

Auditing Procedures Report

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

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

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address		City State Zip
Authorizing CPA Signature 	Printed Name	License Number

City of Eastpointe, Michigan

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

City of Eastpointe, Michigan

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City of Eastpointe, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

We have audited the accompanying 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 Eastpointe, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

To the Honorable Mayor and Members
of the City Council
City of Eastpointe, Michigan

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

Plante & Moran, PLLC

November 27, 2007

City of Eastpointe, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Eastpointe's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- State-shared revenue, our second largest revenue source, was again reduced by the State of Michigan by approximately \$114,000 this year. The City continues to examine programs, staffing levels, and capital spending to maintain tight controls over all expenditures. The result of the City taking these continued proactive measures in the area of expenditure control was an increase in fund balance of \$2,235,391 from a budgeted appropriation of \$1,583,611. The increase can be attributed to the passage of the public safety millage.
- On November 8, 2005, Eastpointe voters passed a public safety millage of seven mills for five years to maintain public safety services provided by the police and fire departments of the City. In addition to the revenue generated from the millage, the General Fund continues to provide more than 50 percent of total funding to meet the financial requirements of maintaining these public safety services.
- In planning for future expenditures and the expiration of the Fire-ALS millage at June 30, 2007, \$7,000,000 has been designated for subsequent years' expenditures (see Note 1) to offset the increased burden faced by the City in future years. This designation mitigates the increase in undesignated fund balance at year end.
- Total net assets related to the City's governmental activities increased by approximately \$4.8 million. However, the unrestricted portion of net assets increased by approximately \$2.4 million (see table of net assets on the following page).

Using this Annual Report

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

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

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The notes to the financial statements are found on pages 23-46. These notes are an integral part of the financial statements and should be read in conjunction with the remainder of the financial statements. It may be useful to read the notes prior to any detailed review of the various statements throughout the report.

The City of Eastpointe as a Whole

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

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 21,137	\$ 17,484	\$ 9,066	\$ 9,462	\$ 30,203	\$ 26,946
Noncurrent assets	18,709	17,921	30,368	27,575	49,077	45,496
Total assets	39,846	35,405	39,434	37,037	79,280	72,442
Liabilities						
Current liabilities	1,664	1,535	1,421	1,136	3,085	2,671
Long-term liabilities	5,443	5,939	10,901	11,366	16,344	17,305
Total liabilities	7,107	7,474	12,322	12,502	19,429	19,976
Net Assets						
Invested in capital assets -						
Net of related debt	15,253	14,009	15,496	12,616	30,749	26,625
Restricted	8,854	7,694	-	-	8,854	7,694
Unrestricted	8,632	6,228	11,616	11,919	20,248	18,147
Total net assets	<u>\$ 32,739</u>	<u>\$ 27,931</u>	<u>\$ 27,112</u>	<u>\$ 24,535</u>	<u>\$ 59,851</u>	<u>\$ 52,466</u>

The City of Eastpointe's combined net assets increased approximately 14.1 percent from a year ago, from approximately \$52.5 million in 2006 to \$59.9 million in 2007. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$4.8 million in net assets, or 17.2 percent during fiscal year 2007. This is largely due to the additional public safety millage, approved by the City's residents to help fund public safety services provided by the police and fire departments of the City. The funds generated by the millage have relieved the General Fund of less than 50 percent of the full burden of funding for public safety services, allowing the City to invest in improvements to various City facilities and equipment. The business-type activities experienced a \$2.6 million increase in net assets, or 10.5 percent. This is due to the completion of the City-wide meter replacement program and increased improvements to the water and sewer system infrastructure.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, increased by approximately \$2.4 million for the governmental activities. This represents an increase of approximately 38.6 percent. The current level of unrestricted net assets for our governmental activities stands at \$8.6 million, or about 32.2 percent of expenses.

The following table shows the changes of the net assets during the current year (in thousands):

TABLE 2

	Governmental		Business-type		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 4,771	\$ 3,937	\$ 9,837	\$ 9,687	\$ 14,608	\$ 13,624
Operating grants and contributions	2,254	2,270	-	-	2,254	2,270
Capital grants and contributions	432	548	-	-	432	548
General revenue:						
Property taxes	19,815	18,884	-	-	19,815	18,884
State-shared revenue	3,730	3,844	-	-	3,730	3,844
Interest	1,026	578	269	182	1,295	760
Gain (loss) on sale of capital assets	(17)	(30)	-	20	(17)	(10)
Cable fees and other	332	520	5	-	337	520
Transfers and other revenue	(758)	(486)	758	486	-	-
Total revenue	31,585	30,065	10,869	10,375	42,454	40,440
Program Expenses						
General government	7,084	6,885	-	-	7,084	6,885
Public safety	12,795	10,985	-	-	12,795	10,985
Public works	4,364	4,171	-	-	4,364	4,171
Recreation and culture	2,473	2,187	-	-	2,473	2,187
Interest on long-term debt	61	495	-	-	61	495
Water and sewer	-	-	8,291	7,390	8,291	7,390
Total program expenses	26,777	24,723	8,291	7,390	35,068	32,113
Change in Net Assets	\$ 4,808	\$ 5,342	\$ 2,578	\$ 2,985	\$ 7,386	\$ 8,327

Governmental Activities

The City of Eastpointe's total governmental revenues were approximately \$31.6 million, despite decreases in state-shared revenue. These decreases were offset by an increase in property taxes, interest income, and charges for services.

Governmental activity expenditures of approximately \$26.7 million were recorded for the year. Program expenditures increased over the previous year due to an increase in police and fire department staffing levels, overtime, and major equipment purchases, with funding partially provided by public safety millage revenue. There were minimal increases to other program expenses within governmental activities as the City initiated long overdue improvements to many City facilities. The City will continue to closely monitor spending while considering the needs of the community.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City of Eastpointe's business-type activity consists of the Water and Sewer Fund. The City provides to residents water purchased from the City of Detroit Water System. The City provides sewage treatment through the Southeast Macomb Sanitary District.

The City of Eastpointe's Funds

Our analysis of the City of Eastpointe's major funds begins on pages 12 and 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Eastpointe as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as State of Michigan Act 51 major and local road revenue sharing and the voted special property tax millages. The City of Eastpointe's major funds for 2007 include the General Fund, the Fire/ALS Fund, the Public Safety Fund, the Garbage and Rubbish Collection Fund, Major and Local Streets Funds, the Capital Improvement Fund, and the SEMSD Clean Water Initiative Fund.

The General Fund accounts for most of the City's governmental services. The most significant is general operating, which incurred expenditures of approximately \$3.1 million in 2007. Police fire services are supported by General Fund contributions and a special public safety millage, all of which are recorded in the Public Safety Fund. This fund recorded the receipt of approximately \$5.2 million from the public safety millage and a transfer of approximately \$5.6 million. The amount transferred from the General Fund is determined based on estimated costs to maintain police and fire services, as well as specific capital outlay approved by the City Council. Advanced Life Support (ALS) services are supported by a special ALS/Fire millage and ambulance service fees which are recorded in the Fire Fund. This fund recorded the receipt of approximately \$708,000 from the special millage which expired on June 30, 2007. The Equipment Replacement Fund is used by the City to account for most capital outlay expenditures. Transfers from other funds, antenna lease revenue, and equipment rental fees support this fund.

General Fund Budgetary Highlights

Over the course of the year, the City Council and City administration monitor and amend the budget to take into account unanticipated events during the year. The most significant changes to the budget included an increase in expenditures of approximately \$424,000 for general operating and a decrease in transfers out of approximately \$396,000. At year end, actual General Fund revenues came in \$81,468 over the amended budget. The City of Eastpointe's departments overall stayed below budget, resulting in total expenditures of \$281,513 below budget. Expenditures were under budget primarily due to savings from personnel vacancies and overall tighter controls on spending. City administration amended the budget as major expenditures occurred with a comprehensive review and amendment prepared at mid-year, and again at year end, to reflect changes to anticipated revenues, debt obligations, and capital improvements. In addition, departments continued to assess every purchase and exercise cost-savings measures which provided a positive result on the General Fund's fund balance at year end with an increase from \$7,711,272 a year ago to \$9,946,663 at June 30, 2007.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2007, the City of Eastpointe had \$44.6 million invested in a wide range of capital assets, including land, buildings, police and fire equipment, computer equipment, and water and sewer lines. The City of Eastpointe has invested significantly in roads within the major and local street system, sidewalks, and water and sewer lines since 1980. The value of infrastructure assets, net of depreciation contained in this report, is \$36 million for fiscal year 2007.

Debt reported in these financial statements is related to the construction of the above-mentioned infrastructure assets and buildings and is reported as a liability on the statement of net assets (see Note 7 of the notes to the basic financial statements for additional information).

Economic Factors and Next Year's Budgets and Rates

The City of Eastpointe's budget for next year calls for a minimal increase of 1.037 percent on property tax rates, based on the rate of inflation. Because of the impact of Proposal A, however, the City continues to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year and are likely to decrease again due to state cutbacks and less sales tax receipts at the state level. These factors, coupled with recent decreases from historical norms in other revenues, continue to have a major impact on the City in maintaining a balanced budget.

Due to the compounding effect of Proposal A, the Tax Reform Act, and reduced state revenue-sharing payments, the City asked and received voter approval of a public safety millage for a period of five years beginning with the 2006 fiscal year. The approximate \$5 million generated from the millage has allowed for the continuance of a fully staffed public safety department and related equipment purchases. Some of the financial burden placed on the General Fund for these necessary services was alleviated through the revenue generated by the millage. In next year's budget, the City will continue building maintenance and improvement plans, equipment replacement purchases, and again make the actuarial required contribution to the employees' retirement system.

Despite the improved financial condition of the City, the City will continue to operate efficiently in the next fiscal year. We expect continued annual increases in healthcare costs of active employees with a proportionate increase in retiree healthcare funding. The City will move to a self-insured healthcare plan, in the next fiscal year, to recoup funds currently held in reserve for the City within the fully insured insurance plan currently in effect. Approximately \$464,000, as received, will be allocated to the Health Care Accumulation Fund to provide funding for future costs of retiree health care. The City's pension system is 89 percent funded, requiring the City to make actuarial determined contributions due to negotiated changes in benefits. An increase in stock market and investment returns will continue to help offset future required contributions.

