

Reset Form

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Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended.

Unit Name	CITY OF ST. IGNACE	County	MACKINAC	Type	CITY	MuniCode	49-2-020
Opinion Date	5/1/2008	Audit Submitted	Jun 11, 2008	Fiscal Year	2007		

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 1,723,476.00
General Fund Expenditure:	\$ 2,052,016.00
Major Fund Deficit Amount:	(\$ 328,540.00)

General Fund Balance:	\$ 145,980.00
Governmental Activities Long-Term Debt (see instructions):	\$ 2,427,094.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	ANNETTE	Last Name	EUSTICE	Ten Digit License Number	1101019667
CPA Street Address	902 SOUTH HURON	City	CHEBOYGAN	State MI	Zip Code 49721
CPA Firm Name	REHMANN ROBSON	Unit's Street Address	396 N STATE ST	City	ST. IGNACE
					Zip Code 49781



Beauty & charm are on our side.

**CITY OF ST. IGNACE
ST. IGNACE, MICHIGAN**

FINANCIAL STATEMENTS

DECEMBER 31, 2007

CITY OF ST. IGNACE

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CITY OF ST. IGNACE

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INDEPENDENT AUDITORS' REPORT

May 1, 2008

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Ignace*, (the "City"), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2008, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-X 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The image shows a handwritten signature in cursive script that reads "Lehmann Johnson". The signature is written in black ink and is positioned in the lower right quadrant of the page.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *City of St. Ignace*, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal year 2007 by approximately \$22,500,000 (*net assets*). Of this \$1,180,000 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- At December 31, 2007, unreserved fund balance in the General Fund was \$113,130 or approximately 5.0% of the total General Fund expenditures and transfers.
- Major asset acquisition items include the land and building for the Fort De Baude Museum, \$500,000; Ambulance \$89,000 and Water Department Truck of \$34,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave and accrued interest expense).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, culture and recreation and other. The business-type activities include the water, sewer, Marina, garbage collection and golf course funds.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable and as such, the DDA is accountable to the City for its activities. The government-wide financial statements can be found on pages 3-5 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of *governmental funds* is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Recreation Debt Fund, and the Intermodal Passenger Capital Projects Fund, each of which are considered to be major funds. Data from the other 30 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General and special revenue funds. A budgetary comparison statement has been provided herein to demonstrate compliance with the General Fund. The budget, as adopted, delineates each of the individual funds and specifies a certain amount for each funds budget.

The basic *governmental fund* financial statements can be found on pages 6-10 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the various City functions. The City uses its internal service funds to account for its equipment and data processing activities.

Enterprise funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water, sewer and marina departments which are considered major enterprise funds of the City. Data from the other two enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on 11-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside, the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-40 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* including the combining statements referred to earlier in connection with nonmajor governmental, nonmajor enterprise, internal service and fiduciary funds which are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-60 of this report.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$22,500,000 at the close of fiscal year 2007.

Approximately 91% of the City's net assets reflect its investment in net capital assets (e.g., land, buildings, equipment and vehicles); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Net assets restricted for debt service and perpetual care represent approximately 2.7% of total net assets. The remaining balance of *unrestricted net assets* of approximately \$1,180,000 may be used to meet the City's ongoing obligation to citizens and creditors.

**City of St. Ignace
Net Assets
December 31, 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets						
Cash and other assets	\$ 1,094,684	\$ 1,089,737	\$ 1,169,436	\$ 755,821	\$ 2,264,120	\$ 1,845,558
Capital assets not being depreciated	2,115,102	1,691,174	188,417	188,417	2,303,519	1,879,591
Capital assets, net of accumulated depreciation, where applicable	<u>6,865,253</u>	<u>6,937,023</u>	<u>20,006,040</u>	<u>20,565,873</u>	<u>26,871,293</u>	<u>27,502,896</u>
Total assets	<u>10,075,039</u>	<u>9,717,934</u>	<u>21,363,893</u>	<u>21,510,111</u>	<u>31,438,932</u>	<u>31,228,045</u>
Liabilities						
Current and other liabilities	533,512	456,964	223,451	179,365	756,963	636,329
Long-term debt, net of current portion	<u>2,427,094</u>	<u>2,246,503</u>	<u>5,684,150</u>	<u>5,856,010</u>	<u>8,111,244</u>	<u>8,102,513</u>
Total liabilities	<u>2,960,606</u>	<u>2,703,467</u>	<u>\$ 5,907,601</u>	<u>6,035,375</u>	<u>8,868,207</u>	<u>8,738,842</u>
Net assets						
Invested in capital assets, net of related debt	6,461,783	6,364,214	14,309,155	14,729,280	20,770,938	21,093,494
Restricted for debt service and perpetual care	55,743	25,706	562,007	455,674	617,750	481,380
Unrestricted	<u>596,907</u>	<u>624,547</u>	<u>585,130</u>	<u>289,782</u>	<u>1,182,037</u>	<u>914,329</u>
Total net assets	<u>\$ 7,114,433</u>	<u>\$ 7,014,467</u>	<u>\$15,456,292</u>	<u>\$15,474,736</u>	<u>\$22,570,725</u>	<u>\$22,489,203</u>

The City's net assets increased approximately \$81,500 during the current fiscal year.

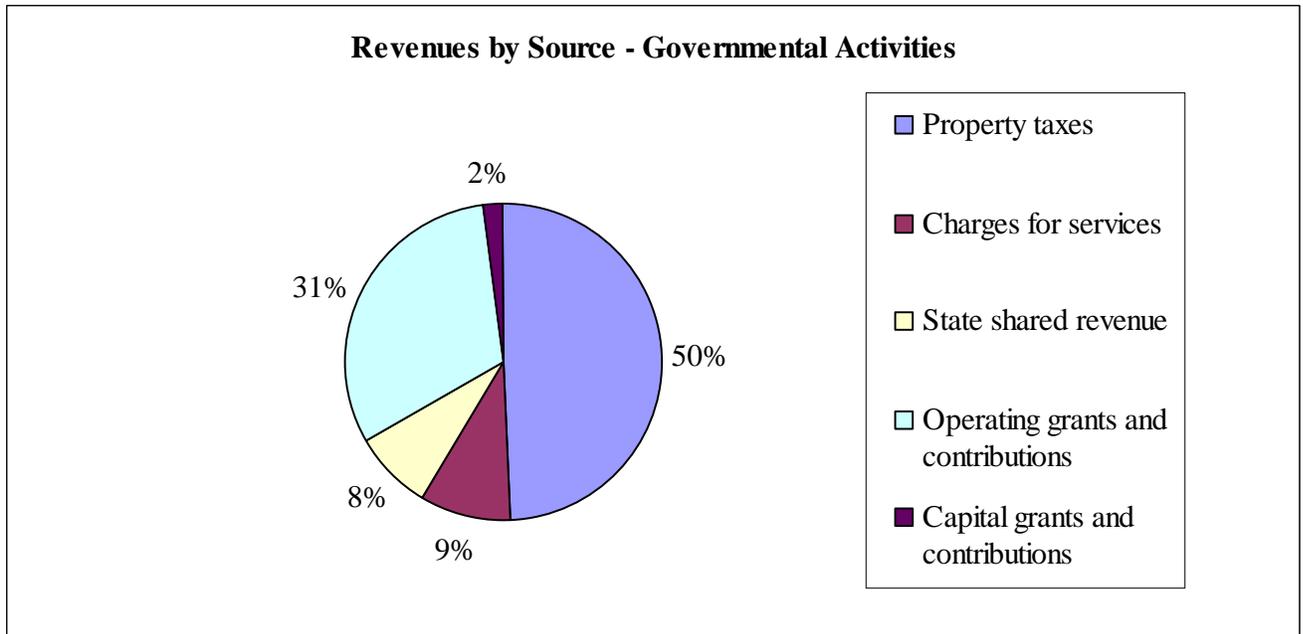
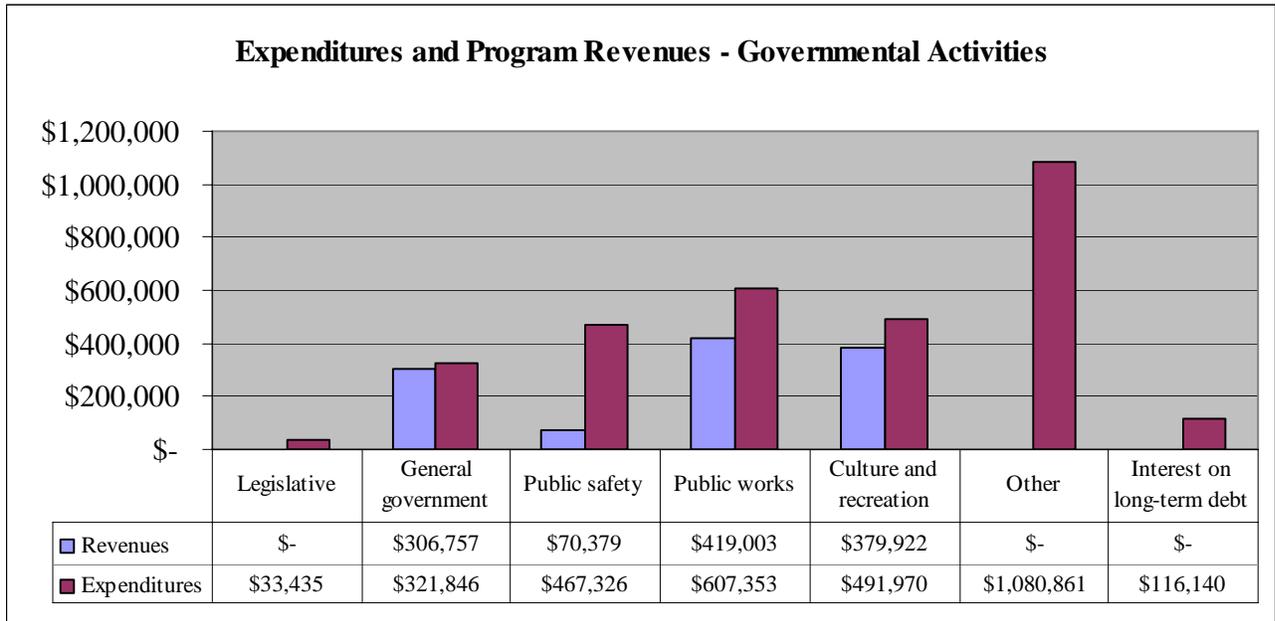
**City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program revenues						
Charges for services	\$ 256,576	\$ 259,911	\$ 2,674,329	\$ 2,625,219	\$ 2,930,905	\$ 2,885,130
Operating grants and contributions	863,113	870,169	60,503	127,575	923,616	997,744
Capital grants and contributions	56,372	318,112	-	-	56,372	318,112

