate financial statements are not prepared for the Brownfield Redevelopment Authority.

2. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the City as a whole. The reported information includes all of the nonfiduciary activities of the City. The City does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the City. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The City does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function 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. Income taxes, property taxes, state revenue sharing, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

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 that are required to be accounted for in another fund.

The *Major Streets Special Revenue Fund* accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The *Local Streets Special Revenue Fund* accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

The *Improvement Revolving Special Revenue Fund* accounts for the resources of special assessment proceeds that are used for improvements on special assessment districts.

The *Ice and Fitness Special Revenue Fund* provides a recreation facility for the residents of the City.

The City reports the following internal service fund:

The *Capital Equipment Replacement Internal Service Fund* is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, primarily on a cost reimbursement basis. The Capital Equipment Replacement Fund rents vehicles and equipment to the police, fire and department of public works.

Additionally, the City reports the following funds:

The *Special Vice Investigation Special Revenue Fund* accounts for fines and forfeitures collected to be used for law enforcement purposes.

The *DDA Streetscape Maintenance Special Revenue Fund* accounts for special assessments levied on benefiting properties to be used for street and sidewalk improvements.

The *DDA Parking Lot Special Revenue Fund* accounts for special assessments levied on benefiting properties to be used for parking lot improvements.

The various *Debt Service Funds* account for the collections of special assessments and contributions from benefiting City funds to be used in retiring the outstanding long-term debt of the City.

The *District Court Agency Fund* accounts for fines and forfeitures collected and the disbursement to the governmental agencies entitled to the monies.

The *Trust Account Agency Fund* accounts for the collection of bonds and deposits and the payment to the governmental units or other persons entitled to receive these funds.

The *Tax Account Agency Fund* accounts for the collection of current and delinquent property taxes and the payment to the governmental units or other persons entitled to receive these funds.

The various other *Agency Funds* account for deposits and withholdings and the disbursement to the organizations and individuals entitled to the monies.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Income taxes are recognized as revenues in the year they are collected, or deemed collectible. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the government-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Taxes, intergovernmental revenues and interest associated with current period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

Expenditures are recorded when the liability is incurred, as under accrual accounting, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt and claims and judgments are recorded only when the payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General and Special Revenue Funds are subject to legal budgetary accounting controls and are budgeted annually. The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- The budgets are generated with input from the City Manager, the various department heads, the Clerk, and the City Commission.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

- The completed budgets are then presented to City electors at a public budget hearing in May, at which time taxpayer comments and recommendations are heard. These operating budgets include proposed expenditures and the means of financing them for the General Fund and Special Revenue Funds.
- Prior to July 1, the budgets are legally enacted through passage of an appropriations resolution.
- The budget may only be amended by action of the City Commission.
- Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- Budget appropriations lapse at fiscal year-end.
- The original General and Special Revenue Funds budgets were not amended during the year.
- The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level for each individual fund.

5. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

6. Inventories

Inventories, consisting of goods held for sale and maintenance supplies, 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.

7. Capital Assets

Capital assets, which include land, land improvements, infrastructure, buildings and improvements, vehicles, office furnishings and other tools and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$2,500 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Roads and sidewalks, land improvements, buildings and improvements, vehicles, office furnishings and tools and equipment are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	5-50 years
Land improvements	5-30 years
Buildings and improvements	7-40 years
Vehicles	2-5 years
Office furnishings	5-7 years
Other tools and equipment	5-20 years

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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 issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

9. Accumulated Vacation Pay and Sick Leave

Accumulated vacation pay and sick leave at June 30, 2007 has been computed and recorded in the financial statements of the City. It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Seventy-five percent of the accumulated sick leave balance 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 at year end.

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

11. Fund Equity

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

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as transfers in or out. Transfers between governmental funds are eliminated in the Statement of Activities. Transfers in the fund financial statements are reported as other financing sources/uses.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

13. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a governmental unit in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a governmental unit in Michigan.

Balances at June 30, 2007 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Cash equivalents, deposits and investments per the Statement of Net Assets:

Primary Government	\$4,406,483
Component Units	344,168

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Cash equivalents, deposits and investments of Fiduciary Funds:

Primary government:

Agency Funds

854,286

\$5,604,937

Cash Equivalents and Deposits

Cash equivalents consist of bank public funds checking, savings and money market accounts. Deposits consist of certificates of deposit.

Depositories actively used by the City during the year are detailed as follows:

1. Chemical Bank
2. Huntington National Bank
3. LaSalle Bank
4. Macatawa Bank
5. Mercantile Bank
6. Flagstar Bank
7. Select Bank
8. Bank of Holland
9. Choice One Bank

June 30, 2007 balances are detailed as follows:

	Primary Government	Component Units
Cash equivalents	\$ 2,932,430	\$ 344,168
Deposits	<u>1,537,007</u>	<u>—</u>
	<u>\$ 4,469,437</u>	<u>\$ 344,168</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to the City. Protection of City cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the City's cash equivalents and deposits was \$4,469,437 and the bank balance was \$4,945,237. Of the bank balance, \$772,641 was covered by federal depository insurance, \$1,553,727 was collateralized by a Guaranty Bond held by the pledging financial institution, and \$2,618,869 was uninsured and uncollateralized. The component units had a bank balance of \$344,168 of which \$207,785 was insured, \$53,031 was collateralized by a Guaranty Bond held by the pledging financial institution and \$83,352 was uninsured and uncollateralized.

Investments

As of June 30, 2007 the City had the following investments in its governmental and agency funds' portfolio:

Investment Pool Accounts:

MBIA – Class

\$ 791,332

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the City may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City minimizes custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business. All security transactions entered into by the City of Walker are required to be conducted on a delivery-versus-payment basis. Securities are required to be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

Credit Risk

The City's investments in the MBIA investment pool were unrated.

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of Credit Risk

The City minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by allowing no more than sixty percent (60%) of the total current investment portfolio to be invested in any one type of security, or with a single financial institution.

Foreign Currency Risk

The City is not authorized to invest in investments which have this type of risk.