City of Eastpointe, Michigan

Management's Discussion and Analysis (Continued)

The City purchases its water from the City of Detroit, which forecasts increases averaging 10 percent annually for the next five years. The City must pass on these increases to its customers through its water rate. The City's water and sewer rates are based on anticipated costs of the system in the current fiscal year. Costs include the purchase of water from Detroit, disposal and treatment of sewage, personnel and operating costs, and needed system improvements. Water rates will minimally increase in 2008 as costs are passed on to the City from the City of Detroit. An evaluation process will be undertaken to determine the amount of increase needed to continue providing water service to all users in the City. The City will likely have a public hearing in 2008 to discuss the need for such an increase. This information will also be presented to the public and discussed during the City's budgeting process.

Contacting the City of Eastpointe's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Eastpointe's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the administration offices at the City of Eastpointe, 23200 Gratiot Avenue, Eastpointe, MI 48021.

City of Eastpointe, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 15,722,745	\$ 2,621,085	\$ 18,343,830	\$ 431,129
Investments (Note 3)	2,700,879	478,171	3,179,050	-
Receivables:				
Taxes	104,504	-	104,504	-
Special assessments	74,896	-	74,896	-
Accounts - Net of governmental activities allowance for doubtful accounts of \$79,821	638,791	5,963,315	6,602,106	-
Due from other governmental units	1,893,780	3,424	1,897,204	-
Prepaid costs and other assets	1,777	-	1,777	16,242
Restricted assets (Note 5)	201,090	-	201,090	-
Investments in joint ventures (Note 13):				
Southeast Macomb Sanitary District	-	4,024,433	4,024,433	-
South Macomb Disposal Authority	280,119	-	280,119	-
Capital assets (Note 4):				
Nondepreciable	1,985,683	-	1,985,683	-
Depreciable	16,242,029	26,343,501	42,585,530	-
Total assets	39,846,293	39,433,929	79,280,222	447,371
Liabilities				
Accounts payable	776,498	1,268,113	2,044,611	30,111
Accrued and other liabilities	887,028	152,615	1,039,643	9,278
Noncurrent liabilities (Note 7):				
Due within one year	465,000	473,071	938,071	85,000
Due in more than one year	4,978,367	10,427,585	15,405,952	260,000
Total liabilities	7,106,893	12,321,384	19,428,277	384,389
Net Assets				
Invested in capital assets - Net of related debt	15,252,712	15,496,248	30,748,960	-
Restricted:				
Public safety	2,357,679	-	2,357,679	-
Library	17,893	-	17,893	-
Sanitation	1,542,201	-	1,542,201	-
Construction projects	460,695	-	460,695	-
Lake St. Clair clean water initiative	201,090	-	201,090	-
Streets and highways	3,977,503	-	3,977,503	-
Debt service	297,445	-	297,445	-
Unrestricted	8,632,182	11,616,297	20,248,479	62,982
Total net assets	<u>\$ 32,739,400</u>	<u>\$ 27,112,545</u>	<u>\$ 59,851,945</u>	<u>\$ 62,982</u>

City of Eastpointe, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 7,083,675	\$ 2,906,288	\$ 131,284	\$ -
Public safety	12,795,043	1,333,537	134,162	-
Public works	4,363,865	-	1,961,267	431,654
Recreation and culture	2,473,031	531,224	27,571	-
Interest on long-term debt	60,604	-	-	-
Total governmental activities	26,776,218	4,771,049	2,254,284	431,654
Business-type activities - Water and sewer	8,291,195	9,837,082	-	-
Total primary government	<u>\$ 35,067,413</u>	<u>\$ 14,608,131</u>	<u>\$ 2,254,284</u>	<u>\$ 431,654</u>
Component unit - Downtown Development Authority:				
Community enrichment and development	\$ 206,456	\$ -	\$ 317,097	\$ -
Interest on long-term debt	23,250	-	-	-
Total component units	<u>\$ 229,706</u>	<u>\$ -</u>	<u>\$ 317,097</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Interest				
Loss on sale of capital assets				
Cable fees and other				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (4,046,103)	\$ -	\$ (4,046,103)	\$ -
(11,327,344)	-	(11,327,344)	-
(1,970,944)	-	(1,970,944)	-
(1,914,236)	-	(1,914,236)	-
(60,604)	-	(60,604)	-
(19,319,231)	-	(19,319,231)	-
-	1,545,887	1,545,887	-
(19,319,231)	1,545,887	(17,773,344)	-
-	-	-	110,641
-	-	-	(23,250)
-	-	-	87,391
19,814,954	-	19,814,954	241,306
3,729,687	-	3,729,687	-
1,026,198	268,864	1,295,062	22,021
(17,120)	-	(17,120)	-
331,860	5,143	337,003	-
(757,978)	757,978	-	-
24,127,601	1,031,985	25,159,586	263,327
4,808,370	2,577,872	7,386,242	350,718
27,931,030	24,534,673	52,465,703	(287,736)
\$ 32,739,400	\$ 27,112,545	\$ 59,851,945	\$ 62,982

City of Eastpointe, Michigan

	Major Special				
	General Fund	Public Safety	Fire / ALS	Garbage and Rubbish Collection	Major Streets
Assets					
Cash and cash equivalents (Note 3)	\$ 7,385,890	\$ 1,014,756	\$ 888,465	\$ 1,507,916	\$ 2,069,085
Investments (Note 3)	1,319,895	185,124	162,085	275,093	377,468
Receivables:					
Taxes	104,504	-	-	-	-
Special assessments	-	-	-	-	-
Accounts - Net of allowance for doubtful accounts of \$20,091	451,571	47,109	140,111	-	-
Prepaid expenses	1,777	-	-	-	-
Due from other funds (Note 6)	4,392	-	-	-	-
Due from other governmental units	1,519,258	-	-	-	224,238
Restricted assets (Note 5)	-	-	-	-	-
Total assets	\$ 10,787,287	\$ 1,246,989	\$ 1,190,661	\$ 1,783,009	\$ 2,670,791
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 127,903	\$ 71,190	\$ 5,150	\$ 240,808	\$ 203,154
Accrued and other liabilities	238,978	567,269	21,901	-	5,545
Due to other funds	147,213	-	-	-	-
Deferred revenue (Note 8)	326,530	42,324	138,615	-	-
Total liabilities	840,624	680,783	165,666	240,808	208,699
Fund Balances					
Reserved for:					
Prepaid expenses	1,777	-	-	-	-
Personal property taxes	104,504	-	-	-	-
Lake St. Clair clean water initiative	-	-	-	-	-
Unreserved:					
Designated for subsequent years' expenditures (Note 1)	7,000,000	-	-	-	-
Designated for compensated absences (Note 1)	313,118	566,206	-	-	-
Undesignated	2,527,264	-	-	-	-
Unreserved, reported in:					
Special Revenue Funds	-	-	1,024,995	1,542,201	2,462,092
Debt Service Funds - Designated for debt service	-	-	-	-	-
Capital Projects Funds - Designated for capital improvements	-	-	-	-	-
Total fund balances	9,946,663	566,206	1,024,995	1,542,201	2,462,092
Total liabilities and fund balances	\$ 10,787,287	\$ 1,246,989	\$ 1,190,661	\$ 1,783,009	\$ 2,670,791

**Governmental Funds
Balance Sheet
June 30, 2007**

Revenue Funds		Major Capital Projects Funds			
Local Streets	Capital Improvement	SEMSD Clean Water Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds	
\$ 1,262,675	\$ 385,799	\$ -	\$ 1,208,159	\$ 15,722,745	
230,353	-	-	150,861	2,700,879	
-	-	-	-	104,504	
-	74,896	-	-	74,896	
-	-	-	-	638,791	
-	-	-	-	1,777	
-	-	-	147,213	151,605	
85,656	-	-	64,628	1,893,780	
-	-	201,090	-	201,090	
\$ 1,578,684	\$ 460,695	\$ 201,090	\$ 1,570,861	\$ 21,490,067	
\$ 57,245	\$ -	\$ -	\$ 71,048	\$ 776,498	
6,028	-	-	24,498	864,219	
-	-	-	4,392	151,605	
-	40,333	-	-	547,802	
63,273	40,333	-	99,938	2,340,124	
-	-	-	-	1,777	
-	-	-	-	104,504	
-	-	201,090	-	201,090	
-	-	-	-	7,000,000	
-	-	-	-	879,324	
-	-	-	-	2,527,264	
1,515,411	-	-	647,499	7,192,198	
-	-	-	297,837	297,837	
-	420,362	-	525,587	945,949	
1,515,411	420,362	201,090	1,470,923	19,149,943	
\$ 1,578,684	\$ 460,695	\$ 201,090	\$ 1,570,861	\$ 21,490,067	

City of Eastpointe, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets June 30, 2007

Total Fund Balances for Governmental Funds \$ 19,149,943

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	18,227,712
Certain receivables are expected to be collected over several years in the Fire/ALS Fund and are not available to pay for current year expenditures	138,615
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	409,187
Long-term bonds payable are not due and payable in the current period and are not reported in the funds	(2,975,000)
Investment in joint venture is not included as an asset in the governmental funds	280,119
Long-term portion of compensated absences is not due and payable in the current period and is not reported in the funds	(979,070)
Accrued interest payable is not reported in the funds	(22,809)
Long-term portion of uninsured losses is not reported in the funds	(128,326)
Net pension obligation in governmental activities is not reported in the funds	<u>(1,360,971)</u>