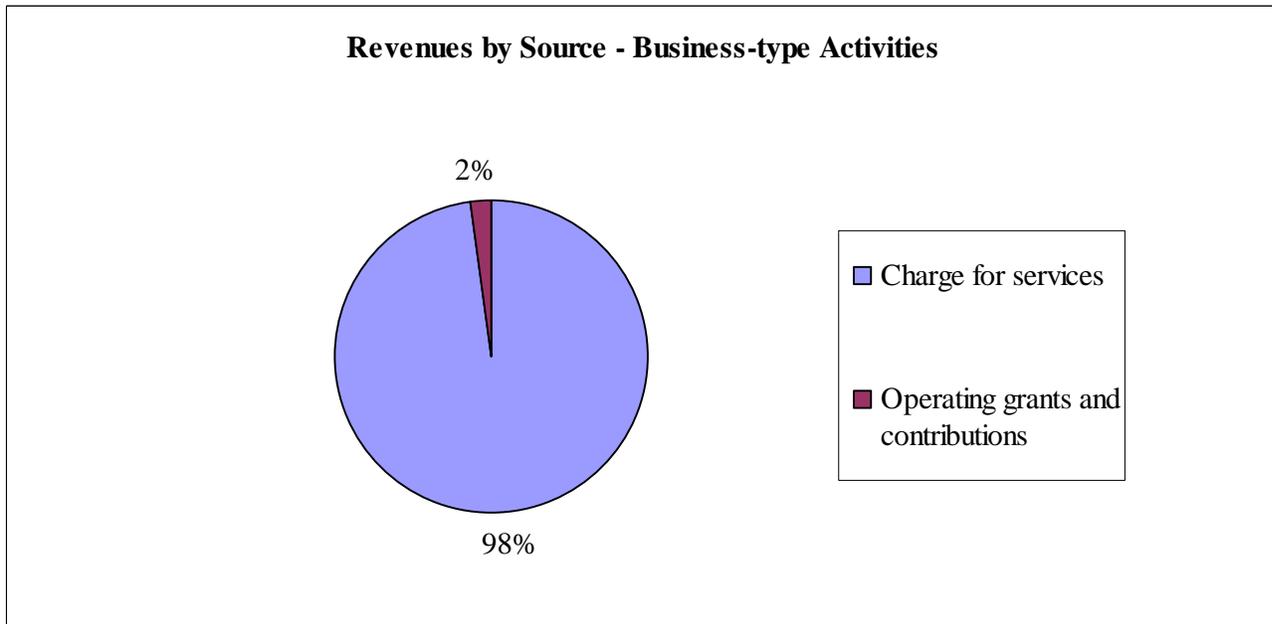
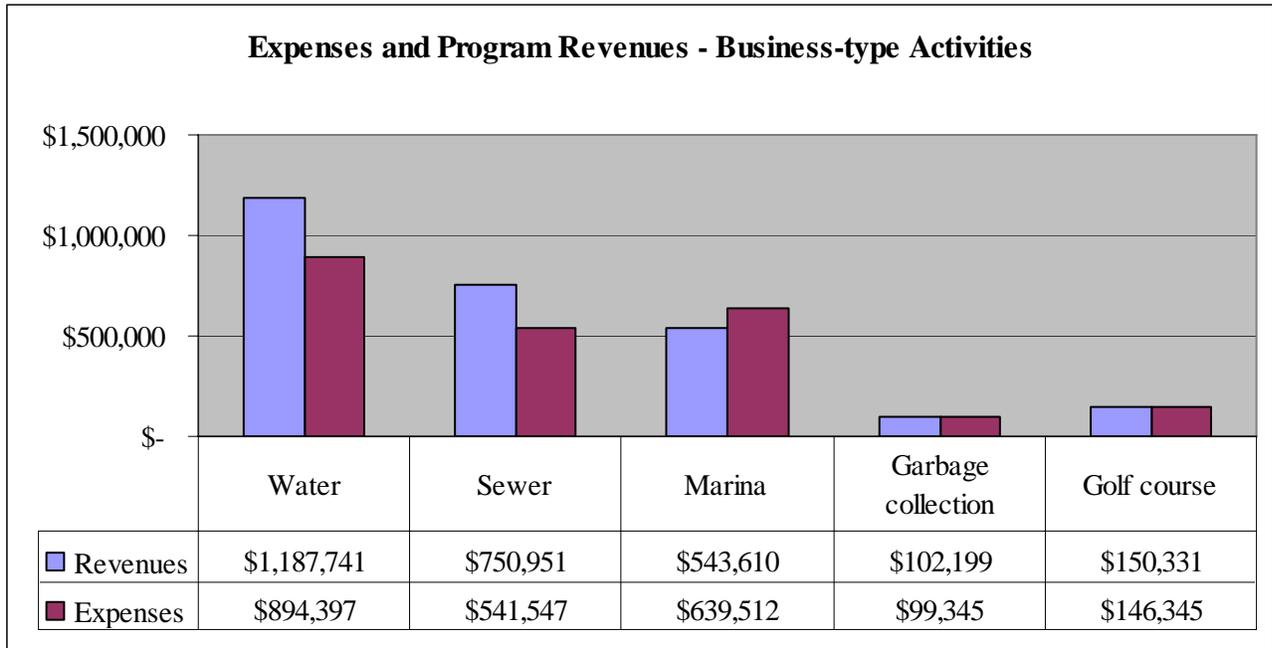
City of St. Ignace
Changes in Net Assets
For Year Ended December 31, 2007 (Concluded)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General revenues and transfers						
Property taxes –						
general operating	\$ 1,239,391	1,197,623	\$ -	\$ -	\$ 1,239,391	1,197,623
Property taxes – debt	109,678	90,137	-	-	109,678	90,137
State shared revenues	225,071	264,467	-	-	225,071	264,467
Interest earnings	10,476	8,663	8,090	9,502	18,566	18,165
Miscellaneous revenue	18,000	2,059	-	-	18,000	2,059
Transfers- internal activities	<u>440,220</u>	<u>619,215</u>	<u>(440,220)</u>	<u>(619,215)</u>	<u>-</u>	<u>-</u>
Total revenues and transfers	<u>3,218,897</u>	<u>3,630,356</u>	<u>2,302,702</u>	<u>2,143,081</u>	<u>5,521,599</u>	<u>5,773,437</u>
Expenses						
Legislative	33,435	27,002	-	-	33,435	27,002
General government	321,846	313,535	-	-	321,846	313,535
Public safety	467,326	420,139	-	-	467,326	420,139
Public works	607,353	608,309	-	-	607,353	608,309
Culture and recreation	491,970	624,977	-	-	491,970	624,977
Other	1,080,861	997,629	-	-	1,080,861	997,629
Water	-	-	894,397	902,997	894,397	902,997
Sewer	-	-	541,547	541,638	541,547	541,638
Marina	-	-	639,512	586,898	639,512	586,898
Garbage collection	-	-	99,345	95,497	99,345	95,497
Golf course	-	-	146,345	148,849	146,345	148,849
Interest on long-term debt	<u>116,140</u>	<u>112,156</u>	<u>-</u>	<u>-</u>	<u>116,140</u>	<u>112,156</u>
Total expenses	<u>3,118,931</u>	<u>3,103,747</u>	<u>2,321,146</u>	<u>2,275,879</u>	<u>5,440,077</u>	<u>5,379,626</u>
Change in net assets	99,966	526,609	(18,444)	(132,798)	81,522	393,811
Net assets – beginning of year, as previously reported	7,014,467	6,318,738	15,474,736	15,607,534	22,489,203	21,926,272
Prior period adjustment	<u>-</u>	<u>169,120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>169,120</u>
Net assets – end of year	<u>\$ 7,114,433</u>	<u>\$ 7,014,467</u>	<u>\$15,456,292</u>	<u>\$15,474,736</u>	<u>\$22,570,725</u>	<u>\$22,489,203</u>

Governmental activities. Governmental activities increased the City's net assets by approximately \$99,900.



Business-type activities. Business-type activities decreased the City’s net assets by approximately \$18,400.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the main operating fund of the City. The General Fund's balance decreased by \$10,757 from \$156,737 to \$145,980 during 2007.

Proprietary funds. The City's *proprietary fund statements* provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed below and in previous years, the Water and Marina Enterprise Funds are causing cash flow burdens on the other funds and these issues need to continue to be closely monitored in 2008.

General Fund Budgetary Highlights

The annual "Budget Review" highlights the proposed budget for each fiscal year and expounds upon the major budget issues. The audit for the fiscal year compares actual expenditures to budgeted amounts which require amending those expenditures. There were no budget amendments during the year and actual results came in very close to budget.

The 2008 budget attempts to eliminate previous budgeting shortfalls. Further, City administration is working to develop a financial model to better forecast fund trends.

Capital Asset and Debt Administration

Capital assets – The City defines a capital asset as an asset with an original cost that exceeds \$5,000 and an estimated useful life greater than one year. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

City of St. Ignace
Capital Assets
 (net of depreciation, where applicable)
December 31, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 1,739,428	\$ 1,677,428	\$173,195	\$ 173,195	\$ 1,912,623	\$ 1,850,623
Construction in process	75,674	13,746	15,222	15,222	90,896	28,968
Museum artifacts	300,000	-	-	-	300,000	-
Buildings and improvements	5,577,026	5,607,420	5,178,741	5,355,033	10,755,767	10,962,453
Land improvements	401,762	417,354	-	-	401,762	417,354
Machinery and equipment	851,544	851,792	81,308	45,318	932,852	897,110
Vehicles	34,921	60,457	-	-	34,921	60,457
Water	-	-	7,146,091	7,343,757	7,146,091	7,343,757
Sewer	-	-	284,052	299,045	284,052	299,045
Marina	-	-	7,315,848	7,522,720	7,315,848	7,522,720
Total	<u>\$ 8,980,355</u>	<u>\$ 8,628,197</u>	<u>\$20,194,457</u>	<u>\$20,754,290</u>	<u>\$29,174,812</u>	<u>\$29,382,487</u>

Additional information on the City's capital assets can be found in Note 3C on pages 26-29 of this report.

Long-term debt. Debt incurred in the course of constructing or acquiring a capital asset is recorded and paid for through a debt service fund or proprietary fund. Debt is classified as long-term if the debt matures in a period greater than one year. At the end of the current fiscal year, the City had total debt outstanding of approximately \$8,700,000. Of this amount \$2,364,721 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's debt represents bonds secured solely by a specified revenue source.

Additional information on the City's long-term debt can be found in Note 3F on pages 31-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The City continues to adhere to the five year plan established to comply with the bonding covenants of the water and sewer debt. The City anticipates meeting the Water and Sewer Fund cash reserves by 2010. The five year revenue plan as well as continued monitoring of the expenditures and implementing cost saving measures.

The 2008 budget projects slight growth in taxable property values with state shared revenues remaining at the previous year's levels. The overall economy of the area factors into the City's revenue projections. Property assessment values are being challenged by local property owners and this may have an impact on total property tax revenue. While the Michigan Legislature deliberates the State Revenue sharing for Cities, the City may experience some property assessments decreasing. This will continue to pose serious challenges to the upcoming budgetary cycle. The City will continue to monitor closely its capital needs, service requirements, and upcoming projects as they relate to budget and projected revenue streams.

The City is planning several projects for the 2008 and 2009. These projects include a \$5.2 million sewer project, a \$1.3 million bus station project, park improvements and a significant museum preservation project. These projects will be funded through bonding and grants wherever possible. However, these projects, along with normal maintenance and infrastructure improvements, continue to present budgetary challenges in the City of St. Ignace.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Eric Dodson, City Manager, 396 N. State Street, St. Ignace, Michigan 49781.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS

DECEMBER 31, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Totals	
Assets				
Cash and cash equivalents	\$ 605,323	\$ 190,563	\$ 795,886	\$ 162,550
Investments	-	100,000	100,000	-
Receivables	380,874	257,414	638,288	35,129
Internal balances	56,419	(56,419)	-	-
Inventory	27,785	12,811	40,596	24,848
Due from primary government	-	-	-	38,104
Deferred loss on bond refunding	-	103,060	103,060	-
Restricted cash	24,283	562,007	586,290	-
Capital assets not being depreciated	2,115,102	188,417	2,303,519	173,733
Capital assets, net of depreciation	6,865,253	20,006,040	26,871,293	993,849
Total assets	10,075,039	21,363,893	31,438,932	1,428,213
Liabilities				
Accounts payable and accrued expenditures	76,015	22,299	98,314	26,821
Due to component unit	38,104	-	38,104	-
Noncurrent liabilities				
Due within one year	419,393	201,152	620,545	64,401
Due in more than one year	2,427,094	5,684,150	8,111,244	441,618
Total liabilities	2,960,606	5,907,601	8,868,207	532,840
Net assets				
Invested in capital assets, net of related debt	6,461,783	14,309,155	20,770,938	661,563
Restricted for				
Debt service	31,460	562,007	593,467	41,746
Nonexpendable perpetual care	24,283	-	24,283	-
Unrestricted	596,907	585,130	1,182,037	192,064
Total net assets	\$ 7,114,433	\$ 15,456,292	\$ 22,570,725	\$ 895,373

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government					
Governmental activities					
Legislative	\$ 33,435	\$ -	\$ -	\$ -	\$ (33,435)
General government	321,846	39,570	267,187	-	(15,089)
Public safety	467,326	46,280	24,099	-	(396,947)
Public works	607,353	10,287	373,285	35,431	(188,350)
Culture and recreation	491,970	160,439	198,542	20,941	(112,048)
Other	1,080,861	-	-	-	(1,080,861)
Interest on long-term debt	116,140	-	-	-	(116,140)
Total governmental activities	3,118,931	256,576	863,113	56,372	(1,942,870)
Business-type activities					
Water	894,397	1,153,514	34,227	-	293,344
Sewer	541,547	743,579	7,372	-	209,404
Marina	639,512	539,649	3,961	-	(95,902)
Garbage collection	99,345	100,937	1,262	-	2,854
Golf course	146,345	136,650	13,681	-	3,986
Total business-type activities	2,321,146	2,674,329	60,503	-	413,686
Total primary government	\$ 5,440,077	\$ 2,930,905	\$ 923,616	\$ 56,372	\$ (1,529,184)
Component unit	\$ 443,339	\$ 71,644	\$ 128,226	\$ 89,074	\$ (154,395)

Continued...

CITY OF ST. IGNACE
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (1,942,870)	\$ 413,686	\$ (1,529,184)	\$ (154,395)
General revenues				
Property taxes				
General operating	1,239,391	-	1,239,391	237,270
Debt	109,678	-	109,678	81,558
State shared revenues	225,071	-	225,071	-
Interest earnings	10,476	8,090	18,566	8,499
Miscellaneous revenue	18,000	-	18,000	6,483
Transfers - internal activities	440,220	(440,220)	-	-
Total general revenues and transfers	2,042,836	(432,130)	1,610,706	333,810
Change in net assets	99,966	(18,444)	81,522	179,415
Net assets, beginning of year	7,014,467	15,474,736	22,489,203	715,958
Net assets, end of year	\$ 7,114,433	\$ 15,456,292	\$ 22,570,725	\$ 895,373

Concluded

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF ST. IGNACE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

DECEMBER 31, 2007

ASSETS	General	Recreation Debt	Intermodal Passenger	Nonmajor Funds	Total
Cash and cash equivalents	\$ 113,229	\$ 18,463	\$ 489	\$ 522,521	\$ 654,702
Accounts receivable	-	-	-	1,078	1,078
Taxes receivable	147,275	13,104	-	10,082	170,461
Due from other funds	2,545	-	-	-	2,545
Due from other governmental units	62,288	-	-	64,029	126,317
Inventory	27,785	-	-	-	27,785
Lease receivable	-	-	-	83,018	83,018
Advances to other funds	-	-	-	55,941	55,941
Restricted cash	-	-	-	24,283	24,283
Total assets	\$ 353,122	\$ 31,567	\$ 489	\$ 760,952	\$ 1,146,130
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 2,338	\$ -	\$ -	\$ 7,365	\$ 9,703
Accrued expenses	18,817	-	-	8,771	27,588
Due to other funds	-	326	-	1,662	1,988
Due to component unit	38,104	-	-	-	38,104
Deferred revenue	147,804	11,919	-	92,188	251,911
Advances from other funds	79	-	-	-	79
Total liabilities	207,142	12,245	-	109,986	329,373
Fund balances					
Reserved					
Inventory	27,785	-	-	-	27,785
Police training	5,065	-	-	-	5,065
Debt service	-	19,322	-	12,138	31,460
Perpetual care	-	-	-	24,283	24,283
Advances	-	-	-	55,941	55,941
Unreserved					
Designated - Special Revenue Funds - subsequent year's expenditures	-	-	-	7,950	7,950
Designated - Capital Projects	-	-	489	410,232	410,721
Undesignated	113,130	-	-	-	113,130
Undesignated, reported in Nonmajor Special Revenue Funds	-	-	-	140,422	140,422
Total fund balances	145,980	19,322	489	650,966	816,757
Total liabilities and fund balances	\$ 353,122	\$ 31,567	\$ 489	\$ 760,952	\$ 1,146,130

Continued...