Note C – General Property Taxes

Property taxes for the City become due and payable on July 1 of each year, based on the taxable valuation of property as of the preceding December 31. County taxes become due and payable on July 1 and December 1 of each year. School district taxes are payable July 1 and December 1 of each year, under a split-levy system, pursuant to the Michigan School Code of 1976. All taxes are returned delinquent March 1 of the following year.

City property tax revenues are recognized in the General Fund in the fiscal year levied, to the extent they are measurable and available. The 2006 property tax roll, levied July 1, 2006, represents revenue for the fiscal year ended June 30, 2007.

The City bills and collects its own taxes in addition to taxes for the State of Michigan, Kent County, Kent District Library, Interurban Transit Authority, Kent Intermediate School District, Grand Rapids Community College, Comstock Park Public Schools, Grandville Public Schools and Kenowa Hills Public Schools. The collection and remittance of taxes are accounted for in the Tax Account Agency Fund.

The City is permitted by election to levy up to 5 mills of general property taxes on the taxable valuation in the City, reduced to 4.0842 due to the effect of the Headlee Amendment. The actual tax levy approved by the City Commission was 1.336 mills for 2006-07 general operations.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

The tax collection record of City taxes for the past three years is shown in the following summary:

	2006	2005	2004
City taxes levied	\$1,285,864	\$1,224,994	\$1,153,230
Taxes collected:			
Current to March 1	1,261,539	1,202,807	1,130,699
Total to June 30, 2007	1,280,969	1,223,587	1,151,711
Percentages of collections:			
Current to March 1	98.11%	98.19%	98.05%
Total to June 30, 2007	99.62%	99.89%	99.87%

Taxable property in the City is assessed initially by the assessing official of the City. These valuations are then equalized by the County and finally by the State of Michigan. Michigan statutes provide that all ad valorem taxes be levied upon State Equalized Valuation. In accordance with Act 409, Public Acts of 1965 and Article IX, Section 3 of the Michigan Constitution, State Equalized Valuation represents 50% of true cash value. The valuations of taxable property in the City for prior years is compared with 2007 valuations in the following summary:

Year	Real	Personal	Total
2007	\$ 888,146,099	\$ 137,575,700	\$ 1,025,721,799
2006	831,255,680	131,250,523	962,506,203
2005	788,750,197	129,269,960	918,020,157
2004	736,989,403	126,239,452	863,228,855

The State Equalized Valuations do not include valuation of certain facilities which are exempt under Act 198, Public Acts 1974 or Act 255, Public Acts 1978. These Acts are designed to provide stimulus in the form of significant tax incentives to industrial and commercial enterprises to renovate and expand aging facilities and to build new facilities in Michigan. Under the provisions of the Acts, a local governmental unit (city, village or township) in which the total property tax levy is at least 30 mills or in which a city income tax is levied may establish rehabilitation districts and industrial development districts to encourage restoration or replacement of obsolete facilities and to attract new plants to the area.

An Industrial (Act 198) or Commercial Act (Act 255) Facilities Exemption Certificate entitles the facility to exemption from advalorem real and personal property taxes for a period of up to 12 years. In lieu of the property tax, the firm will pay a specific tax. The tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the advalorem property tax, the important difference being that the state equalized valuation of the property remains at the level assessed on the obsolete facility prior to the improvements, even though the restoration or replacement substantially increases the true cash value of the facility. For a new facility built in a rehabilitation or a development district, the tax is also determined the same as the advalorem property tax but instead of using the total mills levied as advalorem taxes, only half the millage rate is applied. The amount of the resulting tax thus is equal to 50% of the property tax which otherwise would be payable. The 2007 valuation of these certificates is compared with prior years in the following exhibit.

Year	Real	Personal	Total
2007	\$ 41,761,600	\$ 46,892,100	\$ 88,653,700
2006	42,104,491	46,423,450	88,527,941
2005	46,656,234	48,615,800	95,272,034
2004	44,371,586	29,264,400	73,635,986

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Note D – Due From (To) Other Funds/Transfers In (Out)

Interfund receivables, payables and transfers during the year ended June 30, 2007 were as follows:

	Due From	Due To	Transfers In	Transfers Out	Purpose
Major Funds					
General Fund:					
Special Revenue Funds:					
Local Streets Fund	\$	\$	\$	\$ 329,287	Annual budget transfer
Ice and Fitness Program Fund	—	—	—	679,913	Debt service transfer
Debt Service Fund:					
1999 Debt Service Fund	—	—	—	652,561	Debt service transfers
Proprietary Fund:					
Internal Service Fund	—	—	—	30,135	Contrib. for capital assets
Fiduciary Funds:					
District Court Agency Fund	68,674	—	—	—	June, 2007 revenue transfer
Flexible Spending Fund	9,000	—	—	—	Operating cash advance
Total General Fund	77,674	—	—	1,691,896	
Special Revenue Funds:					
Major Streets Fund:					
Local Streets Fund	2,017	—	—	—	
Local Streets Fund:					
General Fund	—	—	329,287	—	Annual budget transfer
Major Streets Fund	—	2,017	—	—	
Improvement Revolving Fund	—	—	56,000	—	Annual budget transfer
Improvement Revolving Fund:					
Local Streets Fund	—	—	—	56,000	Annual budget transfer
Ice and Fitness Program Fund:					
General Fund	—	—	679,913	—	Debt service transfers
1998 Debt Service Fund	—	—	—	699,913	Debt service transfers
Total Major Funds	79,691	2,017	1,065,200	2,447,809	
Nonmajor Funds					
Debt Service Funds:					
1991 Debt Service Fund:					
1996 Debt Service Fund	\$	\$	\$	33,096	Debt service transfer
1996 Debt Service Fund:					
1991 Debt Service Fund	—	—	33,096	—	Debt service transfer
1998 Debt Service Fund:					
Ice and Fitness Program Fund	—	—	699,913	—	Debt service transfer
1999 Debt Service Fund:					
General Fund	—	—	652,561	—	Debt service transfers
Internal Service Fund:					
Capital Equipment Replacement Fund:					
General Fund	—	—	30,135	—	Contrib. for capital assets