Net Assets of Governmental Activities \$ 32,739,400

City of Eastpointe, Michigan

	Major Special Revenue Funds					
	General Fund	Public Safety	Fire /ALS	Garbage and Rubbish Collection	Major Streets	Local Streets
Revenue						
Property taxes	\$ 9,554,343	\$ 5,214,722	\$ 707,679	\$ 1,835,381	\$ -	\$ -
Special assessments	-	-	-	-	-	-
Licenses and permits	689,679	-	-	-	-	-
Intergovernmental:						
Federal sources	-	108,230	-	-	-	-
State sources	3,759,827	12,008	-	-	1,439,622	521,645
Charges for services	709,176	-	470,758	-	-	-
Rental income	136,944	-	-	-	-	-
Fines and forfeits	2,012,405	-	-	-	-	-
Interest income	316,574	111,403	70,483	132,394	162,132	85,302
Other	402,190	145,621	-	-	-	-
Total revenue	17,581,138	5,591,984	1,248,920	1,967,775	1,601,754	606,947
Expenditures						
Current:						
General government	6,279,245	-	-	-	-	-
Public safety	558,899	11,095,222	619,366	-	-	-
Public works	410,331	-	-	1,556,041	1,127,024	563,914
Recreation and culture	1,634,646	-	-	-	-	-
Capital outlay	-	-	8,115	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total expenditures	8,883,121	11,095,222	627,481	1,556,041	1,127,024	563,914
Excess of Revenue Over (Under) Expenditures	8,698,017	(5,503,238)	621,439	411,734	474,730	43,033
Other Financing Sources (Uses)						
Transfers in	210,700	5,603,228	-	-	-	509,561
Transfers out	(6,673,326)	(293,987)	(315,945)	-	(525,061)	(10,200)
Total other financing sources (uses)	(6,462,626)	5,309,241	(315,945)	-	(525,061)	499,361
Net Change in Fund Balances	2,235,391	(193,997)	305,494	411,734	(50,331)	542,394
Fund Balances - Beginning of year	7,711,272	760,203	719,501	1,130,467	2,512,423	973,017
Fund Balances - End of year	\$ 9,946,663	\$ 566,206	\$ 1,024,995	\$ 1,542,201	\$ 2,462,092	\$ 1,515,411

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

Major Capital Projects Funds			
Capital Improvement	SEMSD Clean Water Initiative	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 2,502,829	\$ 19,814,954
118,969	-	-	118,969
-	-	-	689,679
-	-	33,264	141,494
-	-	26,936	5,760,038
-	-	2,580	1,182,514
-	-	172,729	309,673
-	-	371,491	2,383,896
27,975	10,122	110,018	1,026,403
311	-	95,675	643,797
<u>147,255</u>	<u>10,122</u>	<u>3,315,522</u>	<u>32,071,417</u>
-	-	-	6,279,245
-	-	289,890	12,563,377
49,639	-	1,014,224	4,721,173
-	-	770,991	2,405,637
-	127,069	1,567,420	1,702,604
-	-	325,000	325,000
-	-	151,140	151,140
<u>49,639</u>	<u>127,069</u>	<u>4,118,665</u>	<u>28,148,176</u>
97,616	(116,947)	(803,143)	3,923,241
-	-	1,742,873	8,066,362
-	-	(878,752)	(8,697,271)
-	-	864,121	(630,909)
97,616	(116,947)	60,978	3,292,332
<u>322,746</u>	<u>318,037</u>	<u>1,409,945</u>	<u>15,857,611</u>
<u>\$ 420,362</u>	<u>\$ 201,090</u>	<u>\$ 1,470,923</u>	<u>\$ 19,149,943</u>

City of Eastpointe, Michigan

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

Net Change in Fund Balances - Total Governmental Funds	\$ 3,292,332
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	2,605,042
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds	(1,623,844)
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	22,551
Revenue is reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)	2,203
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	325,000
Change in investment in joint venture is not recorded in the governmental funds	(13,123)
Interest expense is reported in the statement of activities when a liability is incurred; it is reported in the governmental funds only when payment is due	90,536
Changes in accumulated employee sick and vacation pay, as well as estimated general liability and workers' compensation claims, are recorded when earned in the statement of activities	157,168
Change in net pension obligation is recorded when incurred in the statement of activities	13,217
In the statement of activities, only the gain/loss on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the assets sold	<u>(62,712)</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,808,370</u>

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Net Assets June 30, 2007

	Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 2,621,085
Investments (Note 3)	478,171
Customer receivables - Net of allowance for doubtful accounts of \$59,730	5,963,315
Due from other governmental units	<u>3,424</u>
Total current assets	9,065,995
Noncurrent assets:	
Investment in Southeast Macomb Sanitary District (Note 13)	4,024,433
Capital assets - Net (Note 4)	<u>26,343,501</u>
Total noncurrent assets	<u>30,367,934</u>
Total assets	39,433,929
Liabilities	
Current liabilities:	
Accounts payable	1,268,113
Accrued and other liabilities	152,615
Current portion of long-term debt (Note 7)	<u>473,071</u>
Total current liabilities	1,893,799
Noncurrent liabilities:	
Provision for compensated absences (Note 7)	53,403
Long-term debt - Net of current portion (Note 7)	<u>10,374,182</u>
Total noncurrent liabilities	<u>10,427,585</u>
Total liabilities	<u>12,321,384</u>
Net Assets	
Invested in capital assets - Net of related debt	15,496,248
Unrestricted	<u>11,616,297</u>
Total net assets	<u><u>\$ 27,112,545</u></u>

City of Eastpointe, Michigan

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

	Water and Sewer Fund
Operating Revenue	
Water sales	\$ 2,404,571
Sewage disposal	4,838,187
Penalties	104,408
Charges for services	2,489,916
Total operating revenue	9,837,082
Operating Expenses	
Water purchases	1,242,898
Sewage treatment	3,929,185
Maintenance and operation	341,905
General and administration	1,328,643
Other	6,935
Depreciation	1,004,019
Total operating expenses	7,853,585
Operating Income	1,983,497
Nonoperating Revenue (Expense)	
Interest income	268,864
Interest expense	(437,610)
Gain on sale of scrap metal	5,143
Total nonoperating expense	(163,603)
Income - Before contributions and transfers	1,819,894
Capital Contributed from Other Governmental Funds	127,069
Transfers from Other Funds	815,909
Transfers to Other Funds	(185,000)
Change in Net Assets	2,577,872
Net Assets - Beginning of year	24,534,673
Net Assets - End of year	\$ 27,112,545

City of Eastpointe, Michigan

Proprietary Fund - Enterprise Fund Statement of Cash Flows Year Ended June 30, 2007

	Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 9,140,523
Payments to suppliers	(6,223,642)
Payments to employees	(344,005)
Other payments	(343,838)
Net cash provided by operating activities	2,229,038
Cash Flows from Noncapital Financing Activities	
Net transfers in	630,909
Scrap metal sales	5,143
Net cash provided by noncapital financing activities	636,052
Cash Flows from Capital and Related Financing Activities	
Principal and interest paid on long-term debt	(900,744)
Purchase of capital assets	(3,294,060)
Net cash used in capital and related financing activities	(4,194,804)
Cash Flows from Investing Activities	
Interest received on investments	268,865
Purchase of investments	(478,171)
Proceeds from sales and maturities of investment securities	3,081,966
Net cash provided by investing activities	2,872,660
Net Increase in Cash and Cash Equivalents	1,542,946
Cash and Cash Equivalents - Beginning of year	1,078,139
Cash and Cash Equivalents - End of year	\$ 2,621,085
Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	\$ 1,983,497
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	1,004,019
Changes in assets and liabilities:	
Receivables	(696,559)
Due from other governmental units	(3,424)
Inventories	35,297
Investment in joint venture	(375,712)
Accounts payable	232,329
Accrued and other liabilities	49,591
Net cash provided by operating activities	\$ 2,229,038
Significant Noncash Investing and Financing Transactions - Contribution of capital assets from other governmental funds	\$ 127,069

City of Eastpointe, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 1,899,555	\$ 26,115
Investments (Note 3):		
Corporate bonds and notes	6,510,406	-
U.S. government securities	6,467,557	-
Common and preferred stock	35,883,695	-
Mutual funds	2,775,680	-
Other receivables	38,142	-
Due from other governmental units	590	-
Total assets	53,575,625	<u><u>\$ 26,115</u></u>
Liabilities		
Accounts payable	56,902	\$ 100
Accrued and other liabilities	-	22,242
Due to other governmental units	-	3,773
Total liabilities	56,902	<u><u>\$ 26,115</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 53,518,723</u></u>	

City of Eastpointe, Michigan

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

Additions

Investment income:

Interest and dividends	\$ 1,507,229
Net adjustment to fair value of investments	5,078,182
Less investment expenses	<u>(323,139)</u>

Net investment income 6,262,272

Employer contributions 3,649,231

Total additions 9,911,503

Deductions

Benefit payments	3,779,466
Health insurance premiums	2,110,820
Administrative expenses	<u>9,607</u>

Total deductions 5,899,893

Change in Net Assets 4,011,610

Net Assets - Beginning of year 49,507,113

Net Assets - End of year \$ 53,518,723

Note I - Summary of Significant Accounting Policies

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

Reporting Entity

The City of Eastpointe, Michigan operates with the council-manager form of government. It is governed by a City Council consisting of a mayor and four council members who are elected at large to overlapping four-year terms. In accordance with the provisions of the City Charter, the City Council appoints, among others, the city manager and the finance director, each of whom reports directly to the City Council. The city manager is responsible for the administration of the affairs of the City, except for those affairs that are the responsibility of other appointed officials. The finance director is responsible for the administration of the financial affairs of the City, including keeping and supervision of accounts, collections of taxes, and the custody and disbursement of City funds.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units

The Building Authority of Eastpointe, an entity legally separate from the City, is governed by a three-member board appointed by the City Council. For financial reporting purposes, the Building Authority is reported as if it were a part of the City's operations because its purpose is to finance and construct buildings for the City. The operations of the Building Authority are reported as nonmajor Debt Service and Capital Projects Funds.

Note I - Summary of Significant Accounting Policies (Continued)

Discretely Presented Component Unit

The City of Eastpointe Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the city manager and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements for the Downtown Development Authority can be obtained from the administrative offices at 23200 Gratiot Avenue, Eastpointe, MI 48021.

The City has excluded the Economic Development Corporation since it is inactive. The City has also excluded the Housing Commission from this report since the City does not have the ability to impose its will.

Government-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other revenue items properly excluded from program revenues are reported as general revenue.

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

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - 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.

Public Safety Fund - The Public Safety Fund accounts for police and fire safety activities within the City. Funding is provided primarily through a local property tax levy and a transfer from the General Fund.

Fire/ALS Fund - The Fire/ALS Fund accounts for fire safety and Advanced Life Support protection services/activities within the City. Funding is provided primarily through a local property tax levy.

Garbage and Rubbish Collection Fund - The Garbage and Rubbish Collection Fund accounts for garbage and rubbish collection services/activities within the City. Funding is provided primarily through a local property tax levy.

