

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 Walled Lake, Michigan

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

City of Walled Lake, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-9
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11-12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Assets	16
Statement of Revenue, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Net Assets	19
Statement of Changes in Net Assets	20
Component Units:	
Statement of Net Assets	21
Statement of Activities	22-23
Notes to Financial Statements	24-40
Required Supplemental Information	41
Budgetary Comparison Schedule - General Fund	42-44
Budgetary Comparison Schedule - Major Streets Fund	45
Budgetary Comparison Schedule - Local Streets Fund	46
Note to Required Supplemental Information	47-48

City of Walled Lake, Michigan

Contents (Continued)

Other Supplemental Information	49
Statement of Revenue, Expenditures, and Changes in Net Assets:	
Downtown Development Authority	50
Walled Lake City Library	51



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Walled Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Walled Lake, 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 Walled Lake, 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 Walled Lake, 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 and the budgetary comparison schedules of the General Fund, Major Streets Fund, and Local Streets Fund, 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 Walled Lake, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walled Lake, 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 Walled Lake, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Walled Lake'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:

- There was a 34 percent growth in the General Fund balance, from \$760,112 to \$1,020,904. Total net assets related to the City's governmental activities increased by approximately \$351,000 and the unrestricted portion of net assets increased by approximately \$230,000.
- This positive results can be attributed partially to the return of DDA captured TIF funds for fiscal year 2007. On the other hand, building permit revenue decreased from \$222,000 to \$58,000 as a result of the general slowdown in the real estate market.

Using this Annual Report

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

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

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the prior two years (in thousands of dollars):

Governmental Activities

	June 30, 2005	June 30, 2006	June 30, 2007	Changes from Prior Year	
				in Dollars	Percent
		(in thousands)			
Assets					
Current assets	\$ 1,949	\$ 1,899	\$ 2,043	\$ 144	8
Noncurrent assets	11,291	10,987	10,676	(311)	(3)
Total assets	13,240	12,886	12,719	(167)	(1)
Liabilities					
Current liabilities	1,360	1,192	530	(662)	(56)
Long-term liabilities	4,122	3,778	3,922	144	4
Total liabilities	5,482	4,970	4,452	(518)	(10)
Net Assets					
Invested in capital assets - Net of related debt	7,490	7,580	7,644	64	1
Restricted	592	428	485	57	13
Unrestricted deficit	(324)	(92)	138	230	(250)
Total net assets	<u>\$ 7,758</u>	<u>\$ 7,916</u>	<u>\$ 8,267</u>	<u>\$ 351</u>	4

Governmental activities' net assets increased by approximately \$351,000 in the current year.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, increased by approximately \$230,000 for the governmental activities in the current year.

While forecasting for the close of the 2007-2008 fiscal year and formulation of the 2008-2009 budget, City administrative staff maintained a diligent watch over our year-end expenditures and prepared the new budget on a "bare bones budget" strategy, eliminating all but necessities. The City's revenue stream remained fairly consistent in the majority of our revenue lines with the exception of our licenses and permits. We have seen a significant decrease in our building department revenues as a result of the current sluggish real estate market. Staff members have continued to maximize interest earnings through the use of both long-term and short-term investment tools.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Property tax revenues increased in the current year by \$700,000. A majority of the increase was due to the return of the DDA captured property taxes revenues to the City. In connection with this, the DDA reduced its administrative services reimbursement (reported below as operating grants and contributions) to the City of \$321,000. To continue to maintain adequate funding levels city-wide, administration and staff will continue to utilize cost containment measures at every opportunity.

TABLE 2

Governmental Activities

	Year Ended			Changes from	
	June 30, 2005	June 30, 2006	June 30, 2007	in Dollars	Percent
	(in thousands)				
Revenue					
Program revenue:					
Charges for services	\$ 1,103	\$ 910	\$ 770	\$ (140)	(15)
Operating grants and contributions	469	810	465	(345)	(43)
General revenue:					
Property taxes	3,171	3,334	4,034	700	21
State-shared revenue	633	627	621	(6)	(1)
Unrestricted investment earnings	39	131	159	28	21
Miscellaneous	59	131	87	(44)	(34)
Transfers	59	58	73	15	26
Total revenue	5,533	6,001	6,209	208	3
Program Expenses					
General government	743	910	957	47	5
Public safety	3,209	3,188	3,335	147	5
Public works	1,415	1,610	1,392	(218)	(14)
Recreation and culture	33	41	65	24	59
Interest on long-term debt	109	94	109	15	16
Total program expenses	5,509	5,843	5,858	15	-
Change in Net Assets	\$ 24	\$ 158	\$ 351	\$ 193	122

Taxable value for the City of Walled Lake increased this year as a result of the Consumer Price Index increase for the 2007 fiscal year. State equalized values have fallen in some areas of the City, as well as the County, which can be attributed to falling housing market values caused by poor economic conditions in the state.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

The City continues to experience high costs in the area of providing health care to our employees. In addition, "postemployment benefits other than pensions" (OPEB) that the City provides to employees present funding challenges all their own, for our municipality as well. The Government Accounting Standards Board (GASB) has issued Statement 45, which will require governments to report the annual OPEB cost and our unfunded liabilities for past service costs. Statement 45 establishes standards for the accounting and financial reporting but does not require governments to fund their OPEB. How a municipality actually finances their OPEB is strictly a policy decision made by city officials. Based upon the GASB phase-in dates for OPEB reporting, our City will be required to disclose information related to OPEB in the June 30, 2009 financial statements.