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

	Due From	Due To	Transfers In	Transfers Out	Purpose
Fiduciary Funds:					
District Court Agency Fund:					
General Fund	\$ —	\$ 68,674	\$ —	\$ —	June, 2007 revenue transfer
Flexible Spending Agency Fund:					
General Fund	—	9,000	—	—	Operating cash advance
Total Nonmajor Funds	<u>—</u>	<u>77,674</u>	<u>1,415,705</u>	<u>33,096</u>	
Total All Funds	<u>\$ 79,691</u>	<u>\$ 79,691</u>	<u>\$2,480,905</u>	<u>\$2,480,905</u>	

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	Balances July 1, 2006	Additions	Sales/ Retirements	Balances June 30, 2007
Capital assets not depreciated:				
Land	\$ 2,820,745	\$ —	\$ —	\$ 2,820,745
Capital assets being depreciated:				
Land improvements	1,809,270	121,725	—	1,930,995
Infrastructure*	77,714,303	1,003,391	—	78,717,694
Buildings and improvements	21,094,804	17,534	—	21,112,338
Office furnishings	580,233	95,456	—	675,689
Other tools and equipment	6,805,423	682,346	2,847	7,484,922
Vehicles	1,006,690	136,849	70,164	1,073,375
Totals at historical cost	<u>111,831,468</u>	<u>\$ 2,057,301</u>	<u>\$ 73,011</u>	<u>113,815,758</u>
Less accumulated depreciation for:				
Land improvements	\$ 728,321	\$ 97,789	\$ —	\$ 826,110
Infrastructure*	20,204,959	1,489,833	—	21,694,792
Buildings and improvements	5,800,542	550,520	—	6,351,062
Office furnishings	422,830	32,130	—	454,960
Other tools and equipment	4,310,804	336,126	2,847	4,644,083
Vehicles	802,270	121,850	65,330	858,790
Total accumulated depreciation	<u>32,269,726</u>	<u>\$ 2,628,248</u>	<u>\$ 68,177</u>	<u>34,829,797</u>
Net Capital Assets	<u>\$79,561,742</u>			<u>\$78,985,961</u>

*Infrastructure with a net book value of \$51,007,417 was added to City balances as of July 1, 2006 to comply with Governmental Accounting Standards Board Statement No. 34 requirements.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Depreciation expense was charged to City governmental activities as follows:

General government	\$ 1,701,615
Judicial	1,006
Police	219,498
Fire	171,080
Public works	173,567
Recreation and culture	361,482
	<u>\$ 2,628,248</u>

As of June 30, 2007, the City had \$564,485 in intangible assets, net of amortization. The entire balance relates to amounts paid on infrastructure not owned by the City.

Discretely Presented Component Units

Capital asset activity for the Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for the year ended June 30, 2007 was as follows:

	Balances July 1, 2006	Additions	Sales/ Retirements	Balances June 30, 2007
Capital assets not being depreciated:				
Land	\$ 1,279,378	\$ 183,781	\$ —	\$ 1,463,159
Construction in progress	731,531	—	731,531	—
Capital assets being depreciated:				
Land improvements	55,839	—	—	55,839
Infrastructure*	183,893	—	—	183,893
Buildings	—	2,516,680	—	2,516,680
Office furnishings	—	50,708	—	50,708
	<u>2,250,641</u>	<u>\$2,751,169</u>	<u>\$ 731,531</u>	<u>4,270,279</u>
Totals at historical cost				
Less accumulated depreciation for:				
Land improvements	\$ 8,526	\$ 2,974	\$ —	\$ 11,500
Infrastructure*	142,442	14,754	—	157,196
Buildings	—	62,917	—	62,917
Office furnishings	—	845	—	845
	<u>150,968</u>	<u>\$ 81,490</u>	<u>\$ —</u>	<u>232,458</u>
Total accumulated depreciation				
Net Capital Assets	<u>\$ 2,099,673</u>			<u>\$ 4,037,821</u>

*Infrastructure with a net book value of \$40,687 was added to Component Unit balances as of July 1, 2006 to comply with Governmental Accounting Standards Board Statement No. 34 requirements.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Note F –Long-Term Debt

Amounts available and to be provided for long-term debt at June 30, 2007 are summarized as follows:

	Bond Issues	Installment Purchase Agreements	Capital Lease	Accumulated Sick Leave/ Vacation Pay	Total
Amounts Available For Retirement Of General Long-Term Debt					
Debt Service Funds	\$ 139,119	\$ —	\$ —	\$ —	\$ 139,119
Amounts To Be Provided For Retirement Of General Long-Term Debt					
General Fund	6,395,000	—	—	1,631,629	8,026,629
Special Revenue Funds:					
Major Streets Fund	1,630,000	—	—	—	1,630,000
Ice and Fitness Program Fund	5,810,000	—	—	24,199	5,834,199
Internal Service Fund	—	401,591	13,383	287,242	702,216
Debt Service Funds	(14,119)	—	—	—	(14,119)
Total Amounts Available and To Be Provided	\$13,960,000	\$ 401,591	\$ 13,383	\$ 1,943,070	\$16,318,044

Changes in long-term debt for the year ended June 30, 2007 are summarized as follows:

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
<u>Primary Government</u>				
Bond Issues				
Michigan Transportation Fund (LTGO):				
June 1, 2004	\$ 1,145,000	\$ —	\$ 65,000	\$ 1,080,000
June 1, 2006	585,000	—	35,000	550,000
Building authority (LTGO):				
June 1, 1998	400,000	—	400,000	—
December 1, 1999	1,405,000	—	325,000	1,080,000
November 2, 2005	5,340,000	—	25,000	5,315,000
March 9, 2006	5,810,000	—	—	5,810,000
Special assessment:				
Series 1996 – B	160,000	—	35,000	125,000
Installment Purchase Agreements				
April 4, 2005	150,789	—	43,198	107,591
March 1, 2007	—	294,000	—	294,000
Capital lease				
July 15, 2005	13,383	—	—	13,383
Accumulated vacation pay	404,175	420,468	393,873	430,770
Accumulated sick leave	1,371,606	366,421	225,727	1,512,300
Total Primary Government	\$ 16,784,953	\$ 1,080,889	\$ 1,547,798	\$ 16,318,044