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

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

Capital Improvement Fund - The Capital Improvement Fund accounts for special assessment capital projects. Funding is provided primarily through the collection of special assessment district levies.

SEMSD Clean Water Initiative Fund - The SEMSD Clean Water Initiative Fund accounts for the City's share of expenditures associated with the Lake St. Clair Clean Water Initiative project administered by the Macomb County Public Works Commissioner. Funding is provided primarily through bond issues.

The City reports the following major Enterprise Fund:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage and storm water collection system. Funding is provided primarily through user charges.

Note I - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the employee benefit plans, which accumulate resources for pension and other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments, licenses, charges for services, and interest. All other revenue items are considered to be available only when cash is received by the City. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, it is the City's policy to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note I - Summary of Significant Accounting Policies (Continued)

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

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

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

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

Property Tax Revenue - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2006 taxable valuation of the City totaled \$751 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.1815 mills for operating purposes, 2.4362 mills for refuse collection, .8870 mills for library services, .9394 mills for the fire/ambulance services, 6.9216 mills for public safety, and 2.4352 mills for debt service. This resulted in approximately \$9.1 million for operating, \$1.8 million for refuse collection, \$666,000 for library services, \$706,000 for fire/ambulance services, \$5.2 million for public safety, and \$1.8 million for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31. These taxes are billed on July 1 of the following year and become a lien on December 1. These taxes are due September 1 with the final collection date of February 28 before they are added to the county tax rolls.

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

Restricted Assets - The City has amounts on deposit with the Macomb County Drain Commission for use in the Lake St. Clair Water Initiative that have been classified as restricted assets.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$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 market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 years
Water and sewer distribution systems	40 years
Buildings and building improvements	20 years
Machinery and equipment	5 to 7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in governmental funds only when they have matured or come due for payment - generally when an individual's employment has terminated as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary 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 statement of net assets. Bond premiums and discounts, issuance costs, and the deferred amount on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

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. General Fund designations of fund balance at June 30, 2007 consist of the following:

	General Fund Designated Fund Balance
Subsequents Year's Expenditures	
Capital improvements	\$ 1,000,000
Retiree health care obligations	2,500,000
State-shared revenue reductions	1,000,000
ALS/Public Safety millage revenue elimination	<u>2,500,000</u>
Total	<u>\$ 7,000,000</u>
 Compensated Absences	 <u>\$ 313,118</u>

In addition to General Fund designations, \$566,206 in public safety fund balance has been designated for compensated absences as of June 30, 2007.

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.

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

3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the City Council a complete itemized proposed budget before the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the City Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The City Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The annual budget is prepared by the city manager and adopted by the City Council; subsequent amendments are approved by the City Council. Budgeted amounts of the revenues and expenditures presented for the General and Special Revenue Funds are as amended by the City Council. Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund and major Special Revenue Funds is presented in the required supplemental information. A comparison of actual results of operations to the nonmajor Special Revenue Funds budgets as adopted by the City Council is available at the City offices for inspection. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

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

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

	Final Budget	Actual	Variance
General Fund - Judicial	\$ 987,695	\$ 992,497	\$ (4,802)
General Fund - Recreation and culture administrative	610,196	612,722	(2,526)

State Construction Code Act - The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2006		\$ (2,376,742)
Building permit revenue		187,595
Related expenditures:		
Direct costs	\$ 558,899	
Estimated indirect costs	83,835	
		<u>642,734</u>
Excess of expenditures over revenues		<u>(455,139)</u>
Cumulative shortfall - June 30, 2007		<u>\$ (2,831,881)</u>

Note 3 - Deposits and Investments

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

The Employees' Retirement System, the Employees' Death Benefit Fund, and the Retiree Health Care Fund are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$19,552,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. The City held deposits in four financial institutions as of June 30, 2007.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government agency bonds or notes	\$ 2,038,121	1.99 years
U.S. government agency bonds or notes (pension)	5,138,351	16.48 years
U.S. government obligations (pension)	1,329,206	11.23 years
Corporate bonds	1,112,639	1.13 years
Corporate bonds (pension)	6,510,406	15.22 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pools	\$ 1,593,074	AAA	Standard and Poor's
U.S. government agency bonds or notes	2,038,121	AAA	Standard and Poor's
U.S. government agency bonds or notes (pension)	5,138,368	AAA	Standard and Poor's
Corporate bonds	1,112,638	A	Standard and Poor's
Corporate bonds (pension)	4,995,260	AAA - BBB	Standard and Poor's
Corporate bonds (pension)	697,471	Aaa - Baa2	Moody's
Corporate bonds (pension)	235,434	Ba1 - B3	Moody's
Corporate bonds (pension)	582,245	B - CCC	Standard and Poor's
Short-term invested cash (pension)	2,590,150	Not Rated	

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk

The City places no limit on the amount that may be invested in any one issuer; however, the City's fiduciary funds subject to Michigan Public Act 485 of 1996 are limited by law in that investments in any one issuer (other than the U.S. government) may not exceed 5 percent of total investments. At June 30, 2007, there were no investments in any one issuer (other than the U.S. government) that exceeded 5 percent of total investments for the fiduciary funds.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system restricts the amount of investments in foreign currency-denominated investments to 5 percent of total pension system investments. The following securities are subject to foreign currency risk:

<u>Security</u>	<u>Fair Value</u>	<u>Foreign Currency</u>
Foreign bonds	\$ 124,382	Australian Dollar
Foreign bonds	123,077	Euro
Foreign bonds	120,632	Japanese Yen

Note 4 - Capital Assets

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 1,478,424	\$ 8,559	\$ -	\$ -	\$ 1,486,983
Infrastructure construction in progress	-	625,769	-	(127,069)	498,700
Subtotal	1,478,424	634,328	-	(127,069)	1,985,683
Capital assets being depreciated:					
Infrastructure:					
Roads	13,149,388	749,310	-	-	13,898,698
Sidewalks	5,903,254	49,639	-	-	5,952,893
Buildings and building improvements	12,010,008	18,646	-	-	12,028,654
Machinery and equipment	5,963,413	1,280,188	435,625	-	6,807,976
Subtotal	37,026,063	2,097,783	435,625	-	38,688,221

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals and Adjustments	Transfers	Balance June 30, 2007
Governmental activities (Continued):					
Accumulated depreciation:					
Infrastructure:					
Roads	\$ 6,632,677	\$ 501,176	\$ -	\$ -	\$ 7,133,853
Sidewalks	2,314,666	236,647	-	-	2,551,313
Buildings and building improvements	8,344,825	405,476	-	-	8,750,301
Machinery and equipment	3,903,093	480,545	372,913	-	4,010,725
Subtotal	21,195,261	1,623,844	372,913	-	22,446,192
Net capital assets being depreciated	15,830,802	473,939	62,712	-	16,242,029
Net capital assets	\$ 17,309,226	\$ 1,108,267	\$ 62,712	\$ (127,069)	\$ 18,227,712
Business-type activities:					
Capital assets being depreciated:					
Buildings	\$ 311,251	\$ -	\$ -	\$ -	\$ 311,251
Utility system	33,993,710	3,169,467	-	127,069	37,290,246
Machinery and equipment	1,149,685	124,592	-	-	1,274,277
Subtotal	35,454,646	3,294,059	-	127,069	38,875,774
Accumulated depreciation:					
Buildings	281,387	15,562	-	-	296,949
Utility system	10,530,184	920,138	-	-	11,450,322
Machinery and equipment	716,683	68,319	-	-	785,002
Subtotal	11,528,254	1,004,019	-	-	12,532,273
Net capital assets	\$ 23,926,392	\$ 2,290,040	\$ -	\$ 127,069	\$ 26,343,501

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

Governmental activities:	
General government	\$ 855,433
Public safety	125,665
Public works	316,950
Recreation and culture	325,796
Total governmental activities	\$ 1,623,844
Business-type activities - Water and sewer	\$ 1,004,019

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Restricted Assets

The City's governmental activities have funds held by the Macomb County Drain Commission on behalf of the City to be used for the Lake St. Clair Clean Water Initiative, including related debt service.

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Nonmajor governmental funds	\$ 4,392
Nonmajor governmental funds	General Fund	<u>147,213</u>
	Total	<u>\$ 151,605</u>

These balances result from the time lag between the dates that the goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Public Safety Fund	\$ 5,603,228
	Nonmajor governmental funds	<u>1,070,098</u>
	Total General Fund	6,673,326
Public Safety Fund	Nonmajor governmental funds	293,987
Fire Fund	Nonmajor governmental funds	315,945
Major Streets Fund	General Fund	15,500
	Local Streets Fund	<u>509,561</u>
	Total Major Streets Fund	525,061

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

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

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
Local Streets Fund	General Fund	\$ 10,200
Nonmajor governmental funds	Water and Sewer Fund	815,909
	Nonmajor governmental funds	<u>62,843</u>
	Total nonmajor governmental funds	878,752
	Total governmental activities	8,697,271
Water and Sewer Fund	General Fund	<u>185,000</u>
	Total	<u>\$ 8,882,271</u>

The transfer from the General Fund to the Public Safety Fund represents unrestricted resources required for current public safety expenditures. All other transfers provided funding for capital projects, capital acquisitions, and debt service.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences and certain risk liabilities.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Transfers	Ending Balance	Due Within One Year
Governmental activities:								
General obligation bond:								
Building Authority General Obligation Bonds								
Amount of issue - \$4,400,000	4.40% -	\$355,000 -						
Maturing through 2014	4.70%	\$460,000	\$ 3,300,000	\$ -	\$ (325,000)	\$ -	\$ 2,975,000	\$ 355,000
Other long-term obligations:								
Compensated absences			1,047,669	-	(68,599)	-	979,070	110,000
Net pension obligation			1,374,188	-	(13,217)	-	1,360,971	-
Uninsured losses (Note 9)			216,895	46,378	(134,947)	-	128,326	-
Total governmental activities			5,938,752	46,378	(541,763)	-	5,443,367	465,000
Business-type activities - Water and Sewer								
County Drain Contract:								
Lake St. Clair Clean Water Initiative								
Amount of issue - \$12,144,547	Various	\$178,790 -						
Maturing through 2030	Various	\$731,432	11,310,387	-	(463,134)	-	10,847,253	473,071
Other long-term obligations - Compensated absences			55,503	(2,100)	-	-	53,403	-
Total business-type activities			11,365,890	(2,100)	(463,134)	-	10,900,656	473,071
Total			\$ 17,304,642	\$ 44,278	\$ (1,004,897)	\$ -	\$ 16,344,023	\$ 938,071
Component unit - 1992 Downtown Development								
Authority Bonds:								
Amount of issue - \$995,000		\$85,000 -						
Maturing through 2011	6.00%	\$90,000	\$ 430,000	\$ -	\$ (85,000)	\$ -	\$ 345,000	\$ 85,000