CITY OF ST. IGNACE

**BALANCE SHEET
GOVERNMENTAL FUNDS**

DECEMBER 31, 2007

**Reconciliation of fund balances on the balance sheet for governmental activities
to the statement of net assets for governmental activities**

Fund balances - total governmental funds **\$ 816,757**

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 in the funds.

Add - capital assets (net) 8,624,120

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add - current year deferred property taxes and lease receivable 251,911

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental activities accounted for in internal service funds 217,223

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable (327,915)

Deduct - bonds payable (2,432,852)

Deduct - accrued interest on bonds payable (34,811)

Net assets of governmental activities **\$ 7,114,433**

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>General</u>	<u>Recreation Debt</u>	<u>Intermodal Passenger</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues					
Taxes and penalties	\$ 1,155,506	\$ 109,678	\$ -	\$ 75,595	\$ 1,340,779
Charges for services	45,023	-	-	153,469	198,492
Federal revenue	-	-	-	4,961	4,961
State revenue	226,697	-	20,691	398,041	645,429
Contributions	44,438	-	-	53,743	98,181
Interest	1,512	991	248	7,725	10,476
Miscellaneous	250,300	-	-	203,737	454,037
Total revenues	1,723,476	110,669	20,939	897,271	2,752,355
Expenditures					
Legislative	33,887	-	-	-	33,887
General government	312,629	-	-	-	312,629
Public safety	408,959	-	-	20,031	428,990
Public works	166,295	-	-	43,629	209,924
Culture and recreation	103,539	-	-	325,532	429,071
Highways and streets	-	-	-	384,226	384,226
Capital outlay	-	-	20,691	52,025	72,716
Other	1,026,707	-	-	57,154	1,083,861
Principal	-	110,000	-	81,826	191,826
Interest and fiscal charges	-	33,830	-	71,259	105,089
Total expenditures	2,052,016	143,830	20,691	1,035,682	3,252,219
Revenues over (under) expenditures	(328,540)	(33,161)	248	(138,411)	(499,864)
Other financing sources (uses)					
Transfers in	501,716	-	-	367,300	869,016
Transfers out	(183,933)	-	-	(180,469)	(364,402)
Total other financing sources	317,783	-	-	186,831	504,614
Change in fund balances	(10,757)	(33,161)	248	48,420	4,750
Fund balances, beginning of year	156,737	52,483	241	602,546	812,007
Fund balances, end of year	\$ 145,980	\$ 19,322	\$ 489	\$ 650,966	\$ 816,757

Continued...

CITY OF ST. IGNACE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2007

Reconciliation of the statement of revenues, expenditures and changes in fund balance of governmental funds to the statement of activities for governmental activities

Change in fund balances - total governmental funds **\$ 4,750**

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 those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	663,588
Deduct - depreciation expense	(236,310)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add - change in property taxes and lease	8,290
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	191,826
Deduct - new debt incurred to purchase assets	(479,678)

Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.

Deduct - operating loss from governmental activities accounted for internal service funds	(8,755)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	13,668
Deduct - internal activities accounted for in internal service funds	(51,354)
Deduct - current year increase in accrued interest	(6,059)

Change in net assets of governmental activities **\$ 99,966**

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget		Actual	Variance With
	Original	Amended		Amended Budget Positive (Negative)
Revenues				
Taxes and penalties	\$ 1,290,845	\$ 1,290,845	\$ 1,155,506	\$ (135,339)
Charges for services	50,710	50,710	45,023	(5,687)
State revenue	249,300	249,300	226,697	(22,603)
Contributions	7,000	7,000	44,438	37,438
Interest	1,250	1,250	1,512	262
Miscellaneous	165,800	165,800	250,300	84,500
Total revenues	1,764,905	1,764,905	1,723,476	(41,429)
Expenditures				
Legislative	28,700	28,700	33,887	(5,187)
General government	317,650	317,650	312,629	5,021
Public safety	381,380	381,380	408,959	(27,579)
Public works	155,750	155,750	166,295	(10,545)
Culture and recreation	104,070	104,070	103,539	531
Other	982,182	982,182	1,026,707	(44,525)
Total expenditures	1,969,732	1,969,732	2,052,016	(82,284)
Revenues under expenditures	(204,827)	(204,827)	(328,540)	(123,713)
Other financing sources (uses)				
Transfers in	534,000	534,000	501,716	(32,284)
Transfers out	(161,750)	(161,750)	(183,933)	(22,183)
Total other financing sources (uses)	372,250	372,250	317,783	(54,467)
Change in fund balance	167,423	167,423	(10,757)	(178,180)
Fund balance, beginning of year	156,737	156,737	156,737	-
Fund balance, end of year	\$ 324,160	\$ 324,160	\$ 145,980	\$ (178,180)

The accompanying notes are an integral part of these financial statements.

CITY OF ST. IGNACE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

DECEMBER 31, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Nonmajor Enterprise Funds</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 214,414	\$ (8,493)	\$ (54,111)	\$ 38,753
Investments	-	-	-	100,000
Accounts receivable	128,550	90,792	89	11,713
Due from other governmental units	-	-	26,270	-
Due from other funds	-	11,620	-	1,144
Inventory	-	-	12,811	-
Total current assets	342,964	93,919	(14,941)	151,610
Noncurrent assets				
Property and equipment, net of accumulated depreciation	7,223,956	5,529,500	7,316,057	124,944
Unamortized bond issuance costs	70,560	-	-	-
Deferred loss on bond refunding	32,500	-	-	-
Restricted cash	455,674	106,333	-	-
Total noncurrent assets	7,782,690	5,635,833	7,316,057	124,944
Total assets	8,125,654	5,729,752	7,301,116	276,554
Liabilities				
Current liabilities				
Accounts payable	1,452	-	32	7,972
Accrued expenses	6,617	2,776	-	-
Due to other funds	12,664	-	-	657
Customer deposits	3,450	-	-	-
Current portion of bonds and notes payable	190,152	11,000	-	-
Total current liabilities	214,335	13,776	32	8,629
Long-term debt				
Advance from other funds	55,862	-	-	-
Bonds payable, net of current portion	4,938,140	746,010	-	-
Notes payable, net of current portion	-	-	-	-
Total long-term debt	4,994,002	746,010	-	-
Total liabilities	5,208,337	759,786	32	8,629
Net assets				
Invested in capital assets, net of related debt	2,095,664	4,772,490	7,316,057	124,944
Restricted for debt service	455,674	106,333	-	-
Unrestricted (deficit)	365,979	91,143	(14,973)	142,981
Total net assets	\$ 2,917,317	\$ 4,969,966	\$ 7,301,084	\$ 267,925

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ 190,563	\$ (49,379)
100,000	-
231,144	-
26,270	-
12,764	-
12,811	-
573,552	(49,379)
20,194,457	356,235
70,560	-
32,500	-
562,007	-
20,859,524	356,235
21,433,076	306,856
9,456	2,944
9,393	969
13,321	-
3,450	-
201,152	22,527
236,772	26,440
55,862	-
5,684,150	-
-	63,193
5,740,012	63,193
5,976,784	89,633
14,309,155	270,515
562,007	-
585,130	(53,292)
\$ 15,456,292	\$ 217,223

CITY OF ST. IGNACE

**STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Nonmajor Enterprise Funds</u>
Operating revenues				
Sales and charges for services	\$ -	\$ -	\$ 539,649	\$ 230,912
Sales and charges for services pledged as security for revenue bonds	1,153,514	743,579	-	-
Total operating revenues	1,153,514	743,579	539,649	230,912
Operating expenses				
Personal services	-	-	62,153	45,722
Contracted services	-	-	9,884	99,615
General and administrative	60,315	49,389	-	-
Repair and maintenance	-	-	-	28,832
Supplies	-	-	301,572	8,099
Line maintenance	100,822	40,741	-	-
Plant operations	265,549	234,898	-	-
Depreciation and amortization	224,281	181,959	207,153	31,928
Miscellaneous	-	-	58,750	31,494
Total operating expenses	650,967	506,987	639,512	245,690
Operating income (loss)	502,547	236,592	(99,863)	(14,778)
Nonoperating revenues (expenses)				
Interest income	2,003	2,003	4,084	2,031
Interest expense	(243,430)	(34,560)	-	-
Miscellaneous revenue	34,227	7,372	3,961	19,587
Total nonoperating revenues (expenses)	(207,200)	(25,185)	8,045	21,618
Income (loss) before transfers	295,347	211,407	(91,818)	6,840
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	(189,900)	(111,487)	(110,216)	(28,617)
Total other financing uses	(189,900)	(111,487)	(110,216)	(28,617)
Change in net assets	105,447	99,920	(202,034)	(21,777)
Net assets, beginning of year	2,811,870	4,870,046	7,503,118	289,702
Net assets, end of year	\$ 2,917,317	\$ 4,969,966	\$ 7,301,084	\$ 267,925

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ 770,561	\$ 311,957
1,897,093	-
2,667,654	311,957
107,875	85,694
109,499	9,311
109,704	-
28,832	53,287
309,671	66,868
141,563	-
500,447	-
645,321	75,120
90,244	30,432
2,043,156	320,712
624,498	(8,755)
10,121	32
(277,990)	(4,992)
65,147	18,000
(202,722)	13,040
421,776	4,285
-	8,000
(440,220)	(72,394)
(440,220)	(64,394)
(18,444)	(60,109)
15,474,736	277,332
\$ 15,456,292	\$ 217,223

CITY OF ST. IGNACE

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Non-major Enterprise Funds</u>
Cash flows from operating activities				
Cash collected from customers	\$ 1,124,274	\$ 731,648	\$ 539,679	\$ 229,947
Cash collected from other funds	-	-	-	-
Cash paid for employee wages and benefits	(208,975)	(125,265)	(62,153)	(45,722)
Cash paid for other operating and administrative expenses	67,209	(211,105)	(372,863)	(160,555)
Net cash provided by operating activities	982,508	395,278	104,663	23,670
Cash flows from noncapital financing activities				
Payments on advances	(15,336)	-	-	-
Transfers in	-	-	-	-
Transfers out	(189,900)	(111,487)	(110,216)	(28,617)
Other income	34,227	7,372	3,961	19,587
Net cash used in noncapital financing activities	(171,009)	(104,115)	(106,255)	(9,030)
Cash flows from capital and related financing activities				
Interest expense	(243,430)	(34,560)	-	-
Principal payments	(162,923)	(11,000)	-	-
State revenue	-	-	(520)	-
Purchase of property and equipment	(15,427)	-	-	(27,917)
Net cash used in capital and related financing activities	(421,780)	(45,560)	(520)	(27,917)
Cash flows from investing activities				
Sale of investments	-	-	-	(50,000)
Interest revenue	2,003	2,002	4,084	2,031
Net cash provided by (used in) investing activities	2,003	2,002	4,084	(47,969)
Net increase (decrease) in cash and cash equivalents	391,722	247,605	1,972	(61,246)
Cash and cash equivalents, beginning of year	278,366	(149,765)	(56,083)	99,999
Cash and cash equivalents, including restricted cash, end of year	670,088	97,840	(54,111)	38,753
Restricted cash, end of year	455,674	106,333	-	-
Cash and cash equivalents, end of year	\$ 214,414	\$ (8,493)	\$ (54,111)	\$ 38,753

Total Enterprise Funds	Internal Service Funds
\$ 2,625,548	\$ -
-	311,957
(442,115)	(85,694)
<u>(677,314)</u>	<u>(157,771)</u>
1,506,119	68,492
(15,336)	-
-	8,000
(440,220)	(72,394)
65,147	18,000
<u>(390,409)</u>	<u>(46,394)</u>
(277,990)	(4,992)
(173,923)	(33,263)
(520)	-
(43,344)	-
<u>(495,777)</u>	<u>(38,255)</u>
(50,000)	-
10,120	32
<u>(39,880)</u>	<u>32</u>
580,053	(16,125)
172,517	(33,254)
752,570	(49,379)
562,007	-
<u>\$ 190,563</u>	<u>\$ (49,379)</u>

Continued...

CITY OF ST. IGNACE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Marina</u>	<u>Nonmajor Enterprise Funds</u>
Operating income (loss)	\$ 502,547	\$ 236,592	\$ (99,863)	\$ (14,778)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	224,281	181,959	207,153	31,928
Changes in operating assets and liabilities which provided (used) cash				
Cash held by fiscal agent	280,681	-	-	-
Accounts receivable	(29,240)	(11,931)	30	(965)
Due from other funds	587	(11,620)	-	(1,144)
Inventory	-	-	(2,689)	-
Accounts payable	1,452	-	32	7,972
Accrued expenses	1,900	278	-	-
Due to other funds	-	-	-	657
Customer deposits	300	-	-	-
Net cash provided by operating activities	<u>\$ 982,508</u>	<u>\$ 395,278</u>	<u>\$ 104,663</u>	<u>\$ 23,670</u>
Noncash non-capital financing and investing activities				
Equipment purchased with note payable	<u>\$ 34,215</u>			

The accompanying notes are an integral part of these financial statements.