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

	Debt Outstanding July 1, 2006	Debt Added	Debt Retired	Debt Outstanding June 30, 2007
<u>Discretely Presented Component Units</u>				
Bond Issues				
Downtown Development Authority:				
June 1, 1993	\$ 165,000	\$ —	\$ 165,000	\$ —
October 1, 2004	575,000	—	30,000	545,000
June 1, 2006	2,360,000	—	100,000	2,260,000
Loans				
Brownfield Redevelopment DEQ:				
March 10, 2004	241,165	—	24,474	216,691
February 5, 2007	—	1,000,000	—	1,000,000
Land Contracts				
Downtown Development Authority:				
December 8, 2005	122,051	—	5,082	116,969
May 15, 2007	—	60,000	—	60,000
Installment Purchase Agreement				
Downtown Development Authority:				
December 9, 2004	215,000	—	30,000	185,000
Total Component Units	\$ 3,678,216	\$ 1,060,000	\$ 354,556	\$ 4,383,660

Long-term bonds, loans, land contracts, capital leases and installment purchase agreements at June 30, 2007 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
<u>Primary Government</u>				
Michigan Transportation Fund Bonds (LTGO)				
\$1,270M 2004 Road Improvement:				
Annual maturities of \$70M to \$115M	June 1, 2019	3.35 – 4.35	\$1,080,000	\$ 70,000
\$585M 2006 Road Improvement:				
Annual maturities of \$35M to \$55M	June 1, 2019	3.90 – 4.55	550,000	35,000
Building Authority Bonds (LTGO)				
\$8,165M 1999 Building Improvement:				
Annual maturities of \$340M to \$380M	May 1, 2010	5.20	1,080,000	340,000
\$5,340M 2005 Refunding:				
Annual maturities \$25M to \$630M	May 1, 2020	3.125 – 5.00	5,315,000	25,000
\$5,810M 2006 Refunding:				
Annual maturities of \$430M to \$650M	May 1, 2018	3.75 – 5.00	5,810,000	430,000
Special Assessment Bonds				
\$475M 1996 Water and Sewer Improvement:				
Annual maturities of \$30M to \$35M	Dec. 1, 2011	5.10 – 5.40	125,000	30,000

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

	<u>Final Maturity Dates</u>	<u>Interest Rates</u>	<u>Outstanding Balance</u>	<u>Amount Due Within One Year</u>
Installment Purchase Agreements				
\$230,470 2005 Fire Equipment:				
Annual maturities of \$45M to \$62M	June 1, 2009	4.45	\$ 107,591	\$ 45,134
\$294,000 2007 Fire Equipment:				
Annual maturities of \$39M to \$47M	Dec. 1, 2013	4.34	294,000	39,515
Capital Lease				
\$38,913 2005 Maintenance Equipment:				
Annual maturity of \$13,383	July 15, 2007	3.21	<u>13,383</u>	<u>13,383</u>
Total Primary Government			<u>\$14,374,974</u>	<u>\$1,028,032</u>
<u>Discretely Presented Component Units</u>				
Downtown Development Authority Bonds (LTGO)				
\$605M 2004 Downtown Improvement:				
Annual maturities of \$30M to \$55M	May 1, 2020	2.65 - 4.30	\$ 545,000	\$ 30,000
\$2,360M 2006 Downtown Improvement:				
Annual maturities of \$100M to \$190M	May 1, 2023	4.00 - 4.125	2,260,000	100,000
Loans				
\$295M 2004 Brownfield Redevelopment DEQ:				
Annual maturities of \$25M to \$29M	Mar. 10, 2015	2.25	216,691	25,024
\$1,000M 2007 Brownfield Redevelopment DEQ:				
Annual maturities of \$82M to \$100M	Feb. 5, 2022	2.00	1,000,000	—
Land Contracts				
\$125M 2005 DDA Property Purchase:				
Annual Maturities of \$5M to \$86M	Dec. 1, 2012	6.98	\$ 116,969	\$ 5,448
\$60M 2007 DDA Property Purchase:				
Annual Maturity of \$60M	Dec. 31, 2008	0.00	60,000	—
Installment Purchase Agreement				
\$240M 2004 DDA Property Purchase:				
Annual maturities of \$30M to \$45M	Nov. 1, 2011	4.55	<u>185,000</u>	<u>30,000</u>
Total Component Units			<u>\$ 4,383,660</u>	<u>\$ 190,472</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

The annual requirements to pay principal and interest on long-term bonds, installment purchase agreements and capital leases outstanding for the Primary Government are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 1,028,032	\$ 623,969	\$ 1,638,188
2009	1,070,497	583,124	1,653,621
2010	1,049,691	536,830	1,586,521
2011	1,101,414	491,139	1,592,553
2012	1,113,211	444,405	1,557,616
2013	1,155,086	400,839	1,555,925
2014	1,207,043	342,464	1,549,507
2015	1,225,000	287,498	1,512,498
2016	1,285,000	225,242	1,510,242
2017	1,345,000	167,392	1,512,392
2018	1,395,000	113,083	1,508,083
2019	770,000	56,677	826,677
2020	630,000	25,200	655,200
	<u>\$ 14,374,974</u>	<u>\$ 4,297,862</u>	<u>\$ 18,672,836</u>

The annual requirements to pay principal and interest on long-term bonds, loans, land contracts and installment purchase agreements outstanding for the Component Units are as follows:

Year Ended June 30	Principal	Interest	Total
2008	\$ 190,472	\$ 133,986	\$ 324,458
2009	266,428	126,869	393,297
2010	212,424	119,084	331,508
2011	223,465	110,966	334,431
2012	239,550	102,304	341,854
2013	378,654	89,549	468,203
2014	280,777	97,899	378,676
2015	293,063	88,783	381,846
2016	270,498	79,182	349,680
2017	277,208	69,955	347,163
2018	293,952	60,442	354,394
2019	300,731	50,233	350,964
2020	317,546	39,694	357,240
2021	269,397	28,465	297,862
2022	281,285	19,359	300,644
2023	288,210	9,801	298,011
	<u>\$ 4,383,660</u>	<u>\$ 1,226,570</u>	<u>\$ 5,610,230</u>

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

On November 2, 2005, the City issued \$5,340,000 in general obligation bonds to advance refund \$5,145,000 of outstanding 1999 general obligation bonds. The net proceeds were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the City from being primarily liable for the debt and the City is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the City upon final payment of principal and interest (Scheduled to be May 1, 2010). This defeasance procedure allows the City to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$5,949,502 on the defeased debt at June 30, 2007 are detailed in the following schedule:

	Cost	Market Value	Par Value
U.S. Government Securities	\$ 5,334,524	\$ 5,334,524	\$ 5,338,523

Note G – Post Employment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 34 retirees are eligible. The City includes pre-Medicare retirees in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums come due; during the year, this amounted to approximately \$121,281.