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 7 - Long-term Debt (Continued)

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

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 355,000	\$ 136,840	\$ 491,840	\$ 473,071	\$ 339,387	\$ 812,458
2009	390,000	121,043	511,043	485,454	325,828	811,282
2010	420,000	103,492	523,492	498,940	311,863	810,803
2011	460,000	84,383	544,383	516,125	297,444	813,569
2012	455,000	63,223	518,223	528,509	282,591	811,100
2013-2017	895,000	62,980	957,980	2,267,002	972,767	3,239,769
2018-2022	-	-	-	3,231,622	818,379	4,050,001
2023-2027	-	-	-	1,986,933	358,549	2,345,482
2028-2030	-	-	-	859,597	87,733	947,330
Total	<u>\$ 2,975,000</u>	<u>\$ 571,961</u>	<u>\$ 3,546,961</u>	<u>\$ 10,847,253</u>	<u>\$ 3,794,541</u>	<u>\$ 14,641,794</u>

Years Ending June 30	Component Unit		
	Principal	Interest	Total
2008	\$ 85,000	\$ 18,150	\$ 103,150
2009	85,000	13,050	98,050
2010	85,000	7,950	92,950
2011	90,000	2,700	92,700
Total	<u>\$ 345,000</u>	<u>\$ 41,850</u>	<u>\$ 386,850</u>

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2007, \$2,920,000 of bonds outstanding are considered defeased.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Deferred Revenue

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

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 40,333	\$ -
Delinquent special assessments	368,854	-
Ambulance billings	<u>138,615</u>	<u>-</u>
Total restricted assets	<u>\$ 547,802</u>	<u>\$ -</u>

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits; settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims other than medical benefits.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City of Eastpointe, Michigan.

The City is self-funded for claims up to a retention amount, at which time the City's reinsurance coverage begins. The City estimates the liability for claims that have been incurred through the end of the year, including both those claims that have been reported as well as those that have not been reported.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Risk Management (Continued)

Changes in the estimated liability by category for the past two fiscal years were as follows:

	General Liability, Auto, and Property		Workers' Compensation	
	2007	2006	2007	2006
Estimated liability - Beginning of year	\$ 214,842	\$ 265,650	\$ 2,053	\$ 1,500
Estimated claims incurred, including changes in estimates	37,975	135,890	8,403	74,412
Claims payments	<u>(128,247)</u>	<u>(186,698)</u>	<u>(6,700)</u>	<u>(73,859)</u>
Estimated liability - End of year	<u>\$ 124,570</u>	<u>\$ 214,842</u>	<u>\$ 3,756</u>	<u>\$ 2,053</u>

Note 10 - Defined Benefit Pension Plan

Plan Description - The City of Eastpointe Employees' Retirement System is the administrator of a single-employer public employees' retirement system, established pursuant to collective bargaining agreements that cover all full-time employees of the City. The system provides retirement and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 181 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 149 current active employees.

Contributions - Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Plan members are not required to contribute. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

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

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs - For the year ended June 30, 2007, the City's annual pension cost was \$1,516,203 for the plan. The annual required contribution was \$1,529,421, which equals the amount contributed by the City during the year. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the individual entry age actuarial funding method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4 percent to 7 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 15 years.

Reserves - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 228,787
Reserve for retired benefit payments	36,193,677

Three-year trend information as of June 30 follows:

Year Ended June 30	Beginning Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Change in Net Pension Obligation	Ending Net Pension Obligation
2005	\$ 196,419	\$ 425,827	-	\$ 425,827	\$ 622,246
2006	622,246	751,942	-	751,942	1,374,188
2007	1,374,188	1,516,203	100%	(13,217)	1,360,971

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 170 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$2,111,000.

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Postemployment Benefits (Continued)

Upcoming Accounting and Reporting Change - The Governmental Accounting Standards Board (GASB) has recently issued Statement Number 43, *Financial reporting for Postemployment Benefit Plans Other than Pension Plans*, and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 43 established financial reporting standards for plans that provide postemployment benefits other than pensions (OPEBs). The new standard will require additional footnote disclosures of the plan as well as a periodic actuarial valuation. GASB 43 is effective for the year ending June 30, 2008.

GASB 45 provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). This new standard will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. This new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Pension and Other Employee Benefit Trust Funds

The following are condensed financial statements for the individual pension plans and postemployment healthcare plans:

	Pension and Other Employee Benefit Trust Funds			
	Employees'			
	Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Assets				
Cash and cash equivalents	\$ 1,355,112	\$ 15,464	\$ 528,979	\$ 1,899,555
Investments:				
Corporate bonds and notes	5,598,211	726,408	185,787	6,510,406
U.S. government securities	6,259,813	-	207,744	6,467,557
Common and preferred stock	35,115,348	-	768,347	35,883,695
Mutual funds	2,628,268	147,412	-	2,775,680
Other receivables	38,142	-	-	38,142
Due from other governmental units	590	-	-	590
Total assets	50,995,484	889,284	1,690,857	53,575,625
Liabilities				
Accounts payable	56,902	-	-	56,902
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Total liabilities	56,902	-	-	56,902
Net Assets - Held in trust for pension and other employee benefits	\$ 50,938,582	\$ 889,284	\$ 1,690,857	\$ 53,518,723

City of Eastpointe, Michigan

Notes to Financial Statements June 30, 2007

Note 12 - Pension and Other Employee Benefit Trust Funds (Continued)

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income:				
Interest and dividends	\$ 1,396,321	\$ 44,645	\$ 66,263	\$ 1,507,229
Net adjustment to fair value of investments	4,945,134	27,866	105,182	5,078,182
Less investment expenses	(321,139)	-	(2,000)	(323,139)
Net investment income	6,020,316	72,511	169,445	6,262,272
Employer contributions	1,529,421	-	2,119,810	3,649,231
Total additions	7,549,737	72,511	2,289,255	9,911,503
Deductions				
Benefit payments	3,740,916	38,550	-	3,779,466
Health insurance premiums	-	-	2,110,820	2,110,820
Administrative expenses	9,607	-	-	9,607
Total deductions	3,750,523	38,550	2,110,820	5,899,893
Change in Net Assets	3,799,214	33,961	178,435	4,011,610
Net Assets - Beginning of year	47,139,368	855,323	1,512,422	49,507,113
Net Assets - End of year	<u>\$ 50,938,582</u>	<u>\$ 889,284</u>	<u>\$ 1,690,857</u>	<u>\$ 53,518,723</u>

Note 13 - Joint Ventures

The City is a member of the Southeast Macomb Sanitary District, which provides sewage to participating municipalities in Macomb County, Michigan. Other members include the cities of Roseville and St. Clair Shores, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest of \$4,024,433 is recorded in the Water and Sewer Fund fund financial statements and within the business-type activities column in the statement of net assets.

Complete financial statements for the South Macomb Sanitary District can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 13 - Joint Ventures (Continued)

The City is a member of the South Macomb Disposal Authority, which provides refuse disposal services to participating municipalities in Macomb County, Michigan. Other members include the cities of Center Line, Roseville, St. Clair Shores, and Warren, Michigan. The City appoints one member to the joint venture's governing board, who then approve the annual budgets. The City's equity interest in the Authority's operating reserve of \$280,119 is recorded within the governmental activities column of the statement of activities. The Authority has reserves totaling approximately \$4.25 million that have been designated for self-insurance activities; the participating communities' equity interest in the insurance reserves is not determinable.

Complete financial statements for the South Macomb Disposal Authority can be obtained from the administrative offices at 20001 Pleasant Avenue, Box 286, St. Clair Shores, MI 48080. The City is not aware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Employees' Death Benefit Fund

The Employees' Death Benefit Fund was established by the City Ordinance on October 13, 1958 for the purpose of providing a death benefit for employees who elect to participate in the plan. Prior year contributions from the City and plan members have been determined to be sufficient to fully fund the plan at June 30, 2007. Benefits at date of death are payable to designated beneficiaries in varying amounts. The obligation to contribute and maintain the plan was established by negotiation with the City's collective bargaining units.

Note 15 - Commitment/Subsequent Event

During the year ended June 30, 2007, the City entered into a contract for the construction of a new City Hall building. The total amount of the contract is \$3,505,544, of which the entire amount was outstanding as of June 30, 2007.

To finance the construction of the new City Hall building, \$4,500,000 in Building Authority Bonds were issued subsequent to year end.