Total Enterprise Funds	Internal Service Funds
\$ 624,498	\$ (8,755)
645,321	75,120
280,681	-
(42,106)	-
(12,177)	-
(2,689)	-
9,456	2,944
2,178	(817)
657	-
300	-
<u>\$ 1,506,119</u>	<u>\$ 68,492</u>
<u>\$ 34,215</u>	<u>\$ -</u>

Concluded

CITY OF ST. IGNACE
STATEMENT OF FIDUCIARY NET ASSETS
CURRENT TAX COLLECTION - AGENCY FUND

DECEMBER 31, 2007

Assets	
Cash and cash equivalents	\$ 220,208
	<hr/> <hr/>
Liabilities	
Due to other governmental units	\$ 220,208
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of St. Ignace* (the “City”) and its component units. The component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationship with the City.

St. Ignace Building Authority - The St. Ignace Building Authority is a blended component unit of the City.

St. Ignace Downtown Development Authority - The Downtown Development Authority (the “DDA”) is a discretely presented component unit of the City. The component unit columns in the government-wide financial statements include the financial data of the DDA. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the governing Board of the DDA are appointed by the City Council. The budgets and expenditures of the DDA must be approved by the City Council. The City also has the ability to significantly influence operations of the DDA.

B. Government-wide and Fund Financial Statements

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

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

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

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

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

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

The *Recreation Debt Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt related to construction of the recreation center.

The *Intermodal Passenger Fund* is a capital projects fund which accounts for the construction of an intermodal transportation terminal to be used for public transportation.

The City reports the following major enterprise funds:

The *Water Fund* accounts for the operation, maintenance and development of water facilities.

The *Sewer Fund* accounts for the operation, maintenance and development of sewer facilities.

The *Marina Fund* accounts for the operation, maintenance and development of marina facilities.

Additionally, the City reports the following fund types:

Special Revenue Funds. These funds account for revenue sources that are accumulated for specific purposes not including major capital projects.

Debt Service Funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Capital Projects Funds. These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Permanent Fund. The Cemetery Perpetual Care Fund is the City's Permanent Fund. The principal portion of these funds must stay intact, but the interest earnings are used to provide for maintenance of the City's cemetery.

Enterprise Funds. These funds account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds. These funds account for operations that provide machinery and equipment, office equipment and data processing services to other departments of the City on a cost-reimbursement basis.

Agency Fund. This fund accounts for assets held for other governments in an agency capacity.

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary 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 at the time liabilities are incurred, regardless of when the related cash flows take place. The agency fund also uses the accrual basis of accounting but does not have a measurement focus.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principle operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for reimbursement-based grants. Property taxes, state revenue and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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

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

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are generally offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

3. *Inventories*

Inventory maintained by the General Fund and Marina Enterprise Fund is valued at cost using the first-in, first-out method. Inventory maintained by the DDA's Museum Store Fund is valued at cost using the specific identification method. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventory is not considered material. The cost value of such inventory was recorded as an expenditure at the time of purchase.

4. *Restricted cash*

Certain resources are set aside for repayment of the City's Water and Sewer Enterprise Funds bonds and are classified as restricted cash on the Statement of Net Assets because their use is limited by applicable bond covenants.

The City is not in compliance with its bond covenants. See Note #3F.

5. *Capital assets*

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	15-40
Land improvements	15-40
Marina	5-40
Equipment	5-25
Vehicles	5-20
Water and sewer system	10-50

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused sick and vacation time benefits, subject to certain limitations. All sick and vacation time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

8. *Fund equity*

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and special revenue funds. All annual appropriations lapse at fiscal year end.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Excess of expenditures over appropriations

	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Variance</u>
General Fund			
Legislative	\$ 28,700	\$ 33,887	\$ (5,187)
Public safety	\$ 381,380	\$ 408,959	\$ (27,579)
Public works	155,750	166,295	(10,545)
Other expenditures	892,182	1,026,707	(44,525)

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 795,886	\$ 162,550	\$ 958,436
Investments	100,000	-	100,000
Restricted cash	<u>586,290</u>	<u>-</u>	<u>586,290</u>
Total Statement of Net Assets	<u>\$ 1,482,176</u>	<u>\$ 162,550</u>	
Statement of Fiduciary Net Assets			
Cash and cash equivalents			<u>220,208</u>
Total deposits and investments			<u>\$ 1,864,934</u>

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts and savings accounts)	\$ 1,763,043
Investments (CDs)	100,000
Cash on hand	<u>1,891</u>
Total deposits and investments	<u>\$ 1,864,934</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$1,624,094 of the City's bank balance of \$1,824,094 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts or a qualified financial institution.
- c. 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 purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of December 31, 2007:

	Governmental Activities	Business-type Activities	Component Unit
Accounts receivable	\$ 1,078	\$ 231,145	\$ -
Taxes receivable	170,461	-	21,379
Due from other governmental units	126,317	26,270	13,750
Lease receivable			
Due within one year	3,046	-	-
Due after one year	79,972	-	-
Total receivables	\$ 380,874	\$ 257,415	\$ 35,129

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

	Unavailable
Property taxes receivable (General Fund)	\$ 147,804
Property taxes receivable (Recreation Debt Service Fund)	11,919
Property taxes receivable (Nonmajor Governmental Fund types)	9,170
Lease receivable	83,018
Total deferred revenue	\$ 251,911

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity was as follows for the year ended December 31, 2007:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$1,677,428	\$ 62,000	\$ -	\$ 1,739,428
Museum artifacts	-	300,000	-	300,000
Construction-in-process	<u>13,746</u>	<u>61,928</u>	<u>-</u>	<u>75,674</u>
Total non-depreciated assets	<u>1,691,174</u>	<u>423,928</u>	<u>-</u>	<u>2,115,102</u>
Capital assets being depreciated				
Buildings	6,671,228	138,000	-	6,809,228
Land improvements	495,466	-	-	495,466
Equipment	2,068,695	101,660	-	2,170,355
Vehicles	<u>469,600</u>	<u>-</u>	<u>-</u>	<u>469,600</u>
Total capital assets being depreciated	<u>9,704,989</u>	<u>239,660</u>	<u>-</u>	<u>9,944,649</u>
Less accumulated depreciation for				
Buildings	(1,063,808)	(168,394)	-	(1,232,202)
Land improvements	(78,112)	(15,592)	-	(93,704)
Equipment	(1,216,903)	(101,908)	-	(1,318,811)
Vehicles	<u>(409,143)</u>	<u>(25,536)</u>	<u>-</u>	<u>(434,679)</u>
Total accumulated depreciation	<u>(2,767,966)</u>	<u>(311,430)</u>	<u>-</u>	<u>(3,079,396)</u>
Total capital assets being depreciated, net	<u>6,937,023</u>	<u>(71,770)</u>	<u>-</u>	<u>6,865,253</u>
Governmental activities capital assets, net	<u>\$8,628,197</u>	<u>\$ 352,158</u>	<u>\$ -</u>	<u>\$ 8,980,355</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 173,195	\$ -	\$ -	\$ 173,195
Construction-in-process	<u>15,222</u>	<u>-</u>	<u>-</u>	<u>15,222</u>
Total non-depreciated assets	<u>188,417</u>	<u>-</u>	<u>-</u>	<u>188,417</u>
Capital assets being depreciated				
Buildings	8,341,484	-	-	8,341,484
Machinery and equipment	344,517	62,133	-	406,650
Water	10,289,674	15,428	-	10,305,102
Sewer	727,721	-	-	727,721
Marina	<u>8,274,854</u>	<u>-</u>	<u>-</u>	<u>8,274,854</u>
Total capital assets being depreciated	<u>27,978,250</u>	<u>77,561</u>	<u>-</u>	<u>28,055,811</u>
Less accumulated depreciation for				
Buildings	(2,986,451)	(176,292)	-	(3,162,743)
Machinery and equipment	(299,199)	(26,143)	-	(325,342)
Water	(2,945,917)	(213,094)	-	(3,159,011)
Sewer	(428,676)	(14,993)	-	(443,669)
Marina	<u>(752,134)</u>	<u>(206,872)</u>	<u>-</u>	<u>(959,006)</u>
Total accumulated depreciation	<u>(7,412,377)</u>	<u>(637,394)</u>	<u>-</u>	<u>(8,049,771)</u>
Total capital assets being depreciated, net	<u>20,565,873</u>	<u>(559,833)</u>	<u>-</u>	<u>20,006,040</u>
Business-type activities capital assets, net	<u>\$20,754,290</u>	<u>\$ (559,833)</u>	<u>\$ -</u>	<u>\$20,194,457</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

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

Governmental activities

General government	\$ 8,547
Public safety	39,454
Public works	15,420
Culture and recreation	172,889
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	75,120

Total depreciation expense – governmental activities **\$ 311,430**

Business-type activities

Water	\$ 216,353
Sewer	181,959
Marina	207,153
Golf course	31,928

Total depreciation expense – business-type activities **\$ 637,393**

Component Unit	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 173,733	\$ -	\$ -	\$ 173,733
Construction-in-process	124,186	-	(124,186)	-
Total non-depreciated assets	297,919	-	(124,186)	173,733
Capital assets being depreciated,				
Buildings	248,844	-	-	248,844
Equipment	162,107	-	-	162,107
Land improvements	1,102,386	224,479	-	1,326,865
Total capital assets being depreciated	1,513,337	224,479	-	1,737,816
Less accumulated depreciation for				
Buildings	(76,278)	(9,326)	-	(85,604)
Equipment	(21,417)	(5,230)	-	(26,647)
Land improvements	(573,526)	(58,190)	-	(631,716)
Total accumulated depreciation	(671,221)	(72,746)	-	(743,967)

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated, net	\$ 842,116	\$ 151,733	\$ -	\$ 993,849
Component unit capital assets, net	<u>\$ 1,140,035</u>	<u>\$ 151,733</u>	<u>\$ (124,816)</u>	<u>\$ 1,167,582</u>

Unallocated depreciation expense for the year ended December 31, 2007 was \$72,746.

D. Accounts payable and accrued expenses

The composition of accounts payable and accrued expenses is as follows as of December 31, 2007:

	Governmental Activities	Business-type Activities	Component Unit
Accounts payable	\$ 47,262	\$ 9,456	\$ 17,573
Accrued expenses	28,753	9,393	9,248
Customer deposits	-	3,450	-
Total accounts payable and accrued expenses	<u>\$ 76,015</u>	<u>\$ 22,299</u>	<u>\$ 26,821</u>

E. Interfund transfers, receivables and payables

Advances to/from other funds consist of advances to the General Fund and Water Enterprise Fund of \$79 and \$55,862, respectively, from the Capital Improvement Trust Capital Project Fund.

The Wastewater Plant Capital Project Fund has an amount of \$1,393 and \$100 due to the General Fund and Sewer Fund, respectively. This amount was necessary to pay expenditures of the Wastewater Plant Capital Project Fund.

The General Fund has an amount due to the DDA component unit of \$38,104 at December 31, 2007. This is the amount the General Fund owes the DDA for the amount the DDA paid to the State of Michigan for DDA taxes over-captured in prior years. The amount due from the general fund to the DDA will be paid over a five year period.

The Water Fund has an amount of \$11,520 and \$1,144 due to the Sewer Fund and Trash Fund, respectively. These amounts are for utilities due.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

The Recreation Fund, Recreational Debt Service Fund and Golf Course Fund have amounts due to the General Fund in the amounts of \$169, \$326 and \$657 respectively. These amounts are for tax tribunal refunds and liability insurance due to the General Fund.

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

Interfund transfers consisted of the following for the year ended December 31, 2007:

<u>Transfer from</u>	<u>Transfer to</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Internal Service Funds</u>	
General Fund	\$ -	\$ 183,933	\$ -	\$ 183,933
Water	157,982	31,918	-	189,900
Sewer	93,401	18,086	-	111,487
Marina	25,853	84,363	-	110,216
Nonmajor				
Governmental Funds	131,469	49,000	-	180,469
Nonmajor				
Enterprise Funds	28,617	-	-	28,617
Internal Service Funds	64,394	-	8,000	72,394
Transfers in	\$ 501,716	\$ 367,300	\$ 8,000	\$ 877,016

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers within the DDA component unit for the year ended December 31, 2007 consisted of transfers from the General Downtown Fund to the Museum Operations Fund of \$40,000 and the American Legion Park Fund of \$5,000. These transfers were made to support the operations of those funds.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

F. Long-term debt

A summary of long-term debt and transactions related thereto is as follows for the year ended December 31, 2007:

	Balance January 1, 2007	Additions	(Reductions)	Balance December 31, 2007	Due Within 1 Year
<u>Primary Government</u>					
Governmental activities					
1998 General Obligation Unlimited Tax Bonds maturing serially to 2013 in annual amounts ranging from \$80,000 to \$125,000 and bearing interest at 4.0%.	\$ 695,000	\$ -	\$ (80,000)	\$ 615,000	\$ 80,000
2001 Building Authority Marina Bonds maturing serially to 2021 in annual amounts ranging from \$25,000 to \$100,000 and bearing interest ranging from 5.1% to 6.0%.	870,000	-	(25,000)	845,000	25,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2007	Additions	(Reductions)	Balance December 31, 2007	Due Within 1 Year
<p>2007 Act 99 Financing Installment Loan to First National Bank payable in annual installments of \$80,000 plus interest at 4.5%; due August 2012.</p>	\$ -	\$ 400,000	\$ -	\$ 400,000	\$ 80,000
<p>1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$15,000 to \$30,000 and bearing interest at 5.642%.</p>	235,000	-	(20,000)	215,000	20,000
<p>2003 Recreation Center Improvement Bonds maturing serially to 2012 in annual amounts ranging from \$30,000 to \$35,000 and bearing interest at 3.1%.</p>	190,000	-	(30,000)	160,000	30,000
<p>1993 Advance Refunding of 1986 issue maturing serially to 2016 in annual amounts ranging from \$10,000 to \$20,000 and bearing interest at 5.672%.</p>	155,000	-	(10,000)	145,000	10,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>January 1,</u> <u>2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>December 31,</u> <u>2007</u>	<u>Due</u> <u>Within</u> <u>1 Year</u>
Installment loan to First National Bank payable in monthly installments of \$1,712 through 2008 including interest charged at 3.557%.	\$ 28,337	\$ -	\$ (19,855)	\$ 8,482	\$ 8,482
Installment loan to First National Bank payable in annual installments of \$22,417 through 2010 including interest charged at 4.5%.	-	79,678	(26,823)	52,855	19,644
Installment loan to First National Bank payable in annual payments of \$17,716 through 2012 including interest charged at 4.75%.	90,646	-	(13,411)	77,235	14,048
Accumulated sick and vacation pay.	<u>341,583</u>	<u>149,351</u>	<u>(163,020)</u>	<u>327,915</u>	<u>132,222</u>
Total governmental activities	<u>2,605,566</u>	<u>629,029</u>	<u>(388,112)</u>	<u>2,846,487</u>	<u>419,396</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2007	Additions	(Reductions)	Balance December 31, 2007	Due Within 1 Year
Business-type activities					
<p>2002 Series Water Supply System Revenue Refunding Bonds maturing serially to 2020 in annual amounts ranging from \$150,000 to \$280,000 and bearing interest ranging from 4.125% to 5.25%.</p>	\$2,740,000	\$ -	\$ (125,000)	\$2,615,000	\$ 150,000
<p>2000 Series Water Supply System Revenue Bonds maturing serially to 2040 in annual amounts ranging from \$34,000 to \$142,000 and bearing interest of 4.5%.</p>	2,517,000	-	(33,000)	2,484,000	34,000
<p>1999 A Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$10,000 to \$38,000 and bearing interest of 4.5%.</p>	676,000	-	(10,000)	666,000	10,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	<u>Balance</u> <u>January 1,</u> <u>2007</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>December 31,</u> <u>2007</u>	<u>Due</u> <u>Within</u> <u>1 Year</u>
<p>1999 B Series Sewage Disposal Revenue Bonds maturing serially to 2038 in annual amounts ranging from \$1,000 to \$8,010 and bearing interest of 4.5%.</p>	\$ 92,010	\$ -	\$ (1,000)	\$ 91,010	\$ 1,000
<p>Lease-purchase agreement to Ford Motor Credit payable in quarterly installments of \$2,001 through 2012 including interest at 6.85%.</p>	<u>-</u>	<u>34,215</u>	<u>(4,923)</u>	<u>29,292</u>	<u>6,152</u>
Total business-type activities	<u>6,025,010</u>	<u>34,215</u>	<u>(173,923)</u>	<u>5,885,302</u>	<u>201,152</u>
Total primary government	<u>\$8,630,576</u>	<u>\$ 663,244</u>	<u>\$ (562,035)</u>	<u>\$8,731,789</u>	<u>\$ 620,548</u>
<u>Discretely Presented Component Unit - DDA</u>					
<p>1994 Downtown Development Bonds maturing serially to 2013 in annual amounts ranging from \$50,000 to \$100,000 and bearing interest from 6.7% to 6.8%.</p>	500,000	-	(50,000)	450,000	50,000

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

	Balance January 1, 2007	Additions	(Reductions)	Balance December 31, 2007	Due Within 1 Year
Installment land contract by Downtown Development Authority payable in semi-annual payments of \$9,435 through 2011, including 8.5% interest.	\$ 69,270	\$ -	\$ (13,251)	\$ 56,019	\$ 14,401
Total component unit	<u>\$ 569,270</u>	<u>\$ -</u>	<u>\$ (63,251)</u>	<u>\$ 506,019</u>	<u>\$ 64,401</u>

The City's Water and Sewer Enterprise Funds revenue bonds include covenants requiring the City to maintain various cash reserve accounts that total approximately \$371,000 and \$297,000, respectively. At December 31, 2007 the City's Water Fund had excess reserves of approximately \$85,000; however, the City's Sewer Fund was under reserved by approximately \$191,000.

Accrued compensated absences are generally liquidated by the Vacation and Sick Pay Special Revenue Fund for all governmental, business-type activities and the component unit.

Annual debt service requirements to maturity for the above obligations except for accrued compensated absences are as follows:

	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 287,174	\$ 120,114	\$ 201,152	\$ 270,933
2009	290,243	107,607	205,584	262,056
2010	318,094	94,334	201,047	252,822
2011	316,146	79,599	210,542	243,363
2012	346,915	65,274	205,967	233,588
2013-2017	615,000	167,924	1,373,000	990,882
2018-2022	345,000	52,669	1,197,000	627,805
2023-2027	-	-	486,000	465,505
2028-2032	-	-	604,000	344,070
2033-2037	-	-	752,000	192,850
2038-2040	-	-	449,010	29,903
	<u>\$ 2,518,572</u>	<u>\$ 687,521</u>	<u>\$ 5,885,302</u>	<u>\$ 3,913,777</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Total interest expense for the City for the year ending December 31, 2007 was \$389,366.

	<u>Component Unit</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 64,401	\$ 33,344
2009	90,651	27,869
2010	92,010	21,410
2011	83,957	14,835
2012	75,000	9,350
2013	<u>100,000</u>	<u>3,400</u>
	<u>\$ 505,019</u>	<u>\$ 110,208</u>

Total interest expense for the component unit for the year ended December 31, 2007 was \$38,269.

4. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description

The City's defined benefit pension plan provides retirement, death and disability benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rates range from 13.35% to 22.26% of annual covered payroll. City employees are not required to contribute to the plan. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended December 31, 2007, the City's annual MERS pension cost of \$227,532 was equal to the City's required and actual contributions. The required contribution was determined using the entry age actuarial cost method. The significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8%, (b) additional projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, and (c) an inflationary rate of 4.5%. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the last actuarial valuation, was 30 years.

Six-Year Trend Information Schedule of Employer Contributions

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 157,475	100%	-
12/31/03	179,817	100%	-
12/31/04	213,667	100%	-
12/31/05	208,923	100%	-
12/31/06	233,614	100%	-
12/31/07	227,532	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Liability (AAL) -Entry Age (b)</u>	<u>Under-funded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$3,482,362	\$4,574,719	\$1,092,357	76%	\$1,023,028	107%
12/31/02	3,630,823	5,004,150	1,373,327	73%	1,071,763	128%
12/31/03	3,967,404	5,452,330	1,484,926	73%	1,142,627	130%
12/31/04	4,294,701	6,120,823	1,826,122	70%	1,237,005	148%
12/31/05	4,608,801	6,310,895	1,702,094	73%	1,223,925	139%
12/31/06	5,019,706	6,777,207	1,757,501	74%	1,259,745	139%

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

B. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The City joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its automobile, property, and general liability insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$25,000 for each insured event.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The City is unable to provide an estimate of the amounts of any potential additional assessments.

The City continues to carry commercial insurance for all other risks of loss. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three years.

C. Lease Receivable

During 2005, the City entered into an agreement with the St. Ignace Visitor's Bureau whereby the St. Ignace Visitor's Bureau is to make payments of \$593.96 per month towards the purchase of the City's library that they are no longer using. The note bears interest at 5% per year, with payments due on the 6th day of each month and a principal balance of \$90,000. The City received principal and interest payments of \$2,650 and \$3,883, respectively, for the current fiscal year. The future payments to be received are as follows:

	<u>Principal</u>	<u>Interest</u>
2008	\$ 3,046	\$ 4,094
2009	3,188	3,939
2010	3,351	3,776
2011	3,523	3,604
2012	3,703	3,424
2013-2017	21,559	14,094
2018-2022	27,668	7,801
2023-2026	<u>16,980</u>	<u>1,173</u>
	<u>\$ 83,018</u>	<u>\$ 41,905</u>

CITY OF ST. IGNACE

NOTES TO FINANCIAL STATEMENTS

D. Commitments

The City is constructing an intermodal transportation terminal to be used for public transportation. The City has purchased the land for this project at a cost of approximately \$300,000. The building will be constructed in 2008. The project is being funded by federal and state MDOT grants, with a total project cost of \$387,000. Once completed, the terminal will be leased by Indian Trails for a period of 15 years.

During the year 2006, the City entered into an engineering contract for wastewater system improvements. The estimated engineering costs for the project are \$606,000 which is contingent upon funding for the project. The City expects to receive grant monies from the State of Michigan's State Revolving Fund and Strategic Water Quality Initiatives Fund and the United States Department of Agriculture. For the year ended December 31, 2007, \$41,237 had been incurred for engineering services for this project.

E. Other Matters

Deficit fund balances and net assets exist in the following funds as of December 31, 2007:

Major Street Special Revenue Fund	\$17,011
Building Inspector Special Revenue Fund	2,077
Cemetery Special Revenue Fund	1,727
Data Processing Internal Service Fund	16,121
Wastewater Plant Capital Project Fund	7,199
Building Authority Debt Service Fund	161

The City is in the process of submitting a deficit elimination plan to the Department of Treasury, in accordance with Public Act 275 of 1980.

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SUPPLEMENTARY INFORMATION

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF REVENUES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and penalties	\$ 1,290,845	\$ 1,290,845	\$ 1,155,506	\$ (135,339)
Charge for services	50,710	50,710	45,023	(5,687)
State revenue	249,300	249,300	226,697	(22,603)
Contributions	7,000	7,000	44,438	37,438
Interest revenue	1,250	1,250	1,512	262
Miscellaneous revenue	165,800	165,800	250,300	84,500
Total revenues	\$ 1,764,905	\$ 1,764,905	\$ 1,723,476	\$ (41,429)

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Legislative				
City council	\$ 28,700	\$ 28,700	\$ 33,887	\$ (5,187)
General government				
City manager	74,550	74,550	75,152	(602)
Elections	3,050	3,050	2,796	254
Treasurer	69,000	69,000	67,758	1,242
Clerk	71,000	71,000	72,877	(1,877)
Board of review	1,800	1,800	1,175	625
Building and grounds	54,200	54,200	53,101	1,099
City attorney	33,050	33,050	32,161	889
Professional services	11,000	11,000	7,609	3,391
Total general government	317,650	317,650	312,629	5,021
Public safety				
Planning	1,000	1,000	966	34
Police department	281,360	281,360	287,965	(6,605)
Fire department	97,700	97,700	119,034	(21,334)
Safety and health	1,320	1,320	994	326
Total public safety	381,380	381,380	408,959	(27,579)
Public works				
Public works	100,750	100,750	115,790	(15,040)
Street lighting	30,000	30,000	36,940	(6,940)
Sidewalk	11,000	11,000	-	11,000
Sanitation	3,500	3,500	4,632	(1,132)
City engineer	10,500	10,500	8,933	1,567
Total public works	155,750	155,750	166,295	(10,545)

Continued...

CITY OF ST. IGNACE

**DETAIL SCHEDULE OF EXPENDITURES AND OTHER USES
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget		Actual	Variance With Amended Budget Positive (Negative)
	Original	Amended		
Culture and recreation				
Park maintenance and construction	\$ 104,070	\$ 104,070	\$ 103,539	\$ 531
Other expenditures				
Central supplies	12,732	12,732	10,920	1,812
Community development	24,550	24,550	131,985	(107,435)
Community ambulance	45,000	45,000	16,389	28,611
Insurance and bonds	15,850	15,850	11,591	4,259
Fringe benefits	859,050	859,050	830,822	28,228
Office equipment	3,000	3,000	3,000	-
Data processing	22,000	22,000	22,000	-
Total other expenditures	982,182	982,182	1,026,707	(44,525)
Total expenditures	1,969,732	1,969,732	2,052,016	(82,284)
Revenues under expenditures	(204,827)	(204,827)	(328,540)	(123,713)
Other financing sources (uses)				
Transfers in	534,000	534,000	501,716	(32,284)
Transfers out	(161,750)	(161,750)	(183,933)	(22,183)
Total other financing sources	372,250	372,250	317,783	(54,467)
Change in fund balance	167,423	167,423	(10,757)	(178,180)
Fund balance, beginning of year, as restated	156,737	156,737	156,737	-
Fund balance, end of year	\$ 324,160	\$ 324,160	\$ 145,980	\$ (178,180)

Concluded

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

DECEMBER 31, 2007

ASSETS	Special Revenue	Debt Service	Capital Project	Permanent Trust Fund	Total
Cash and cash equivalents	\$ 117,590	\$ 12,138	\$ 392,793	\$ -	\$ 522,521
Accounts receivable	1,078	-	-	-	1,078
Taxes receivable	10,082	-	-	-	10,082
Due from other governmental units	45,076	-	18,953	-	64,029
Lease receivable	-	-	83,018	-	83,018
Advance to other funds	-	-	55,941	-	55,941
Restricted cash	-	-	-	24,283	24,283
Total assets	\$ 173,826	\$ 12,138	\$ 550,705	\$ 24,283	\$ 760,952
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 7,344	\$ -	\$ 21	\$ -	\$ 7,365
Accrued expenses	8,771	-	-	-	8,771
Due to other funds	169	-	1,493	-	1,662
Deferred revenue	9,170	-	83,018	-	92,188
Total liabilities	25,454	-	84,532	-	109,986
Fund balances					
Reserved					
Debt service	-	12,138	-	-	12,138
Perpetual care	-	-	-	24,283	24,283
Advances	-	-	55,941	-	55,941
Unreserved					
Designated					
Subsequent year's expenditures	7,950	-	-	-	7,950
Capital projects	-	-	410,232	-	410,232
Undesignated	140,422	-	-	-	140,422
Total fund balances	148,372	12,138	466,173	24,283	650,966
Total liabilities and fund balances	\$ 173,826	\$ 12,138	\$ 550,705	\$ 24,283	\$ 760,952