Future Reporting Change – The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. This new pronouncement will be effective for the year ending June 30, 2009.

Note H – Retirement Plans

The City participates in two separate retirement plans, as follows:

Defined Contribution Plan

The City provides pension benefits to substantially all of its full-time employees hired after July 1, 2005 through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City contributes 10 percent of employees’ eligible earnings, as defined in the plan document. In accordance with these requirements, the City contributed \$363,270 during the year ended June 30, 2007. In addition, employee contributions amounted to \$67,769 during the year ended June 30, 2007.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Defined Benefit Pension Plan

As of July 1, 2006, the City joined the agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). Previously, City employees were included in the City of Walker Pension Plan administered by Huntington National Bank. Employees participating in the plan are those hired prior to July 1, 2005. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was as of June 1, 2005.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Only police patrol MERS members are required to contribute to the plan (1% of covered payroll). Employee contributions for 2007 were 0.48% of covered payroll. The City is required to contribute at an actuarially determined rate; the current rates are 14.85%, 19.04% or 36.90% of annual covered payroll depending on employee classification. The contribution requirements of plan members and the commission are established and may be amended by MERS.

For the year ended June 30, 2007, the City's contributions totaling \$709,933 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of June 1, 2005. Employee contributions totaled \$12,420. The long term cost of providing retirement benefits depends only on the benefits that are paid to participants, the expenses of administering the plan, and the investment return generated on invested assets. For a given level of benefits, the cost of providing those benefits is lowered if administrative expenses are lowered or investment income is increased.

The long term costs are financed by a series of employer and member contributions. The series of contributions is flexible. If more is contributed in early years, less has to be contributed in later years, and vice-versa. Over time, the series of contributions has to have the same value as the series of benefits and expenses. The actuary determines each year's contribution based on a funding method and a set of actuarial assumptions. The chosen funding method and assumptions do not affect the long term cost of providing retirement benefits, but have a strong impact on the series of contributions used to fund the benefits.

The MERS funding method is different than the method used by the present plan (individual entry age actuarial cost method). The current plan uses the aggregate funding method because the plan is closed to new hires. The aggregate funding method will create a series of level percent of pay contributions for a group that is closed to new hires and has a shrinking payroll. MERS uses the entry age normal funding method for closed groups, but with an accelerated amortization policy (the amortization period starts at 28 years when the group first becomes closed, than it decreases by 2 years for each valuation year). MERS allows the employer to select an amortization period between 1 and 30 years for unfunded accrued liabilities (but not under 5 years for assets in excess of liabilities).

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Trend information for the City of Walker MERS pension plan using the aggregate funding actuarial method is presented as follows:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 587,101	121%	\$ (122,832)

Actuarial accrued liabilities are presented as follows:

Year Ended June 30	Accrued Liabilities	Valuation Assets	Funded Percent	Unfunded Accrued Liability	UAL as Percent of Annual Payroll
2006	\$ 14,183,013	\$ 8,265,956	58%	\$ 5,917,057	229%

Voluntary Early Retirement Incentive Benefit

As of February 10, 2003, the City has adopted a voluntary early retirement incentive plan whereby participants who have attained age 55 and completed five years of service, or at any age has completed 20 years of service, and who voluntarily resigns from employment will be eligible. The amount of the participant's benefit is the participant's accrued benefit as of the effective retirement date, unreduced, and will be calculated with an additional two years of credited service added to the total number of years of credited service. As of June 30, 2007, the City has not recorded an associated liability with this plan.

Note I – 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 coverage on the risk of loss related to property loss and errors and omissions. The City has purchased commercial insurance for coverage of health care claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

CITY OF WALKER
Notes to Basic Financial Statements
June 30, 2007

Note K – Construction Code Fees

The City oversees building construction in accordance with the State of Michigan'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 cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall – July 1, 2006	\$ (364,044)
Current year building permit revenue	412,081
Related expenses:	
Direct costs	556,074
Estimated indirect costs	<u>80,631</u>
Total construction code expenses	<u>636,705</u>
Cumulative shortfall – June 30, 2007	<u>\$ (588,668)</u>

SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

CITY OF WALKER
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

	Special Revenue		
	Special Vice Investigation	DDA Streetscape Maintenance	DDA Parking Lot
Assets			
Cash equivalents, deposits and investments	\$ 200,817	\$ 62,993	\$ 19,169
Special assessments receivable	-	21,277	2,111
Accrued interest receivable	5,806	-	-
Total Assets	\$ 206,623	\$ 84,270	\$ 21,280
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 6,500	\$ 9,278	\$ 2,403
Deferred revenue	-	21,277	2,111
Total Liabilities	6,500	30,555	4,514
Fund Balances			
Reserved for:			
Debt service	-	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	200,123	53,715	16,766
Total Fund Balances	200,123	53,715	16,766
Total Liabilities and Fund Balances	\$ 206,623	\$ 84,270	\$ 21,280