Required Supplemental Information

City of Eastpointe, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 9,521,608	\$ 9,554,347	\$ 9,554,343	\$ (4)
Licenses and permits	691,919	677,903	689,679	11,776
State sources	3,808,274	3,757,581	3,759,827	2,246
Charges for services	381,480	746,555	709,176	(37,379)
Rental income	140,750	140,750	136,944	(3,806)
Fines and forfeitures	2,024,224	2,024,224	2,012,405	(11,819)
Interest income	98,000	304,050	316,574	12,524
Other	251,949	294,260	402,190	107,930
Total revenue	16,918,204	17,499,670	17,581,138	81,468
Expenditures				
General government:				
City Council	25,595	25,595	23,835	1,760
City manager	394,667	382,356	334,339	48,017
City clerk and elections	213,164	217,564	217,501	63
Finance	810,113	810,113	808,774	1,339
Assessor	326,256	326,256	286,239	40,017
Law	168,812	202,992	197,277	5,715
Judicial	987,695	987,695	992,497	(4,802)
General operating	2,691,853	3,116,243	3,103,936	12,307
Public safety - Building inspection	629,061	629,061	558,899	70,162
Public works - Administration	435,422	435,422	410,331	25,091
Recreation and culture:				
Administration	609,156	610,196	612,722	(2,526)
Parks	700,664	648,798	632,615	16,183
Kennedy park pool	90,805	90,805	84,616	6,189
Senior citizens' center	259,600	250,450	216,097	34,353
Senior citizen SMART	68,872	68,872	50,303	18,569
Community enrichment and development:				
Planning	32,800	35,800	33,689	2,111
Beautification	11,569	11,569	4,604	6,965
Total expenditures	8,456,104	8,849,787	8,568,274	281,513
Excess of Revenue Over Expenditures	8,462,100	8,649,883	9,012,864	362,981
Other Financing Sources (Uses)				
Transfers in	210,700	210,700	210,700	-
Transfers out	(7,672,859)	(7,276,972)	(6,988,173)	288,799
Total other financing uses	(7,462,159)	(7,066,272)	(6,777,473)	288,799
Net Change in Fund Balance	999,941	1,583,611	2,235,391	651,780
Fund Balance - Beginning of year	7,711,272	7,711,272	7,711,272	-
Fund Balance - End of year	<u>\$ 8,711,213</u>	<u>\$ 9,294,883</u>	<u>\$ 9,946,663</u>	<u>\$ 651,780</u>

City of Eastpointe, Michigan

	Public Safety Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 5,223,963	\$ 5,223,963	\$ 5,214,722	\$ (9,241)
Federal sources	95,837	95,837	108,230	12,393
State sources	11,000	11,000	12,008	1,008
Charges for services	-	-	-	-
Interest income	109,862	109,862	111,403	1,541
Other	168,942	168,942	145,621	(23,321)
Total revenue	5,609,604	5,609,604	5,591,984	(17,620)
Expenditures				
Public safety	11,234,759	11,234,759	11,095,222	139,537
Public works	-	-	-	-
Total expenditures	11,234,759	11,234,759	11,095,222	139,537
Excess of Revenue Over (Under) Expenditures	(5,625,155)	(5,625,155)	(5,503,238)	121,917
Other Financing Sources (Uses)				
Transfers in	6,170,970	6,170,970	5,603,228	(567,742)
Transfers out	(372,568)	(372,568)	(293,987)	78,581
Total other financing sources (uses)	5,798,402	5,798,402	5,309,241	(489,161)
Net Change in Fund Balances	173,247	173,247	(193,997)	(367,244)
Fund Balances - Beginning of year	760,203	760,203	760,203	-
Fund Balances - End of year	<u>\$ 933,450</u>	<u>\$ 933,450</u>	<u>\$ 566,206</u>	<u>\$ (367,244)</u>

**Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds
Year Ended June 30, 2007**

Fire/ALS Fund				Garbage and Rubbish Collection Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget	Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 704,290	\$ 709,218	\$ 707,679	\$ (1,539)	\$ 1,824,293	\$ 1,835,381	\$ 1,835,381	\$ -
-	-	-	-	-	-	-	-
325,000	471,519	470,758	(761)	200	600	-	(600)
1,500	51,500	70,483	18,983	10,500	115,560	132,394	16,834
-	-	-	-	-	-	-	-
1,030,790	1,232,237	1,248,920	16,683	1,834,993	1,951,541	1,967,775	16,234
637,386	637,386	619,366	18,020	-	-	-	-
-	8,200	8,115	85	1,628,100	1,628,100	1,556,041	72,059
637,386	645,586	627,481	18,105	1,628,100	1,628,100	1,556,041	72,059
393,404	586,651	621,439	34,788	206,893	323,441	411,734	88,293
-	-	-	-	-	-	-	-
(157,300)	(357,654)	(315,945)	41,709	-	-	-	-
(157,300)	(357,654)	(315,945)	41,709	-	-	-	-
236,104	228,997	305,494	76,497	206,893	323,441	411,734	88,293
719,501	719,501	719,501	-	1,130,467	1,130,467	1,130,467	-
<u>\$ 955,605</u>	<u>\$ 948,498</u>	<u>\$ 1,024,995</u>	<u>\$ 76,497</u>	<u>\$ 1,337,360</u>	<u>\$ 1,453,908</u>	<u>\$ 1,542,201</u>	<u>\$ 88,293</u>

City of Eastpointe, Michigan

	Major Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
State-shared revenue and grants	\$ 1,246,590	\$ 1,246,590	\$ 1,439,622	\$ 193,032
Interest income	7,500	127,900	162,132	34,232
Other	254,001	254,001	-	(254,001)
Total revenue	1,508,091	1,628,491	1,601,754	(26,737)
Expenditures - Public works	<u>983,030</u>	<u>1,372,742</u>	<u>1,127,024</u>	<u>245,718</u>
Excess of Revenues Over (Under) Expenditures	525,061	255,749	474,730	218,981
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(525,061)	(525,061)	(525,061)	-
Total other financing sources (uses)	<u>(525,061)</u>	<u>(525,061)</u>	<u>(525,061)</u>	<u>-</u>
Net Change in Fund Balances	-	(269,312)	(50,331)	218,981
Fund Balances - Beginning of year	<u>2,512,423</u>	<u>2,512,423</u>	<u>2,512,423</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 2,512,423</u>	<u>\$ 2,243,111</u>	<u>\$ 2,462,092</u>	<u>\$ 218,981</u>

**Required Supplemental Information
Budgetary Comparison Schedule
Major Special Revenue Funds (Continued)
Year Ended June 30, 2007**

Local Streets Fund			
Original Budget	Amended Budget	Actual	Variance with Amended Budget
\$ 544,466	\$ 544,466	\$ 521,645	\$ (22,821)
6,500	61,150	85,302	24,152
500	500	-	(500)
551,466	606,116	606,947	831
<u>1,050,827</u>	<u>1,050,827</u>	<u>563,914</u>	<u>486,913</u>
(499,361)	(444,711)	43,033	487,744
509,561	509,561	509,561	-
(10,200)	(10,200)	(10,200)	-
<u>499,361</u>	<u>499,361</u>	<u>499,361</u>	<u>-</u>
-	54,650	542,394	487,744
<u>973,017</u>	<u>973,017</u>	<u>973,017</u>	<u>-</u>
<u>\$ 973,017</u>	<u>\$ 1,027,667</u>	<u>\$ 1,515,411</u>	<u>\$ 487,744</u>

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
06/30/01	\$ 58,294,299	\$ 42,719,710	\$ (15,574,589)	136	\$ 8,484,620	(184)
06/30/02 *	58,305,372	45,584,633	(12,720,739)	128	9,030,827	(141)
06/30/03 *	56,264,305	47,803,994	(8,460,311)	118	9,266,479	(91)
06/30/04	54,289,686	50,999,509	(3,290,177)	106	9,102,598	(36)
06/30/05	51,215,561	54,961,821	3,746,260	93	9,496,345	39
06/30/06 *	48,907,812	55,156,589	6,248,777	89	9,429,156	66

* Includes changes in benefit provisions

City of Eastpointe, Michigan

Required Supplemental Information Retirement System Schedule of Employer Contributions June 30, 2007

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
2002	\$ 12,034	-
2003	10,978	-
2004	174,637	-
2005	432,939	-
2006	777,640	-
2007	1,529,421	100%

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

The above contributions are for pension benefits only and do not include amounts contributed for healthcare coverage. Amounts contributed for healthcare coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2006
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	30 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	4%-7%
*Includes inflation at	4%
Cost of living adjustments	None

City of Eastpointe, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Reconciliation of Budgeted Amounts to Basic Financial Statements

The budgetary comparison schedule for the General and Major Special Revenue Funds is presented on the same basis of accounting used in preparing the adopted budget. Following is a reconciliation of the budgetary comparison schedule to the governmental funds (statement of revenues, expenditures, and changes in fund balance):

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 17,581,138	\$ 8,883,121
Expenditure budgeted as a transfer	-	(314,847)
Amounts per budget statement	<u>\$ 17,581,138</u>	<u>\$ 8,568,274</u>

Other Supplemental Information

City of Eastpointe, Michigan

	Nonmajor Special			
	Library	Drug Law Enforcement	Local Law Enforcement	Juvenile Justice
Assets				
Cash and cash equivalents	\$ 1,268	\$ 493,922	\$ 11,989	\$ -
Investments	-	87,736	-	-
Due from other funds	-	-	-	-
Due from other governmental units	49,691	-	-	8,339
Total assets	<u>\$ 50,959</u>	<u>\$ 581,658</u>	<u>\$ 11,989</u>	<u>\$ 8,339</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 9,999	\$ 10,624	\$ -	\$ -
Accrued and other liabilities	23,067	-	-	1,431
Due to other funds	-	-	-	4,392
Total liabilities	33,066	10,624	-	5,823
Fund Balances - Unreserved				
Designated for debt service	-	-	-	-
Designated for capital improvements	-	-	-	-
Undesignated	17,893	571,034	11,989	2,516
Total fund balances	17,893	571,034	11,989	2,516
Total liabilities and fund balances	<u>\$ 50,959</u>	<u>\$ 581,658</u>	<u>\$ 11,989</u>	<u>\$ 8,339</u>

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

Revenue Funds				Nonmajor Debt Service Funds	
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Building Authority	Chapter 20 Drain Debt Service
\$ 23,509	\$ 14,477	\$ 625	\$ 5,456	\$ 392	\$ 297,445
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 23,509</u>	<u>\$ 14,477</u>	<u>\$ 625</u>	<u>\$ 5,456</u>	<u>\$ 392</u>	<u>\$ 297,445</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	392	297,445
-	-	-	-	-	-
23,509	14,477	625	5,456	-	-
23,509	14,477	625	5,456	392	297,445
<u>\$ 23,509</u>	<u>\$ 14,477</u>	<u>\$ 625</u>	<u>\$ 5,456</u>	<u>\$ 392</u>	<u>\$ 297,445</u>

City of Eastpointe, Michigan

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

	Nonmajor Capital Projects Funds		
	Equipment Replacement	Building Authority Construction	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 346,017	\$ 13,059	\$ 1,208,159
Investments	63,125	-	150,861
Due from other funds	-	147,213	147,213
Due from other governmental units	6,598	-	64,628
	\$ 415,740	\$ 160,272	\$ 1,570,861
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 17,636	\$ 32,789	\$ 71,048
Accrued and other liabilities	-	-	24,498
Due to other funds	-	-	4,392
	17,636	32,789	99,938
Fund Balances - Unreserved			
Designated for debt service	-	-	297,837
Designated for capital improvements	398,104	127,483	525,587
Undesignated	-	-	647,499
	398,104	127,483	1,470,923
Total liabilities and fund balances	\$ 415,740	\$ 160,272	\$ 1,570,861