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Permanent Trust Fund</u>	<u>Total</u>
Revenues					
Taxes and penalties	\$ 75,595	\$ -	\$ -	\$ -	\$ 75,595
Charges for services	153,469	-	-	-	153,469
Federal revenues	4,961	-	-	-	4,961
State revenues	362,610	-	35,431	-	398,041
Contributions	41,100	-	12,643	-	53,743
Interest	2,969	277	4,006	473	7,725
Miscellaneous	175,127	-	28,610	-	203,737
Total revenues	815,831	277	80,690	473	897,271
Expenditures					
Public safety	20,031	-	-	-	20,031
Public works	43,629	-	-	-	43,629
Culture and recreation	325,532	-	-	-	325,532
Highways and streets	384,226	-	-	-	384,226
Capital outlay	-	-	52,025	-	52,025
Other	57,154	-	-	-	57,154
Principal	-	81,826	-	-	81,826
Interest and fiscal charges	-	71,259	-	-	71,259
Total expenditures	830,572	153,085	52,025	-	1,035,682
Revenues over (under) expenditures	(14,741)	(152,808)	28,665	473	(138,411)
Other financing sources (uses)					
Transfers in	192,000	163,050	12,250	-	367,300
Transfers out	(180,138)	-	(331)	-	(180,469)
Total other financing sources (uses)	11,862	163,050	11,919	-	186,831
Change in fund balances	(2,879)	10,242	40,584	473	48,420
Fund balances, beginning of year	151,251	1,896	425,589	23,810	602,546
Fund balances, end of year	\$ 148,372	\$ 12,138	\$ 466,173	\$ 24,283	650,966

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS

DECEMBER 31, 2007

ASSETS	Major Street	Local Street	Building Inspector	Law Enforcement	Library
Cash and cash equivalents	\$ (48,583)	\$ 1,113	\$ (2,266)	\$ 5,398	\$ 44,926
Accounts receivable	-	-	1,078	-	-
Taxes receivable	-	-	-	-	-
Due from other governmental units	34,891	10,035	-	150	-
Total assets	\$ (13,692)	\$ 11,148	\$ (1,188)	\$ 5,548	\$ 44,926
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 196	\$ -	\$ -
Accrued expenses	3,319	1,120	693	104	828
Deferred revenue	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	3,319	1,120	889	104	828
Fund balances					
Unreserved					
Designated -					
Subsequent year's expenditures	-	-	-	-	3,850
Undesignated (deficit)	(17,011)	10,028	(2,077)	5,444	40,248
Total fund balances	(17,011)	10,028	(2,077)	5,444	44,098
Total liabilities and fund balances	\$ (13,692)	\$ 11,148	\$ (1,188)	\$ 5,548	\$ 44,926

<u>Cemetery</u>	<u>Recreation Program</u>	<u>Silver Mountain Ski Area</u>	<u>Community Center</u>	<u>Insurance Escrow</u>	<u>Vacation & Sick Pay</u>	<u>Total</u>
\$ (1,727)	\$ 38,222	\$ 7,065	\$ 68,510	\$ 501	\$ 4,431	\$ 117,590
-	-	-	-	-	-	1,078
-	10,082	-	-	-	-	10,082
-	-	-	-	-	-	45,076
\$ (1,727)	\$ 48,304	\$ 7,065	\$ 68,510	\$ 501	\$ 4,431	\$ 173,826
\$ -	\$ 10	\$ 660	\$ 6,478	\$ -	\$ -	\$ 7,344
-	323	1,307	1,077	-	-	8,771
-	9,170	-	-	-	-	9,170
-	169	-	-	-	-	169
-	9,672	1,967	7,555	-	-	25,454
-	4,100	-	-	-	-	7,950
(1,727)	34,532	5,098	60,955	501	4,431	140,422
(1,727)	38,632	5,098	60,955	501	4,431	148,372
\$ (1,727)	\$ 48,304	\$ 7,065	\$ 68,510	\$ 501	\$ 4,431	\$ 173,826

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Major Street</u>	<u>Local Street</u>	<u>Building Inspector</u>	<u>Law Enforcement</u>	<u>Library</u>
Revenues					
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	377	8,100	2,871	5,245
Federal revenues	-	-	-	4,961	-
State revenues	257,001	90,342	-	11,488	3,779
Contributions	-	6,500	-	-	-
Interest	71	366	44	107	775
Miscellaneous	8,250	3,250	4,263	-	70,919
Total revenues	265,322	100,835	12,407	19,427	80,718
Expenditures					
Public safety	-	-	-	20,031	-
Public works	-	-	34,646	-	-
Culture and recreation	-	-	-	-	84,056
Highways and streets	248,884	135,342	-	-	-
Other	-	-	-	-	-
Total expenditures	248,884	135,342	34,646	20,031	84,056
Revenues over (under) expenditures	16,438	(34,507)	(22,239)	(604)	(3,338)
Other financing sources (uses)					
Transfers in	-	40,000	27,000	-	-
Transfers out	(50,931)	(30,056)	(10,880)	(6,704)	-
Total other financing sources (uses)	(50,931)	9,944	16,120	(6,704)	-
Change in fund balances	(34,493)	(24,563)	(6,119)	(7,308)	(3,338)
Fund balances (deficit), beginning of year	17,482	34,591	4,042	12,752	47,436
Fund balances (deficit), end of year	\$ (17,011)	\$ 10,028	\$ (2,077)	\$ 5,444	\$ 44,098

<u>Cemetery</u>	<u>Recreation Program</u>	<u>Silver Mountain Ski Area</u>	<u>Community Center</u>	<u>Insurance Escrow</u>	<u>Vacation & Sick Pay</u>	<u>Total</u>
\$ -	\$ 75,595	\$ -	\$ -	\$ -	\$ -	\$ 75,595
1,810	21,072	5,089	108,905	-	-	153,469
-	-	-	-	-	-	4,961
-	-	-	-	-	-	362,610
-	21,600	13,000	-	-	-	41,100
27	569	112	527	-	371	2,969
3,904	-	-	84,541	-	-	175,127
5,741	118,836	18,201	193,973	-	371	815,831
-	-	-	-	-	-	20,031
8,983	-	-	-	-	-	43,629
-	51,814	25,208	164,454	-	-	325,532
-	-	-	-	-	-	384,226
-	-	-	-	-	57,154	57,154
8,983	51,814	25,208	164,454	-	57,154	830,572
(3,242)	67,022	(7,007)	29,519	-	(56,783)	(14,741)
-	-	14,000	71,000	-	40,000	192,000
(1,915)	(53,037)	(3,041)	(23,574)	-	-	(180,138)
(1,915)	(53,037)	10,959	47,426	-	40,000	11,862
(5,157)	13,985	3,952	76,945	-	(16,783)	(2,879)
3,430	24,647	1,146	(15,990)	501	21,214	151,251
\$ (1,727)	\$ 38,632	\$ 5,098	\$ 60,955	\$ 501	\$ 4,431	\$ 148,372

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS

DECEMBER 31, 2007

ASSETS	<u>Water and Sewer Debt Service</u>	<u>Building Authority Debt Service</u>	<u>Ambulance Debt Service</u>	<u>Motor Vehicle Bond</u>	<u>Total</u>
Cash and cash equivalents	\$ 130	\$ (161)	\$ -	\$ 12,169	\$ 12,138
Total assets (equal to reserved fund balance)	<u>\$ 130</u>	<u>\$ (161)</u>	<u>\$ -</u>	<u>\$ 12,169</u>	<u>\$ 12,138</u>

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Water and Sewer Debt Service	Building Authority Debt Service	Ambulance Debt Service	Motor Vehicle Bond	Total
Revenues					
Interest	\$ 3	\$ 37	\$ -	\$ 237	\$ 277
Expenditures					
Principal	30,000	25,000	26,826	-	81,826
Interest and fiscal charges	20,004	49,398	1,857	-	71,259
Total expenditures	50,004	74,398	28,683	-	153,085
Revenues (under) over expenditures	(50,001)	(74,361)	(28,683)	237	(152,808)
Other financing sources					
Transfers in	50,004	84,363	28,683	-	163,050
Change in fund balances	3	10,002	-	237	10,242
Fund balances, beginning of year	127	(10,163)	-	11,932	1,896
Fund balances, end of year	\$ 130	\$ (161)	\$ -	\$ 12,169	\$ 12,138

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS

DECEMBER 31, 2007

ASSETS	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Cash and cash equivalents	\$ 2,582	\$ 79,606	\$ 24,824	\$ 1,398	\$ 25,704
Lease receivable	-	-	-	-	-
Due from other governmental units	-	-	-	-	-
Advance to other funds	-	-	-	-	-
Total assets	\$ 2,582	\$ 79,606	\$ 24,824	\$ 1,398	\$ 25,704
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -	\$ 21	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	-	21	-	-	-
Fund balances					
Reserved for advances	-	-	-	-	-
Unreserved (deficit), undesignated	2,582	79,585	24,824	1,398	25,704
Total fund balances	2,582	79,585	24,824	1,398	25,704
Total liabilities and fund balances	\$ 2,582	\$ 79,606	\$ 24,824	\$ 1,398	\$ 25,704

Pool Enclosure	Dock No. 3 Improvements	Capital Improvement Trust	Library Construction	Wastewater Plant	Total
\$ 18,846	\$ 49,947	\$ 206,189	\$ 8,356	\$ (24,659)	\$ 392,793
-	-	83,018	-	-	83,018
-	-	-	-	18,953	18,953
-	-	55,941	-	-	55,941
\$ 18,846	\$ 49,947	\$ 345,148	\$ 8,356	\$ (5,706)	\$ 550,705
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21
-	-	-	-	1,493	1,493
-	-	83,018	-	-	83,018
-	-	83,018	-	1,493	84,532
-	-	55,941	-	-	55,941
18,846	49,947	206,189	8,356	(7,199)	410,232
18,846	49,947	262,130	8,356	(7,199)	466,173
\$ 18,846	\$ 49,947	\$ 345,148	\$ 8,356	\$ (5,706)	\$ 550,705

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Public Improvement	Building Improvement	Fire Truck	Recreation Center	Boardwalk Program
Revenues					
State revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	4,743	7,650	-	-
Interest	51	1,483	351	27	506
Miscellaneous	-	-	-	117	-
Total revenues	51	6,226	8,001	144	506
Expenditures					
Capital outlay	-	2,476	-	-	480
Revenues over (under) expenditures	51	3,750	8,001	144	26
Other financing sources (uses)					
Transfers in	-	5,000	7,250	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	5,000	7,250	-	-
Change in fund balances	51	8,750	15,251	144	26
Fund balances (deficit), beginning of year	2,531	70,835	9,573	1,254	25,678
Fund balances (deficit), end of year	\$ 2,582	\$ 79,585	\$ 24,824	\$ 1,398	\$ 25,704

Pool Enclosure	Dock No. 3 Improvements	Capital Improvement Trust	Library Construction	Wastewater Plant	Total
\$ -	\$ -	\$ -	\$ -	\$ 35,431	\$ 35,431
-	-	-	250	-	12,643
367	806	215	200	-	4,006
-	18,000	7,128	3,365	-	28,610
367	18,806	7,343	3,815	35,431	80,690
-	876	-	6,956	41,237	52,025
367	17,930	7,343	(3,141)	(5,806)	28,665
-	-	-	-	-	12,250
-	(331)	-	-	-	(331)
-	(331)	-	-	-	11,919
367	17,599	7,343	(3,141)	(5,806)	40,584
18,479	32,348	254,787	11,497	(1,393)	425,589
\$ 18,846	\$ 49,947	\$ 262,130	\$ 8,356	\$ (7,199)	\$ 466,173

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

DECEMBER 31, 2007

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 12,658	\$ 26,095	\$ 38,753
Investments	-	100,000	100,000
Accounts receivable	11,713	-	11,713
Due from other funds	1,144	-	1,144
Total current assets	25,515	126,095	151,610
Property and equipment, net of accumulated depreciation	-	124,944	124,944
Total assets	25,515	251,039	276,554
Liabilities			
Due to other funds	-	657	657
Accounts payable	7,972	-	7,972
Total liabilities, all current	7,972	657	8,629
Net assets			
Invested in capital assets	-	124,944	124,944
Unrestricted	17,543	125,438	142,981
Total net assets	\$ 17,543	\$ 250,382	\$ 267,925

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues			
Sales and charges for services	\$ 100,937	\$ 129,975	\$ 230,912
Operating expenses			
Personal services	-	45,722	45,722
Contracted services	99,345	270	99,615
Repair and maintenance	-	28,832	28,832
Supplies	-	8,099	8,099
Depreciation	-	31,928	31,928
Miscellaneous	-	31,494	31,494
Total operating expenses	99,345	146,345	245,690
Operating income (loss)	1,592	(16,370)	(14,778)
Nonoperating revenues			
Interest	-	2,031	2,031
Miscellaneous	1,262	18,325	19,587
Total nonoperating revenues	1,262	20,356	21,618
Income before transfers	2,854	3,986	6,840
Other financing uses			
Transfers out	-	(28,617)	(28,617)
Change in net assets	2,854	(24,631)	(21,777)
Net assets, beginning of year	14,689	275,013	289,702
Net assets, end of year	\$ 17,543	\$ 250,382	\$ 267,925

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Cash flows from operating activities			
Cash collected from customers	\$ 99,972	\$ 129,975	\$ 229,947
Cash paid for employee wages and benefits	-	(45,722)	(45,722)
Cash paid for other operating and administrative expenses	(92,517)	(68,038)	(160,555)
Net cash provided by operating activities	<u>7,455</u>	<u>16,215</u>	<u>23,670</u>
Cash flows from non-capital financing activities			
Transfers out	-	(28,617)	(28,617)
Other income	1,262	18,325	19,587
Net cash provided by (used in) non-capital financing activities	<u>1,262</u>	<u>(10,292)</u>	<u>(9,030)</u>
Cash flows from capital and related financing activities			
Purchase of property and equipment	-	(27,917)	(27,917)
Cash flows from investing activities			
Purchase of investments		(50,000)	(50,000)
Interest revenue	-	2,031	2,031
Net cash used in investing activities	<u>-</u>	<u>(47,969)</u>	<u>(47,969)</u>
Net increase (decrease) in cash and cash equivalents	<u>8,717</u>	<u>(69,963)</u>	<u>(61,246)</u>
Cash and cash equivalents, beginning of year	3,941	96,058	99,999
Cash and cash equivalents, end of year	<u>\$ 12,658</u>	<u>\$ 26,095</u>	<u>\$ 38,753</u>

Continued...