<u>Debt Service</u>			
<u>1996-B</u>	<u>1998/2006</u>	<u>1999/2005</u>	<u>Total</u>
\$ 134,631	\$ 1,334	\$ 1,781	\$ 420,725
14,314	-	-	37,702
686	-	-	6,492
<u>\$ 149,631</u>	<u>\$ 1,334</u>	<u>\$ 1,781</u>	<u>\$ 464,919</u>
\$ -	\$ -	\$ -	\$ 18,181
13,627	-	-	37,015
<u>13,627</u>	<u>-</u>	<u>-</u>	<u>55,196</u>
136,004	1,334	1,781	139,119
-	-	-	270,604
<u>136,004</u>	<u>1,334</u>	<u>1,781</u>	<u>409,723</u>
<u>\$ 149,631</u>	<u>\$ 1,334</u>	<u>\$ 1,781</u>	<u>\$ 464,919</u>

CITY OF WALKER
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the year ended June 30, 2007

	Special Revenue		
	Special Vice Investigation	DDA Streetscape Maintenance	DDA Parking Lot
Revenues			
Intergovernmental sources	\$ 21,778	\$ -	\$ -
Interest and rentals	9,309	1,913	2,534
Other revenue	-	117,563	57,737
Total Revenues	<u>31,087</u>	<u>119,476</u>	<u>60,271</u>
Expenditures			
Current:			
Judicial	22,322	-	-
Public works	-	101,781	71,268
Debt service:			
Principal repayment	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	<u>22,322</u>	<u>101,781</u>	<u>71,268</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,765</u>	<u>17,695</u>	<u>(10,997)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	8,765	17,695	(10,997)
Fund Balances, July 1	<u>191,358</u>	<u>36,020</u>	<u>27,763</u>
Fund Balances, June 30	<u><u>\$ 200,123</u></u>	<u><u>\$ 53,715</u></u>	<u><u>\$ 16,766</u></u>

Debt Service

1991-B	1996-B	1998/2006	1999/2005	Total
\$ -	\$ -	\$ -	\$ -	\$ 21,778
1,610	7,313	783	685	24,147
1,970	10,473	-	-	187,743
3,580	17,786	783	685	233,668
-	-	-	-	22,322
-	-	-	-	173,049
-	35,000	400,000	350,000	785,000
-	7,670	303,673	304,986	616,329
-	42,670	703,673	654,986	1,596,700
3,580	(24,884)	(702,890)	(654,301)	(1,363,032)
-	33,096	699,913	652,561	1,385,570
(33,096)	-	-	-	(33,096)
(33,096)	33,096	699,913	652,561	1,352,474
(29,516)	8,212	(2,977)	(1,740)	(10,558)
29,516	127,792	4,311	3,521	420,281
\$ -	\$ 136,004	\$ 1,334	\$ 1,781	\$ 409,723

CITY OF WALKER
Special Vice Investigation Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Intergovernmental sources	\$ 15,000	\$ 21,778	\$ 6,778
Interest and rentals	-	9,309	9,309
Total Revenues	<u>15,000</u>	<u>31,087</u>	<u>16,087</u>
Expenditures			
Current:			
Judicial	23,000	22,322	678
Net Change in Fund Balances	(8,000)	8,765	16,765
Fund Balances, July 1	<u>191,358</u>	<u>191,358</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 183,358</u></u>	<u><u>\$ 200,123</u></u>	<u><u>\$ 16,765</u></u>

CITY OF WALKER
DDA Streetscape Maintenance Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 1,850	\$ 1,913	\$ 63
Other	98,000	117,563	19,563
Total Revenues	<u>99,850</u>	<u>119,476</u>	<u>19,626</u>
Expenditures			
Current:			
Public works	95,000	101,781	(6,781)
Net Change in Fund Balances	4,850	17,695	12,845
Fund Balances, July 1	<u>36,020</u>	<u>36,020</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 40,870</u></u>	<u><u>\$ 53,715</u></u>	<u><u>\$ 12,845</u></u>

CITY OF WALKER
DDA Parking Lot Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2007

	Budget	Actual	Variance - Positive (Negative)
Revenues			
Interest and rentals	\$ 310	\$ 2,534	\$ 2,224
Other	56,000	57,737	1,737
Total Revenues	<u>56,310</u>	<u>60,271</u>	<u>3,961</u>
Expenditures			
Current:			
Public works	53,000	71,268	(18,268)
Net Change in Fund Balances	3,310	(10,997)	(14,307)
Fund Balances, July 1	<u>27,763</u>	<u>27,763</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 31,073</u></u>	<u><u>\$ 16,766</u></u>	<u><u>\$ (14,307)</u></u>

AGENCY FUNDS

District Court Agency—to account for fines and forfeitures collected and the disbursement to the governmental agencies entitled to the monies.

Trust Account Agency—to account for the collection of bonds and deposits and payment to the governmental units or other persons entitled to receive these funds.

Tax Account Agency—to account for the collection of current and delinquent property taxes and payment to the governmental units or other persons entitled to receive these funds.

Flexible Spending Agency—to account for the collection of employee payroll withholding to be used for medical expense reimbursements.

Other Agency—to account for the collection of various monies to be disbursed to the organizations and individuals entitled to the monies.

CITY OF WALKER
All Agency Funds
Combining Schedule of Changes in Assets and Liabilities
For the year ended June 30, 2007

	<u>Balances</u> <u>July 1, 2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u> <u>June 30, 2007</u>
District Court				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 146,827	\$ 1,420,974	\$ 1,430,635	\$ 137,166
<i>Liabilities</i>				
Bond and escrow deposits	\$ 27,486	\$ 197,253	\$ 197,947	\$ 26,792
Due to other funds	82,160	842,718	856,204	68,674
Due to other governmental units	37,181	381,003	376,484	41,700
Total Liabilities	\$ 146,827	\$ 1,420,974	\$ 1,430,635	\$ 137,166
Tax Account				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 104,111	\$41,956,914	\$ 42,008,662	\$ 52,363
<i>Liabilities</i>				
Due to other governmental units	\$ 104,111	\$41,956,914	\$ 42,008,662	\$ 52,363
Trust Account				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 662,646	\$ 239,521	\$ 269,808	\$ 632,359
Accrued interest receivable	950	4,642	950	4,642
Total Assets	\$ 663,596	\$ 244,163	\$ 270,758	\$ 637,001
<i>Liabilities</i>				
Bond and escrow deposits	\$ 663,596	\$ 244,163	\$ 270,758	\$ 637,001
Flexible Spending				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 11,201	\$ 84,968	\$ 84,353	\$ 11,816
<i>Liabilities</i>				
Accounts payable	\$ 2,201	\$ 84,968	\$ 84,353	\$ 2,816
Due to other funds	9,000	-	-	9,000
Total Liabilities	\$ 11,201	\$ 84,968	\$ 84,353	\$ 11,816