City of Eastpointe, Michigan

	Nonmajor Special			
	Library	Drug Law Enforcement	Local Law Enforcement	Juvenile Justice
Revenue				
Property taxes	\$ 668,200	\$ -	\$ -	\$ -
Intergovernmental:				
Federal sources	-	-	-	33,264
State sources	26,936	-	-	-
Charges for services	2,580	-	-	-
Rental income	-	-	-	-
Fines and forfeitures	55,661	315,830	-	-
Interest	7,450	35,807	591	-
Other	-	38,500	-	53,610
Total revenue	<u>760,827</u>	<u>390,137</u>	<u>591</u>	<u>86,874</u>
Expenditures				
Current:				
Public safety	-	200,757	2,261	86,872
Public works	-	-	-	-
Recreation and culture	770,991	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>770,991</u>	<u>200,757</u>	<u>2,261</u>	<u>86,872</u>
Excess of Revenue Over (Under) Expenditures	(10,164)	189,380	(1,670)	2
Other Financing Sources (Uses)				
Transfers in	20,000	-	-	-
Transfers out	-	(62,843)	-	-
Total other financing sources (uses)	<u>20,000</u>	<u>(62,843)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	9,836	126,537	(1,670)	2
Fund Balances - Beginning of year	<u>8,057</u>	<u>444,497</u>	<u>13,659</u>	<u>2,514</u>
Fund Balances - End of year	<u>\$ 17,893</u>	<u>\$ 571,034</u>	<u>\$ 11,989</u>	<u>\$ 2,516</u>

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

Revenue Funds				Nonmajor Debt Service Funds	
Welfare and Catastrophe	Community Center	Eastpointe Fire	Memorial Library	Building Authority	Chapter 20 Drain Debt Service
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,834,629
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,593	884	43	358	-	32,821
-	2,550	-	635	-	-
<u>1,593</u>	<u>3,434</u>	<u>43</u>	<u>993</u>	<u>-</u>	<u>1,867,450</u>
-	-	-	-	-	-
-	-	-	-	300	1,013,924
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	325,000	-
-	-	-	-	151,140	-
-	-	-	-	<u>476,440</u>	<u>1,013,924</u>
1,593	3,434	43	993	(476,440)	853,526
-	-	-	-	476,440	-
-	-	-	-	-	(815,909)
-	-	-	-	<u>476,440</u>	<u>(815,909)</u>
1,593	3,434	43	993	-	37,617
<u>21,916</u>	<u>11,043</u>	<u>582</u>	<u>4,463</u>	<u>392</u>	<u>259,828</u>
<u>\$ 23,509</u>	<u>\$ 14,477</u>	<u>\$ 625</u>	<u>\$ 5,456</u>	<u>\$ 392</u>	<u>\$ 297,445</u>

City of Eastpointe, Michigan

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

	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
	Equipment Replacement	Building Authority Construction	
Revenue			
Property taxes	\$ -	\$ -	\$ 2,502,829
Intergovernmental:			
Federal sources	-	-	33,264
State sources	-	-	26,936
Charges for services	-	-	2,580
Rental income	172,729	-	172,729
Fines and forfeitures	-	-	371,491
Interest	28,116	2,355	110,018
Other	-	380	95,675
Total revenue	<u>200,845</u>	<u>2,735</u>	<u>3,315,522</u>
Expenditures			
Current:			
Public safety	-	-	289,890
Public works	-	-	1,014,224
Recreation and culture	-	-	770,991
Capital outlay	1,372,107	195,313	1,567,420
Debt service:			
Principal	-	-	325,000
Interest	-	-	151,140
Total expenditures	<u>1,372,107</u>	<u>195,313</u>	<u>4,118,665</u>
Excess of Revenue Over (Under) Expenditures	(1,171,262)	(192,578)	(803,143)
Other Financing Sources (Uses)			
Transfers in	991,005	255,428	1,742,873
Transfers out	-	-	(878,752)
Total other financing sources (uses)	<u>991,005</u>	<u>255,428</u>	<u>864,121</u>
Net Change in Fund Balances	(180,257)	62,850	60,978
Fund Balances - Beginning of year	<u>578,361</u>	<u>64,633</u>	<u>1,409,945</u>
Fund Balances - End of year	<u><u>\$ 398,104</u></u>	<u><u>\$ 127,483</u></u>	<u><u>\$ 1,470,923</u></u>

City of Eastpointe, Michigan

	Pension and Other Employee Benefit Trust Funds			
	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
	Assets			
Cash and cash equivalents	\$ 1,355,112	\$ 15,464	\$ 528,979	\$ 1,899,555
Investments:				
Corporate bonds and notes	5,598,211	726,408	185,787	6,510,406
U.S. government securities	6,259,813	-	207,744	6,467,557
Common and preferred stock	35,115,348	-	768,347	35,883,695
Mutual funds	2,628,268	147,412	-	2,775,680
Other receivables	38,142	-	-	38,142
Due from other governmental units	590	-	-	590
Total assets	50,995,484	889,284	1,690,857	53,575,625
Liabilities				
Accounts payable	56,902	-	-	56,902
Accrued liabilities	-	-	-	-
Due to other governmental units	-	-	-	-
Total liabilities	56,902	-	-	56,902
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 50,938,582</u>	<u>\$ 889,284</u>	<u>\$ 1,690,857</u>	<u>\$ 53,518,723</u>

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

Agency Funds				
Cash and Performance Bonds	Tax Collection	Imprest Payroll	AFLAC	Total
\$ 22,167	\$ 1,460	\$ 175	\$ 2,313	\$ 26,115
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 22,167</u>	<u>\$ 1,460</u>	<u>\$ 175</u>	<u>\$ 2,313</u>	<u>\$ 26,115</u>
\$ -	\$ -	\$ 100	\$ -	\$ 100
22,167	-	75	-	22,242
-	1,460	-	2,313	3,773
<u>\$ 22,167</u>	<u>\$ 1,460</u>	<u>\$ 175</u>	<u>\$ 2,313</u>	<u>\$ 26,115</u>

City of Eastpointe, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds - Pension and Other Employee Benefit Trust Funds Year Ended June 30, 2007

	Employees' Retirement System	Employees' Death Benefit	Retiree Health Care	Total
Additions				
Investment income:				
Interest and dividends	\$ 1,396,321	\$ 44,645	\$ 66,263	\$ 1,507,229
Net adjustment to fair value of investments	4,945,134	27,866	105,182	5,078,182
Less investment expenses	(321,139)	-	(2,000)	(323,139)
Net investment income	6,020,316	72,511	169,445	6,262,272
Employer contributions	1,529,421	-	2,119,810	3,649,231
Total additions	7,549,737	72,511	2,289,255	9,911,503
Deductions				
Benefit payments	3,740,916	38,550	-	3,779,466
Health insurance premiums	-	-	2,110,820	2,110,820
Administrative expenses	9,607	-	-	9,607
Total deductions	3,750,523	38,550	2,110,820	5,899,893
Change in Net Assets	3,799,214	33,961	178,435	4,011,610
Net Assets - Beginning of year	47,139,368	855,323	1,512,422	49,507,113
Net Assets - End of year	<u>\$ 50,938,582</u>	<u>\$ 889,284</u>	<u>\$ 1,690,857</u>	<u>\$ 53,518,723</u>

City of Eastpointe, Michigan

Schedule of Indebtedness June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				2007	2006
County Drain Contract					
Lake St. Clair Clean Water Initiative Drainage District:					
Drainage District Bonds					
Date of issue - Various					
Amount of issue - \$12,144,547					
	Various	10/01/06	\$ 463,134	\$ -	\$ 463,134
	Various	10/01/07	473,071	473,071	473,071
	Various	10/01/08	485,454	485,454	485,454
	Various	10/01/09	498,940	498,940	498,940
	Various	10/01/10	516,125	516,125	516,125
	Various	10/01/11	528,509	528,509	528,509
	Various	10/01/12	542,659	542,659	542,659
	Various	10/01/13	559,112	559,112	559,112
	Various	10/01/14	573,950	573,950	573,950
	Various	10/01/15	591,281	591,281	591,281
	Various	10/01/16	607,682	607,682	607,682
	Various	10/01/17	626,734	626,734	626,734
	Various	10/01/18	645,954	645,954	645,954
	Various	10/01/19	666,620	666,620	666,620
	Various	10/01/20	684,632	684,632	684,632
	Various	10/01/21	706,969	706,969	706,969
	Various	10/01/22	731,432	731,432	731,432
	Various	10/01/23	181,161	181,161	181,161
	Various	10/01/24	178,790	178,790	178,790
	Various	10/01/25	188,581	188,581	188,581
	Various	10/01/26	199,055	199,055	199,055
	Various	10/01/27	207,753	207,753	207,753
	Various	10/01/28	221,778	221,778	221,778
	Various	10/01/29	231,011	231,011	231,011
Total County Drain Contract				10,847,253	11,310,387

City of Eastpointe, Michigan

Schedule of Indebtedness (Continued) June 30, 2007

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				June 30 2007	June 30 2006
General Obligation Bonds					
Building Authority General Obligation Bonds					
Date of issue - August 20, 1998					
Amount of issue - \$4,400,000					
	4.40	05/01/07	\$ 325,000	\$ -	\$ 325,000
	4.45	05/01/08	355,000	355,000	355,000
	4.50	05/01/09	390,000	390,000	390,000
	4.55	05/01/10	420,000	420,000	420,000
	4.60	05/01/11	460,000	460,000	460,000
	4.65	05/01/12	455,000	455,000	455,000
	4.70	05/01/13	450,000	450,000	450,000
	4.70	05/01/14	445,000	445,000	445,000
Total general obligation bonds				2,975,000	3,300,000
Total indebtedness				\$ 13,822,253	\$ 14,610,387



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November 27, 2007

To The Honorable Mayor and Members
of the City Council
City of Eastpointe
23200 Gratiot Avenue
Eastpointe, MI 48021

Dear Mayor and Council Members:

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

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

We consider the following deficiencies to be significant deficiencies in internal control:

Account Reconciliations - Sound internal control includes the reconciliation of general ledger accounts to supporting subsidiary ledgers, reports, and third-party statements on a periodic basis, including a secondary review of the reconciliations. During our audit we noted that the City's water and sewer receivables accounts were not being reconciled to the subsidiary ledger detail for the majority of the year. This was due to a conversion to new billing & financial software as well as the implementation of a new meter reading system. While the receivable balance was reconciled by year-end, the monthly reconciliation of accounts helps ensure that accurate financial information is available on a timely basis and serves as an important internal control.