CITY OF ST. IGNACE
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>BFI Garbage Collection</u>	<u>Golf Course</u>	<u>Total</u>
Operating income (loss)	\$ 1,592	\$ (16,370)	\$ (14,778)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation and amortization	-	31,928	31,928
Changes in operating assets and liabilities which (used) provided cash			
Accounts receivable	(965)	-	(965)
Due from other funds	(1,144)	-	(1,144)
Accounts payable	7,972	-	7,972
Net cash provided by operating activities	<u>\$ 7,455</u>	<u>\$ 16,215</u>	<u>\$ 23,670</u>

Concluded

CITY OF ST. IGNACE
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

DECEMBER 31, 2007

	<u>Data Processing</u>	<u>Equipment</u>	<u>Office Equipment Pool</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ (15,560)	\$ (30,621)	\$ (3,198)	\$ (49,379)
Property and equipment, net of accumulated depreciation	-	343,298	12,937	356,235
Total assets	(15,560)	312,677	9,739	306,856
Liabilities				
Current liabilities				
Accounts payable	-	2,944	-	2,944
Accrued expenses	561	408	-	969
Current portion of note payable	-	22,527	-	22,527
Total current liabilities	561	25,879	-	26,440
Notes payable, net of current portion	-	63,193	-	63,193
Total liabilities	561	89,072	-	89,633
Net assets				
Invested in capital assets, net of related debt	-	257,578	12,937	270,515
Unrestricted (deficit)	(16,121)	(33,973)	(3,198)	(53,292)
Total net assets	\$ (16,121)	\$ 223,605	\$ 9,739	\$ 217,223

CITY OF ST. IGNACE
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2007

	Data Processing	Equipment	Office Equipment Pool	Total
Operating revenues				
Charges for services	\$ 76,560	\$ 229,647	\$ 5,750	\$ 311,957
Operating expenses				
Personal services	41,443	44,251	-	85,694
Contracted services	8,140	1,171	-	9,311
Repair and maintenance	-	49,881	3,406	53,287
Supplies	8,809	55,921	2,138	66,868
Depreciation	-	69,578	5,542	75,120
Miscellaneous	6,262	24,170	-	30,432
Total operating expenses	64,654	244,972	11,086	320,712
Operating income (loss)	11,906	(15,325)	(5,336)	(8,755)
Nonoperating revenues (expenses)				
Interest income	32	-	-	32
Interest expense	-	(4,992)	-	(4,992)
Miscellaneous	-	18,000	-	18,000
Total nonoperating revenues	32	13,008	-	13,040
Income (loss) before transfers	11,938	(2,317)	(5,336)	4,285
Other financing sources (uses)				
Transfers in	8,000	-	-	8,000
Transfers out	(31,091)	(41,303)	-	(72,394)
Total other financing sources (uses)	(23,091)	(41,303)	-	(64,394)
Change in net assets	(11,153)	(43,620)	(5,336)	(60,109)
Net assets, beginning of year	(4,968)	267,225	15,075	277,332
Net assets, end of year	\$ (16,121)	\$ 223,605	\$ 9,739	\$ 217,223

CITY OF ST. IGNACE

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Data Processing	Equipment	Office Equipment Pool	Total
Cash flows from operating activities				
Cash collected from other funds	\$ 76,560	\$ 229,647	\$ 5,750	\$ 311,957
Cash paid for employee wages and benefits	(41,443)	(44,251)	-	(85,694)
Cash paid for other operating and administrative expenses	(23,462)	(128,765)	(5,544)	(157,771)
Net cash provided by (used in) operating activities	11,655	56,631	206	68,492
Cash flows from noncapital financing activities				
Transfers in	8,000	-	-	8,000
Transfers out	(31,091)	(41,303)	-	(72,394)
Other income	-	18,000	-	18,000
Net cash used in noncapital financing activities	(23,091)	(23,303)	-	(46,394)
Cash flows from capital and related financing activities				
Interest expense	-	(4,992)	-	(4,992)
Principal payments	-	(33,263)	-	(33,263)
Net cash used in capital and related financing activities	-	(38,255)	-	(38,255)
Cash flows from investing activities				
Interest revenue	32	-	-	32
Net (decrease)/ increase in cash and cash equivalents	(11,404)	(4,927)	206	(16,125)
Cash and cash equivalents, beginning of year	(4,156)	(25,694)	(3,404)	(33,254)
Cash and cash equivalents, end of year	\$ (15,560)	\$ (30,621)	\$ (3,198)	\$ (49,379)

Continued...

CITY OF ST. IGNACE

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

FOR THE YEAR ENDED DECEMBER 31, 2005

	Data Processing	Equipment	Office Equipment Pool	Total
Operating income (loss)	\$ 11,906	\$ (15,325)	\$ (5,336)	\$ (8,755)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	-	69,578	5,542	75,120
Changes in operating assets and liabilities which provided (used) cash				
Accounts payable	-	2,944	-	2,944
Accrued expenses	(251)	(566)	-	(817)
Net cash provided by operating activities	\$ 11,655	\$ 56,631	\$ 206	\$ 68,492

Concluded

CITY OF ST. IGNACE

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - CURRENT TAX COLLECTION FUND**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
ASSETS				
Cash and cash equivalents	<u>\$ 370,266</u>	<u>\$ 3,670,241</u>	<u>\$ 3,820,299</u>	<u>\$ 220,208</u>
LIABILITIES				
Due to other governmental units	<u>\$ 370,266</u>	<u>\$ 3,670,241</u>	<u>\$ 3,820,299</u>	<u>\$ 220,208</u>

CITY OF ST. IGNACE
COMBINING BALANCE SHEET
GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY

DECEMBER 31, 2007

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Assets					
Cash and cash equivalents	\$ 72,550	\$ 1,025	\$ 81,158	\$ 19,837	\$ (15,289)
Taxes receivable	20,395	-	-	984	-
Due from primary government	-	-	-	38,104	-
Due from other governmental units	-	-	-	-	13,750
Inventory	-	-	-	-	-
Total assets	\$ 92,945	\$ 1,025	\$ 81,158	\$ 58,925	\$ (1,539)
Liabilities					
Accounts payable	\$ -	\$ 264	\$ 45	\$ 17,179	\$ -
Accrued expenses	702	30	-	-	-
Total liabilities	702	294	45	17,179	-
Fund balances					
Reserved for debt service	-	-	-	41,746	-
Unreserved, designated	-	-	-	-	(1,539)
Unreserved, undesignated	92,243	731	81,113	-	-
Total fund balances / (deficit)	92,243	731	81,113	41,746	(1,539)
Total liabilities and fund balances / (deficit)	\$ 92,945	\$ 1,025	\$ 81,158	\$ 58,925	\$ (1,539)

**Reconciliation of fund balances on the balance sheet for the component unit
to the statement of net assets**

Total component unit fund balances

Amounts reported for the component unit in the statement of net assets are different because

Capital assets used in the component unit are not financial resources and therefore are not reported in the funds.

Add - capital assets, net

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and installment contracts payable

Deduct - accrued interest on bonds payable

Net assets of the component unit

Museum Store	Gateway Project	Total
\$ 2,850	\$ 419	\$ 162,550
-	-	21,379
-	-	38,104
-	-	13,750
24,848	-	24,848
\$ 27,698	\$ 419	\$ 260,631
\$ 85	\$ -	\$ 17,573
1,297	-	2,029
1,382	-	19,602
-	-	41,746
-	-	(1,539)
26,316	419	200,822
26,316	419	241,029
\$ 27,698	\$ 419	\$ 260,631

\$ 241,029

1,167,582

(506,019)

(7,219)

\$ 895,373

CITY OF ST. IGNACE

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL COMPONENT UNIT - DOWNTOWN DEVELOPMENT AUTHORITY**

FOR THE YEAR ENDED DECEMBER 31, 2007

	General Downtown	Museum Operations	Property Management	Debt Service	American Legion Park
Revenues					
Taxes and penalties	\$ 237,270	\$ -	\$ -	\$ 81,558	\$ -
Charges for services	-	11,696	-	-	-
State revenue	-	-	-	-	81,574
Interest	826	50	665	6,139	-
Miscellaneous	6,483	31,668	96,508	-	7,500
Total revenues	244,579	43,414	97,173	87,697	89,074
Expenditures					
Culture and recreation	151,864	81,968	27,059	-	-
Capital outlay	3,248	-	-	-	102,887
Principal	-	-	-	63,251	-
Interest and fiscal charges	-	-	216	38,270	-
Total expenditures	155,112	81,968	27,275	101,521	102,887
Revenues over (under) expenditures	89,467	(38,554)	69,898	(13,824)	(13,813)
Other financing sources (uses)					
Transfers in	-	40,000	-	-	5,000
Transfers out	(45,000)	-	-	-	-
Total other financing sources (uses)	(45,000)	40,000	-	-	5,000
Change in fund balances	44,467	1,446	69,898	(13,824)	(8,813)
Fund balances (deficit), beginning of year	47,776	(715)	11,215	55,570	7,274
Fund balances (deficit) , end of year	\$ 92,243	\$ 731	\$ 81,113	\$ 41,746	\$ (1,539)

Reconciliation of the statement of revenues, expenditures and change in fund balance of the component unit to the statement of activities

Net change in fund balances - total component unit

Amounts reported for the component unit in the statement of activities are different because

Component units report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay

Deduct - depreciation expense

Repayment of bond principal is an expenditure in the component unit, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - current year decrease in accrued interest

Change in net assets of component unit

Museum Store	Gateway Project	Total
\$ -	\$ -	\$ 318,828
59,948	-	71,644
-	-	81,574
811	8	8,499
50	-	142,209
60,809	8	622,754
66,205	-	327,096
-	-	106,135
-	-	63,251
-	-	38,486
66,205	-	534,968
(5,396)	8	87,786
-	-	45,000
-	-	(45,000)
-	-	-
(5,396)	8	87,786
31,712	411	153,243
\$ 26,316	\$ 419	\$ 241,029

\$ 87,786

100,293
(72,746)

63,251

831
\$ 179,415



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

May 1, 2008

Honorable Mayor and Members
of the City Council
City of St. Ignace
St. Ignace, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Ignace* (the "City"), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2007-1 and 2007-2.

Finding 2007-1: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Criteria: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the City's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the City's internal controls.

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls as possible by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the City Council.

City's Response: Due principally to state budget cuts and the related negative impact on cash funds available to the City, the hiring of accounting personnel capable of writing the City's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Finding 2007-2: **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

Criteria: All Michigan governments are required to establish an internal control structure with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the City's management. Adequate segregation of duties as relates to the cash cycle of a municipality requires separation of the management function, the custody of assets function and the accounting function.

Condition: The City's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting for those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the City.

Cause: As is the case with many organizations of similar size, the City lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties with the accounting function.

Effect: As a result of this condition, the City's current system of internal control has no safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls as possible by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the City Council.

City's Response: As noted above, due to decreased cash flows of the City, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the City's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the City Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

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 City's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described below as item 2007-3.

The instance of noncompliance is described as follows:

Finding 2007-3: **The City is underfunded in its required cash reserves, which is a violation of its bond covenants. See Note #3F.**

Criteria: The City has entered into several bonds that require cash reserves be maintained to fund the principal and interest payments on the related debt.

Condition: Specifically, the City is required to maintain certain levels of cash balances to comply with debt covenants related to the Sanitary Sewer Disposal System Revenue Bonds, Series 1999A in the amount of \$297,442 as of December 31, 2007. As of December 31, 2007 the City has established a reserve of \$106,333.

Cause: This non-compliance with the Sanitary Sewer Disposal System Revenue Bonds, Series 1999A was caused by the revenues of the Enterprise Sewer Fund being insufficient to cover operating expenses of the fund over the past several years. As a result, the City has been unable to build the reserve account to sufficient levels.

Effect: As a result of this condition, the City is out of compliance with its bond covenants and the debt could be called for immediate payment. The City has been out of compliance for the past several years.

Recommendation: We recommend that the City continue to work closely with the bond counsel and continue to evaluate the cash management plan developed and adjust as necessary.

City's Response: Due to cash shortfalls at the City in the past 3-5 years, the City has been unable to accumulate reserves required by its bond agreements. Management has developed and implemented a five-year cash management and operation plan to build revenues in excess of expenses sufficient to fund the required cash reserves.

We noted certain other matters that we reported to the Audit Committee of the *City of St. Ignace* in a separate letter dated May 1, 2008.

The City's response to the findings identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

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





REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

May 1, 2008

Audit Committee
City Council
City of St. Ignace
St. Ignace, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the *City of St. Ignace* (the "City") as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

However during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated May 1, 2008, contains our report on significant deficiencies in the Company's internal control. This letter does not affect our report dated May 1, 2008, on the financial statements of the *City of St. Ignace*.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

OTHER MATTERS

Cash Management

Prior Year Comments and Recommendations

Throughout 2006, management has again reported negative cash balances in various funds. As of December 31, 2006, the following funds had negative cash balances:

Community Center Special Revenue Fund	\$ 15,703
Recreation Debt Service Fund	53,390
Building Authority Debt Service Fund	10,163
Water Enterprise Fund	177,308
Sewer Enterprise Fund	149,765
Marina Enterprise Fund	56,083
Data Processing Internal Service Fund	4,156
Equipment Internal Service Fund	25,694
Office Equipment Pool Internal Service Fund	3,404

Further, all cash of the Water Enterprise Fund is restricted for bond reserve requirements. No cash was available for operations at December 31, 2006.