(Continued)

CITY OF WALKER
All Agency Funds
Combining Schedule of Changes in Assets and Liabilities
For the year ended June 30, 2007

	<u>Balances July 1, 2006</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances June 30, 2007</u>
Other				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 15,515	\$ 5,163,748	\$ 5,158,681	\$ 20,582
<i>Liabilities</i>				
Bond and escrow deposits	\$ 15,515	\$ 5,163,748	\$ 5,158,681	\$ 20,582
Totals - All Agency Funds				
<i>Assets</i>				
Cash equivalents, deposits and investments	\$ 940,300	\$48,866,125	\$ 48,952,139	\$ 854,286
Accrued interest receivable	950	4,642	950	4,642
Total Assets	\$ 941,250	\$48,870,767	\$ 48,953,089	\$ 858,928
<i>Liabilities</i>				
Accounts payable	\$ 2,201	\$ 84,968	\$ 84,353	\$ 2,816
Due to other funds	91,160	842,718	856,204	77,674
Due to other governmental units	141,292	42,337,917	42,385,146	94,063
Bond and escrow deposits	706,597	5,605,164	5,627,386	684,375
Total Liabilities	\$ 941,250	\$48,870,767	\$ 48,953,089	\$ 858,928

OTHER INFORMATION

CITY OF WALKER
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

Ad Valorem Taxes	<u>Taxable Valuation</u>	<u>Rate (Mills)</u>	<u>Taxes Levied</u>	<u>Returned Delinquent</u>	<u>Current * Collections</u>
Kent County					
Operating	\$962,506,203	5.3983	\$ 5,191,582	\$125,176	\$ 5,066,406
Kent District Library	962,506,203	0.8800	846,964	25,362	821,602
Interurban Transit Authority	962,506,203	0.9500	914,341	17,297	897,044
State Education Tax					
Comstock Park Public Schools	11,593,619	6.0000	69,561	1,471	68,090
Grandville Public Schools	177,274,964	6.0000	1,063,642	28,179	1,035,463
Kenowa Hills Public Schools	773,637,620	6.0000	4,641,808	79,603	4,562,205
			<u>5,775,011</u>	<u>109,253</u>	<u>5,665,758</u>
School Districts					
Kent Intermediate School District	962,506,203	4.6900	4,514,399	85,403	4,428,996
Grand Rapids Community College	962,506,203	1.7865	1,719,473	32,529	1,686,944
Comstock Park Public Schools:					
Other	11,593,619	9.1621	106,220	2,245	103,975
Operating	4,883,882	18.0000	87,910	216	87,694
Grandville Public Schools:					
Other	177,274,964	6.1130	1,083,670	28,709	1,054,961
Operating	61,381,389	18.0000	1,104,863	38,280	1,066,583
Kenowa Hills Public Schools:					
Other	773,637,620	3.3600	2,599,393	44,577	2,554,816
Operating	483,284,329	18.0000	8,699,113	161,559	8,537,554
Total School Districts			19,915,041	393,518	19,521,523
City of Walker					
Operating	962,506,203	1.3360	1,285,864	24,326	1,261,538
DDA assessments			5,799	5,799	-
Special assessments			6,973	6,083	890
Delinquent sewer and water charges			8,326	1,131	7,195
Tax administration fees			339,411	6,746	332,665
Total City			<u>1,646,373</u>	<u>44,085</u>	<u>1,602,288</u>
Total Ad Valorem Taxes			<u>\$34,289,312</u>	<u>\$714,691</u>	<u>\$33,574,621</u>

(Continued)

CITY OF WALKER
Summary of 2006 Taxes Levied and Collected
For the year ended June 30, 2007

<u>Tax Abatements</u>	<u>Taxable Valuation</u>	<u>Rate (Mills)</u>	<u>Taxes Levied</u>	<u>Returned Delinquent</u>	<u>Current * Collections</u>
Kent County	\$ 88,527,491	2.69700	\$ 235,774	\$ -	\$ 235,774
Kent District Library	88,527,491	0.44000	38,465	-	38,465
Interurban Transit Authority	88,527,491	0.47500	41,525	-	41,525
State Education Tax:					
Kenowa Hills Public Schools	88,527,491	6.00000	510,206	-	510,206
Kent Intermediate School District	88,527,491	2.34500	205,017	-	205,017
Grand Rapids Community College	88,527,491	0.89325	78,089	-	78,089
Kenowa Hills Public Schools:					
Operating	88,527,491	1.68000	148,726	-	148,726
Other	88,527,491	9.00000	801,526	-	801,526
City of Walker:					
Operating	88,527,491	0.66800	58,397	-	58,397
Tax administration fees			21,176	-	21,176
Total Tax Abatements			<u>\$2,138,901</u>	<u>\$ -</u>	<u>\$2,138,901</u>

* Current collections include ad valorem and abated taxes collected for and distributed to the City of Walker Downtown Development Authority and Brownfield Redevelopment Authority. The following amounts were withheld from the various taxing units and remitted to the above referenced entities:

Kent County	\$ 150,340
Kent District Library	24,896
Interurban Transit Authority	26,877
State Education Tax	36,277
Grand Rapids Community College	47,499
Kent Intermediate School District	50,542
Grandville Public Schools	106,053
Kenowa Hills Public Schools	8,547
City of Walker:	
Operating	<u>37,797</u>
Total captures	<u>\$ 488,828</u>

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

December 14, 2007

The City Commission
City of Walker
Kent County, Michigan

The following comments pertain to our audit of the financial records of the City of Walker as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected misstatements (passed audit adjustments).

The communications specified by the Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the City's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of the City of Walker.