We recommend that a monthly reconciliation of water and sewer receivable accounts be performed, with a secondary supervisory review of such reconciliations.

Audit Adjustments - As a result of the auditing procedures performed, we detected and proposed the following audit adjustments. In all instances, the City posted the proposed journal entries to more accurately reflect the financial condition of the City at June 30, 2007.

- **Lake St. Clair Clean Water Initiative** - During the audit, we provided assistance to correct adjustments made in relation to the City's portion of Lake St. Clair Clean Water Initiative activity. The Clean Water Initiative activity involves the recording of unique transactions at year end based on information provided by the County. This reporting is more complex than the day to day operational activity of the City.
- **Retroactive Pay** - As a result of contract negotiations for police officers, the City determined it was probable that an estimated amount would be paid to the police officers for past services. While the City budgeted for the estimated retroactive pay, the City failed to record an accrual as of June 30, 2007. Since the amount is probable and can be reasonably estimated, an audit adjustment was proposed by Plante & Moran and posted by the City at year-end.
- **Cash Transfer** - During our testing of cash, we noted a journal entry to record a cash transfer of \$147,213 from the general fund to the building authority fund. However, in reviewing the applicable bank statements, we noted no transfer of cash between the general fund and the building authority fund. Therefore, we proposed a correcting entry to eliminate the cash transfer, and record a due to/due from in the two funds. We recommend the City avoid posting entries to cash, unless the physical movement of cash will occur.

We also noted control deficiencies and other accounting and legislative matters that we would like to communicate to you. In an effort to assist with the City's efforts toward improved operational and financial health, we offer the following observations:

Water and Sewer Operations - For the first three quarters of the year, approximately 50 percent of all water and sewer billings were based on estimated meter readings, some of which have been estimated for years. Limiting estimated billings will result in more accurate billings, and may also produce a more accurate calculation of the City's water loss. To address the shortcomings inherent in estimated readings, the City has implemented a new electronic meter reading system during the final quarter of the year. This system has substantially reduced the number of estimated meter readings. We commend the City for implementing the electronic meter read system.

Delinquent Water and Sewer Receivables - As discussed in previous years, the City tends to have higher than average delinquent water/sewer bills since the City does not shut off water services when bills are not paid. Rather, the City's policy is to place all delinquencies on the resident's property tax bill. We recommend the City consider the impact on the timing of cash flows using this policy vs. the impact of denying water usage to residents that are delinquent.

Capital Asset Control - During the move from the old City Hall location to the City's temporary offices, capital asset control lists were not maintained and utilized to ensure all assets were properly transferred to the temporary location. When significant movement of assets occurs, specific controls procedures such as asset listings can significantly reduce the risk of misappropriation of assets. The City should consider implementing tighter controls over the movement of assets when the move from the City's temporary offices to the new City Hall occurs.

Garbage and Rubbish Collection - The City currently has an available fund balance of approximately \$1.1 million in the Garbage and Rubbish Collection fund, which represents approximately 99 percent of current year expenditures. We recommend the City consider available fund balance reserves when determining the future Garbage and Rubbish millage rate.

Overview Of The City's Financial Condition - During the year ended June 30, 2007, General Fund revenues exceeded expenditures by approximately \$2,235,000 taking into account transfers to and from other funds. Fund balance at June 30, 2007, amounted to approximately \$9,947,000. Of this amount, approximately \$107,000 is reserved for prepaid expenditures and personal property taxes, \$7,000,000 is designated for subsequent years' expenditures, \$313,000 is designated for compensated absences, and \$2,527,000 is undesignated.

During the 2006-2007 fiscal year, the City experienced only modest growth in property tax revenue (4.5 percent) and another reduction in state revenue-sharing sources (as discussed below). However, modest growth in property tax revenue and the continued ability of most City departments to remain at or below budgeted expenditures has resulted in increased fund balance at June 30, 2007. We compliment the City Council and administration for their success in planning and monitoring the budget.

The City continues to be faced with many budgetary challenges, including reductions in State revenue sharing, funding of post-employment benefit obligations, limitations on personal property tax collections, future infrastructure improvements, and necessary improvements to and replacement of facilities and capital equipment.

Certain of these challenges are a direct result of the difficult economic period that has been experienced in the State of Michigan while others are characteristics of the City and its physical framework. It is important that the City maintains an adequate level of working capital and fund balance to meet financial challenges without affecting the level of services provided to citizens or the City's ability to fund future obligations.

State Shared Revenue - The future of the State's revenue sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. While the majority of the State's budget shortfall in the current year has been eliminated through increases in income tax rates and an expansion of the sales tax to certain services, it is not completely clear whether the recently passed tax increases have eliminated the structural deficit within the State's General Fund. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (totaling approximately \$182 million), but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue Sharing formula expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

- Changes to Michigan's Business Tax Structure** - The Michigan Single Business Tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the Single Business Tax – called the new Michigan Business Tax – was approved by the Legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the Single Business Tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict.

State shared revenue accounts for approximately 21 percent of the City's total General Fund budget and is comprised of a constitutional and statutory portion. The table below details state shared revenue for the City over the past seven years and projected funding levels for 2008. The final column presents the total decrease in state shared revenue experienced by the City since the 1999-2000 fiscal year:

Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$ 2,509,352	\$ 2,211,331	\$ 4,720,683	\$ -
2002	2,313,537	2,233,856	4,547,393	173,290
2003	2,101,340	2,271,676	4,373,016	347,667
2004	1,683,261	2,246,999	3,930,260	790,423
2005	1,586,798	2,300,622	3,887,420	833,263
2006	1,504,374	2,339,792	3,844,166	876,517
2007	1,438,513	2,291,174	3,729,687	990,996
2008	1,411,084	2,318,603	3,729,687	990,996

If the State were to consider additional cuts to revenue sharing, the City is potentially at risk for the amount of statutory revenue sharing (the constitutional portion cannot be modified without a change to the State's constitution). In light of the current environment, we strongly encourage the City to continue to be conservative in budgeting or projecting revenue sharing payments.

New Michigan Business Tax - As previously indicated, the new Michigan Business Tax (MBT) was approved by the Legislature in June 2007 and replaces the Single Business Tax (SBT), which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of 4.95 percent on business income. The MBT provides for new investment, compensation and research and development credits to businesses. The MBT also allows certain qualified small businesses to pay a flat 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes – specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the 6 SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills. These newly enacted personal property tax exemptions will mean that the City will collect less school taxes on these properties, which will likely result in a decrease in tax collection administration fees.

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be reviewing the classification of their personal property. The City assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Personal Property Tax - Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities, resulting in approximately significant reductions in personal property tax revenue for local units of government. Recent court cases, *WPW Acquisition Co v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

As discussed above, the new Michigan Business Tax provides additional personal property tax relief to business taxpayers. Even with this most recent relief provided through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to the City, representing approximately 3 percent of the total tax base. A key unresolved issue in the State's business tax structure debate is the extent to which local units of government will be held harmless for prior and future reductions to personal property taxes. The State has previously considered changes to mitigate the impact of the WPW case, however, the measures were not implemented.

Other Postemployment Benefits (OPEB) - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. As a result, you will not need to change your budgeting practices.

However, the new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets. For the City of Eastpointe, this valuation will need to be performed by an actuary at least every other year.

Currently, the City is recognizing this expenditure on a "pay as you go" basis. As indicated in the City's financial report, for the year ended June 30, 2007, (see Note 11), this expenditure amounted to approximately \$2,111,000. The City's OPEB obligation on an actuarial basis would be significantly more, possibly two to three times as much.

This statement is being phased in over a three-year period, similar to GASB No. 34. For the City of Eastpointe, it is effective the year beginning July 1, 2008.

New Auditing Standards - Major and comprehensive changes were recently made to auditing rules that will impact the City's audits beginning next year. Eight new auditing standards have been issued (Statements on Auditing Standards 104 through 111) that require significant changes in how audits are done and how the results of the auditor's work are communicated to clients, bringing auditing rules for all entities into closer alignment with the standards imposed on audits of public companies under Sarbanes-Oxley.

These new rules, which are known collectively as the Risk Assessment Standards, require auditors to:

- More thoroughly examine and evaluate clients' accounting processes and controls, including the overall control environment, key controls over significant transactions and the quality of internal oversight of the financial reporting process
- More thoroughly assess and document conditions in clients' systems and processes that create risks of material misstatement in their financial statements, and perform additional testing in response to these risks
- Design and perform more analytical tests of accounting and financial data
- Apply more stringent standards in identifying, assessing and communicating internal control deficiencies
- Communicate more information about the results of the auditor's work to individuals involved in overseeing strategic direction and accountability for operations

As a practical effect of these new rules, auditors will need to make more detailed and specific requests for information from clients, particularly about processes and controls, and clients will need to do more work to be well prepared for their audits. The new rules also will require increased audit testing and more thorough auditing procedures, and will increase the amount of related documentation that auditors must prepare and maintain.

Plante & Moran began analyzing these new standards and incorporating the necessary changes into our audit process and tools more than a year ago. It is clear that the new rules will require us to perform more audit procedures than we have in the past. Our firm has invested heavily to implement our new audit methodology and train our staff on these changes and will continue to do so over the next several months. Our goal is to have our staff trained and working with our clients to prepare for the transition to these new rules well in advance of the required implementation date.

As we move forward, we will be communicating more specifically to management and the City Council about how these matters will affect the City's next financial statement audit. In addition, we plan to begin to work with the City's finance department during the upcoming year in a number of areas, including review and documentation of internal accounting procedures and controls, to ensure a smooth transition to these new standards.

The primary objective of these new rules is to strengthen and enhance the independent audit of financial statements, including more thorough evaluation and information about the City's internal accounting and financial reporting processes and controls. We believe that these new rules, and the additional communications the City Council will receive from us about the results of our audit work, will enhance the value received from the financial statement audit.

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

Very truly yours,

PLANTE & MORAN, PLLC



David Helisek



Jenny L. Cederstrom