It was recommended in 2004 and 2005 that the City Council, working together with management, should develop short-term plans for the elimination of the negative cash balances. If the negative cash balances could not be rectified in the short run, management was encouraged to transfer cash from another fund, to cover the operating shortage. Further, management of the affected fund should affect a reduction in related expenditures until which time that additional revenues may be generated.

In 2006 and again in 2007, we recommend that City Council be provided with a Cash Management Report monthly. This report should list the allocation of cash to each fund from pooled and separately held cash. We recommend the negative cash balances be highlighted. With respect to each fund with negative cash, management should document for City Council, the short-term plan for the elimination of the negative cash balance. If the negative cash balance will not be rectified in the short run, management should recommend a transfer from another fund, to cover the operating shortage. Further, management of the affected fund should affect a reduction in related expenditures until which time that additional revenues may be generated.

As a part of the Cash Management and balancing of cash, a report should be developed which specifically list the general ledger accounts, which comprise each cash balance. The cash accounts are blended and the allocation to specific bank accounts is not clear. This format will provide a more comprehensive presentation of the cash and will provide management with a better tool to monitor the negative balances noted above.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Current Year Comments and Recommendations

Throughout 2007, management has again reported negative cash balances in various funds. As of December 31, 2007, the following funds had negative cash balances:

Major Street Special Revenue Fund	\$ 48,583
Building Inspector Special Revenue Fund	2,266
Cemetery Special Revenue Fund	1,727
Building Authority Debt Service Fund	161
Wastewater Plant Capital Projects Funds	24,659
Sewer Enterprise Fund (Unrestricted cash)	8,493
Marina Enterprise Fund	54,411
Data Processing Internal Service Fund	15,560
Equipment Internal Service Fund	30,621
Office Equipment Pool Internal Service Fund	3,198
DDA American Legion Park	15,289

Further, the Sewer Enterprise Fund restricted cash is not adequate to satisfy the bond reserve requirements, by approximately \$191,000.

In addition, the Council should develop a formal deposit account policy, which assesses the specific exposure risk that City Council will allow, and City Council should annually approve the bank relationships, in addition to the authorized signors.

Per review of the City of St. Ignace Ordinance #469, to adopt and approve a development plan and a tax increment financing plan, the Treasurer should established a separate fund as approved by the City Manager. All monies in the fund shall be used in accordance with the development plan. Currently, the City includes the Downtown Development Authority (“DDA”) escrow funds in the City’s combined cash account. We recommend that the City establish a separate bank account for the DDA escrow funds.

Per review of the City’s tax collection and special tax collection bank accounts, we noted that the City Treasurer is the only individual signing the disbursement checks. We recommend that the City implement a dual signature policy on both accounts to be consistent with their dual signature policy of the other funds of the City.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Bond Reserve Requirements

Prior Year Comments and Recommendations

In 2006, the following cash reserves were requirement relating to bond offerings for water and sewer system repair and replacements:

Water Enterprise Fund

Water Supply System Revenue Refunding Bonds Series 2002	\$ 274,000
Water Supply System Revenue Bond Series 2000	<u>94,900</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 368,000</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds Series 1999A	<u>\$ 258,542</u>
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As of December 31, 2006, the Water Enterprise Fund had reserves sufficient to meet the requirements of the bond agreement (\$455,674 reserve cash balance at December 31, 2006). The Sewer Enterprise had no balance in the bond reserves and therefore, was under-funded by the full \$258,542.

We recommended as of December 31, 2005 and again in 2006, that the City establish and implement a plan to generate the additional revenue or reduce costs in the Sewer Enterprise fund as required to re-establish the bond reserve balances necessary to meet the compliance requirements of the related debt agreements. The City was further encouraged to continue to monitor the Water Enterprise Fund Bond reserves to ensure the balances remain reserved and are not used to finance daily operations.

Current Comments and Recommendations

As of December 31, 2007, the City was required, per its related bond agreements, to hold the following cash reserves:

Water Enterprise Fund

Water Supply System Revenue Refunding Bonds Series 2002	\$ 261,500
Water Supply System Revenue Bond Series 2000	<u>109,500</u>
Total Water Enterprise Fund Required Reserves	<u>\$ 371,000</u>

Sewer Enterprise Fund

Sanitary Sewer Disposal System Revenue Bonds Series 1999A	<u>\$ 297,442</u>
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**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

As of December 31, 2007 the Water Enterprise Fund had reserves sufficient to meet the requirements of the bond agreement (\$455,674 reserve cash balance at December 31, 2007). The Sewer Enterprise had a balance of \$106,333 in the bond reserves and therefore, was under-funded by \$191,109.

The Sewer Enterprise Fund must continue to increase revenue or decrease expenditures in order to generate the additional cash necessary to refund the reserves. To address the under-funded reserve, the City has established a plan to generate the addition revenue in the Sewer Enterprise fund. We recommend full implementation of the plan and careful monitoring of the revenue as well as controlled spending until the City is again in compliance with its bond reserves. Further, the City should continue to monitor the Water Enterprise Fund Bond reserves ensuring the balances remain reserved and not used to finance daily operations.

Liability for Accrued Sick and Vacation Benefits

Prior Year Comments and Recommendations

As of December 31, 2006, we noted that the City provided employees who had accumulated sick and vacation pay, the benefit of payout at retirement based on the provisions of their respective employment contracts. During 2006, the City transferred \$40,000 to the Accrued Sick and Vacation Fund, and paid approximately \$55,000 in benefits resulting in a decrease to the fund balance of approximately \$15,000 and an ending fund balance of approximately \$4,400. The related liability as of December 31, 2006 was approximately \$341,500 with a potential payout in 2007 of approximately \$160,800 (amounts related to all eligible for retirement in 2006). We recommended that management evaluate the retirement eligibility dates of each employee and determine the potential required cash flows into the future so that appropriate amounts may be transferred to the Accrued Sick and Vacation Fund annually.

Current Year Comments and Recommendations

During 2007, the City transferred \$40,000 to the Accrued Sick and Vacation Fund, and paid approximately \$57,000 in benefits resulting in a decrease to the fund balance of approximately \$16,000 and an ending fund balance of approximately \$4,400. The related liability as of December 31, 2007 is approximately \$325,400 with a potential payout in 2008 of approximately \$132,200 (amounts related to all eligible for retirement in 2008).

Management should update and monitor the spreadsheet used to calculate the timing of accrued sick and vacation payouts based on the retirement eligibility of each employee of the City. The minimum cash balance in the Accrued Sick and Vacation Fund should be an amount equal to the accrued sick and vacation balances of each employee eligible for retirement in the subsequent year. Management must then develop a plan to establish the related cash balance.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Over-Capture of DDA Taxes

Current Year Comments and Recommendations

As noted in the prior year comments and recommendations, over the past several years, the City Treasurer has been cooperating with various employees of the State of Michigan to determine the actual amount by which the State has determined to be over-captured by the City. During 2005, the State of Michigan issued a communication to the City identifying the amount over-captured, over an eleven year period to be approximately \$270,000. The amounts reported by the State Auditor for 1994, 1996, 2002, and 2003 were being disputed by the City and the City believed the amount determined as "over-captured" would be reduced to \$206,105. The City had set aside approximately \$170,000 in anticipation of the ultimate resolution of the State claim. Once resolved, the City would be required to remit payment to the State of Michigan promptly.

During the process of working with the State of Michigan Department of Treasury to determine the amount of the DDA over-capture, it was determined that the 1994 DDA Streetscape Debt Service payments which were to be split 50/50 between the DDA and the City, were split for the first two years, and then were made 100% by the DDA subsequent to 1997. As a result, it was determined that the City would be required to reimburse the DDA for their share of the payments (approximately \$38,000) and that the DDA, in turn, would be required to refund the amount to the State of Michigan.

This matter was substantially resolved in 2007, when the City and DDA reached settlement with the State and issued checks to St. Ignace Schools, Eastern Upper Peninsula ISD and County of Mackinac totaling \$226,946. This amount paid was approximately \$20,800 higher than the original estimate. In addition, the state has requested an additional \$23,020 to be reimbursed, which is being disputed by the City. The State of Michigan has not provided a method to appeal the decision. As a result, the City has not booked any addition liability at this time and plans to appeal if necessary.

Deficit Fund Balances

Prior Year Comments and Recommendations

As of December 31, 2006, the Community Center Non-Major Special Revenue Fund, The Wastewater Plant Non Major Capital Project Fund, and The Building Authority Non Major Debt Service Fund had deficit fund balances of \$15,990, \$1,393, and \$10,163, respectively. This resulted from the funds costs exceeding the revenues received. We recommended, as required by the Michigan Department of Treasury, that the City file a deficit elimination plan with the State of Michigan Department of Treasury.

Deficit elimination plans for the funds that had deficit fund balances at December 31, 2006 were filed timely.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Current Year Comments and Recommendations

As of December 31, 2007, the Major Street Special Revenue Fund, Building Inspector Special Revenue Fund, Cemetery Special Revenue Fund, Building Authority Non-Major Debt Service Fund, Wastewater Non-Major Capital Project Fund had deficit fund balances of \$17,011, \$2,077, \$1,727, \$161, \$7,199, respectively. This resulted from the funds costs exceeding the revenues received. While the fund balances remain in deficit position, the City must again, file a timely deficit elimination plan with the State of Michigan Department of Treasury.

Single Audit Requirements

Current Year Comments and Recommendations

Although a Single Audit was not required for the year ended December 31, 2007, the City may be subject to federal compliance requirements (Single Audit in accordance with the provisions of OMB Circular A-133) for 2008 if expenditures of federal awards exceed \$500,000. It appears likely that a Single Audit will be necessary in 2008 as a result of the intermodal passenger facility contract with the Michigan Department of Transportation which includes significant pass-through federal funds.

If, in fact, the City is required to comply with provisions of a Single Audit, a schedule of expenditures of federal awards must be prepared. In order for the City to continue to receive federal funds, it is critical that this schedule be completed thoroughly and properly. Information from this schedule is then required to be transmitted to the U.S. Department of Commerce via a Data Collection Form. It is necessary for the City to identify the following in order to prepare the schedule:

- The amount of each federal award or grant
- The name of the federal agency (such as U.S. Department of Justice) and, if applicable, the pass-through agency (such as the Michigan State Police)
- The award or grant program title
- The Catalog of Federal Domestic Assistance (CFDA) number of the award or grant
- The program or award grant number
- The amount of the federal award or grant expended during the year

Although a Single Audit was not required for the year ended December 31, 2007, during our audit procedures research was necessary to determine if pass-through funds from various state agencies were from federal sources. Also, financial statement reclassification of certain grants between state sources and federal sources was necessary. We would recommend establishing separate accounts for the federal and state portions of grant revenues in order to track the revenue sources accurately.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

We recommend that the City's accounting department obtain the above information when federal awards or grants are received, rather than waiting until year end. The accounting department may consider creating a standard form that must be completed with the required information. The City's various departments could then complete the form when federal awards or grants are obtained. Following this procedure, the City will have these revenues properly classified as federal or state and would be able to prepare a draft schedule of expenditures of federal awards.

Conformity with the Uniform Chart of Accounts

Prior Year and Current Year Comments and Recommendations

The Michigan Department of Treasury requires Cities to use the Uniform Chart of Accounts. The City is using many of the account number sequences; however, we noted several instances of non compliance with the Uniform Chart of Accounts. We recommend that the City's management review the fund and account structures to ensure full compliance.

Expenditures – Compliance with State of Michigan Regulations

Prior Year and Current Year Comments and Recommendations

In order to keep the City's management informed regarding State of Michigan regulations, we present below a list of examples of illegal or unauthorized expenditures as defined in the Bulletin for Audits of Local Units of Government in Michigan as revised (Appendix H). We recommend that the City's management become familiar with this list in order to prevent the potential for illegal or unauthorized expenditures of the City's funds.

- Contributions to churches, veterans, nonprofit organizations.
- Payment of funeral expenses for a person injured on government property.
- Donations to a private ambulance or EMS service not under contract with the governmental unit.
- Donations, including use of property or equipment to Little League, Scouts, Big Brothers/Sisters.
- Donations to community organizations.
- Expenses for private road constructions or maintenance.
- Office refreshments, picnics.
- Presents to officials and employees or retirement recognition events.
- Flowers to the sick or departed.
- Mileage of officials and employees to and from their residence to the City Hall.
- Extra compensation for summer tax collections unless part of the initial salary resolution or authorized with statutory procedures for an increase in salary.
- Extra compensation for special elections unless part of initial salary resolution or authorized under statutory procedures for an increase in salary.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

In addition, according to the Michigan Department of Treasury, the legislative body (board or council) must approve *all* invoices prior to payment, unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval.

In our testing of the expenditures, we noted that the City paid for flowers for a former employee's funeral and also paid bonuses to employees of a proprietary fund. As noted above these are not authorized expenditures. This stresses the need for management to familiarize themselves with the current regulations relating to expenditures.

SEC Rule 15C2-12 Disclosure Requirements

Prior Year and Current Year Comments and Recommendations

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The City is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

Michigan Finance Qualifying Statement

Prior Year and Current Year Comments and Recommendations

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The City must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The City Manager must contact the Local Audit and Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by June 30, 2008.

Electronically Filing the Financial Statements

Prior Year and Current Year Comments and Recommendations

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (PDF) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the City Clerk to enable the City to comply.

**CITY OF ST. IGNACE
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

Conclusion

We would like to thank City Council for its business and to thank the City's management team for their assistance during the audit.