Auditors Responsibility Under Generally Accepted Auditing Standards

We conducted our audit in accordance with Generally Accepted Auditing Standards (GAAS). Those standards require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. We are required by GAAS to obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed. The purpose of the audit was to report on the financial statements and not to provide assurance on the internal control structure. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected.

Significant Accounting Policies

Management has the responsibility for 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 Walker are described in Note A of the Notes to Basic Financial Statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in auditing the records of the City for the year ended June 30, 2007. City personnel in both the Finance and Treasurer's departments are maintaining a timely, accurate and efficient record keeping system.

Significant Audit Adjustments

During the course of our audit the following adjustments of a significant nature were made to the accounting records of the City to bring the balances to those presented in the financial statements. The adjustments required were those typically made in prior years as a part of the audit process. These adjustments have been entered into the City's computer accounting system by City accounting personnel to bring City records into agreement with audited balances.

Downtown Development Authority Fund

1. \$60,000 to record the land contract proceeds and capital outlay expenditure for the purchase of property.

There were no adjustments proposed during the audit not recorded by City of Walker.

Suggestions and Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the City computer and accounting systems to the City Manager, Finance Manager, Treasurer, Income Tax Director and accounting personnel of the City as the topics arose during the course of our audit field work. Hopefully, these suggestions will improve the operations of the City and assist in more efficient monthly and year end financial record keeping and reporting. Other suggestions that merit discussion follow:

- Expenditures in the DDA Streetscape and Parking Lot Special Revenue Funds exceeded budgeted figures for the 2006-07 fiscal year, and several General Fund budget categories had final expenditures that exceeded budgeted amounts. It is important to review expenditure categories in all budgeted City funds near year end, and amend budgeted figures if necessary, as Michigan Department of Treasury budgeting regulations do not allow actual expenditures to exceed budgeted amounts.

In the fall of 2006, the AICPA issued Statement on Auditing Standards (SAS) No. 112 “Communicating Internal Control Related Matters Identified in and Audit”, which requires a written communication from an auditor to an organization’s governing board if any weaknesses in internal controls (“control deficiencies”) rise to the level of “significant deficiencies” or “material weaknesses” that might effect the integrity of the financial statements. The AICPA significantly broadened the standards as to what might be a significant deficiency and/or material weakness and raised the expectations of auditors to report these control deficiencies, if found. We did observe certain control deficiencies in areas of the City’s internal control that we judged to be significant deficiencies or material weaknesses in internal controls. These are reported in a separate letter accompanying the audit report. The following recommendations relate to our internal control findings:

- We encourage the City to increase its activities in the areas of *segregation/sharing of duties* and the *documentation and monitoring of internal controls*, especially in areas of a large number or dollar value of transactions and also significant activities occurring outside the City central office (payroll, property tax disbursements, ice/fitness center, court, etc.)
- We encourage the City to support the Finance Director and Treasurer in furthering their education in the area of governmental accounting and financial statement preparation in compliance with current GAAP and GASB requirements. These are complex and constantly changing requirements that continue to increase and undergo significant modifications.

Our audit this year was again completed under the requirements of Statement on Auditing Standards No. 99 “Consideration of Fraud in a Financial Statement Audit” (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school City that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that the City of Walker has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with City accounting personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the City in maintaining and improving its systems.

Other Comments

The General Fund balance of the City increased by \$374,216 to \$3,375,983 at June 30, 2007. This balance represents approximately 26 percent of the City's 2007-08 budgeted expenditures (up from 23 percent at June 30, 2006). Maintaining a fund balance of at least 20 percent of the ensuing year's expenditure budget is advisable for the City of Walker, considering the uncertain economic conditions that currently exist in the State of Michigan. This level of fund balance gives the City stable operating funds during the year, acts as a buffer against the uncertainty of state revenue sharing and income tax collections accruing to the City, and allows the City to react to unexpected changes that might occur during the fiscal year.

* * * * *

This communication is intended solely for the information and use of the City of Walker Commission, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Treasury as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to the City of Walker and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the City Manager, Finance Manager, Treasurer and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communication, we will be happy to address them.

Hungerford, Aldrin, Nichols & Co., P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

December 14, 2007

The City Commission
The City of Walker
Kent County, Michigan

The following comments pertain to our audit of the financial records of the City of Walker as of and for the year ended June 30, 2007. The comments are made in accordance with Statement on Auditing Standards No. 112 "*Communicating Internal Control Related Matters Identified in an Audit*" which has the following two unconditional requirements:

- The auditor must evaluate identified *control deficiencies* and determine whether those deficiencies, individually or in combination, are *significant deficiencies* or *material weaknesses*.
- The auditor *must communicate, in writing, significant deficiencies and material weaknesses* to management and those charged with governance. This communication includes significant deficiencies and material weaknesses identified and communicated to management and those charged with governance in prior audits but not yet remediated.

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.

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.

The following describe circumstances that may be control deficiencies, significant deficiencies, or material weaknesses:

- Inadequate *design* of internal control over a significant account or process.
- Inadequate *documentation* of the components of internal control.
- Insufficient *control consciousness* within the organization, for example, the tone at the top and the control environment.
- Inadequate or absent *segregation of duties* within a significant account or process.
- Inadequate design of *information technology* (IT) general and application controls.
- Inadequate design of *monitoring* controls used to assess the design and operating effectiveness of internal controls.
- The absence of an internal process to *report deficiencies* in internal controls to management on a timely basis.
- Employees or management who *lack the qualifications and training* to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) regulations, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply GAAP and GASB in recording the entity's financial transactions or *preparing its financial statements* (including the notes to basic financial statements).

The management of the City of Walker is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified the following control deficiencies as significant deficiencies in internal controls:

- Inadequate *written documentation* of internal controls.
- Inadequate *independent monitoring* of certain areas of the City's internal control: payroll, property tax disbursements, district court activities.

We identified the following control deficiency as a material weakness in internal controls:

- City officials or employees who lack the knowledge and training to fulfill certain required functions:
 1. The lack of knowledge and skills present to apply Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) requirements in preparing the City's government-wide financial statements (including the notes to basic financial statements) in compliance with current GAAP and GASB requirements.

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



Certified Public Accountants