City administrative staff entered into and settled three union bargaining agreements during the 2007 fiscal year. The Department of Public Works, City Hall staff, and the police and dispatch staff contracts were settled all within a relatively short time frame. Some pension and salary improvements were made to these bargaining groups as a result of the negotiations but these costs were anticipated during the formulation of the original budget.

Business-type Activities

The City of Walled Lake's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Detroit Water System. We provide sewage services through a jointly owned treatment plant with the City of Novi operated by Oakland County. The 2007 summer season was relatively normal weather-wise and resulted in a stable rate of consumption from our water system.

During fiscal year 2008, the City will undertake the task of combining our Water and Sewer Funds in an effort to streamline costs and accounting functions for these two funds. New development has slowed over the past several years, and we believe that the blending of these funds will provide greater stability. In these difficult economic times, the stabilization of these funds will enable the City to implement smaller future increases to our users over the next several years.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

The following tables show, in a condensed format, the current year's net assets and changes in net assets, compared to the two prior years (in thousands of dollars):

Business-type Activities

	June 30, 2005	June 30, 2006	June 30, 2007	Changes from Prior Year	
				in Dollars	Percent
(in thousands)					
Assets					
Current assets	\$ 1,650	\$ 1,957	\$ 2,111	\$ 154	8
Noncurrent assets	<u>7,526</u>	<u>7,144</u>	<u>6,827</u>	<u>(317)</u>	(4)
Total assets	9,176	9,101	8,938	(163)	(2)
Liabilities					
Current liabilities	626	278	222	(56)	(20)
Long-term liabilities	<u>80</u>	<u>65</u>	<u>78</u>	<u>13</u>	20
Total liabilities	<u>706</u>	<u>343</u>	<u>300</u>	<u>(43)</u>	(13)
Net Assets					
Invested in capital assets - Net of related debt	7,133	7,142	6,827	(315)	(4)
Restricted	6	1	1	-	-
Unrestricted	<u>1,331</u>	<u>1,615</u>	<u>1,810</u>	<u>195</u>	12
Total net assets	<u>\$ 8,470</u>	<u>\$ 8,758</u>	<u>\$ 8,638</u>	<u>\$ (120)</u>	(1)

Statement of Changes in Net Assets

	Year Ended			Changes from Prior Year	
	June 30, 2005	June 30, 2006	June 30, 2007	in Dollars	Percent
(in thousands)					
Operating revenues - Water and sewer	\$ 1,908	\$ 1,884	\$ 2,022	\$ 138	7
Operating expenses - Water and sewer	<u>2,297</u>	<u>2,445</u>	<u>2,483</u>	<u>38</u>	2
Operating loss	(389)	(561)	(461)	100	(18)
Interest income	36	65	88	23	35
Interest expense	(33)	(15)	-	15	(100)
Capital charge/Tap-in fees	751	857	327	(530)	(62)
Transfers to other funds	<u>(59)</u>	<u>(58)</u>	<u>(74)</u>	<u>(16)</u>	28
Change in Net Assets	<u>\$ 306</u>	<u>\$ 288</u>	<u>\$ (120)</u>	<u>\$ (408)</u>	(142)

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

The City of Walled Lake's Funds

Our analysis of the City of Walled Lake's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Walled Lake as a whole. The City of Walled Lake's Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City of Walled Lake's major funds for 2007 include the General Fund, Major Streets Fund, Local Streets Fund, and the Capital Projects Fund.

The General Fund pays for most of the City of Walled Lake's governmental services. The most significant are police and fire, which incurred expenses of \$2,526,752 in 2007. These two services are partially supported by service charges, grants, and contributions which are recorded in the General Fund and amounted to \$33,246. The remaining \$2,493,506 cost of the police and fire departments is funded by other general revenue sources of the General Fund, including property taxes.

General Fund Budgetary Highlights

Over the course of the year, the City of Walled Lake amended the budget to take into account events which occurred during the year. The City was a party to a lawsuit filed by Oakland County regarding the equity of the DDA sharing agreement which resulted in an increase in our prosecution and litigation expenses. Total expenditures for the year in this category were \$159,699, which also includes the City's general litigation expense, labor relations, and police department prosecution. Compared to total expenditures of \$124,227 for this category in 2006, this amounts to an overall increase of 28 percent.

The City of Walled Lake's departments, overall, were able to hold the line on expenditures at year end allowing the City to realize a final surplus of \$119,475 in expenditures. This surplus allowed the General Fund's fund balance to increase from \$760,112 to \$1,044,012 at June 30, 2007.

Capital Asset and Debt Administration

At the end of 2007, the City of Walled Lake had \$17,503,179 invested in a broad range of net capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City of Walled Lake has continued to invest significantly in roads within the City of Walled Lake, and at year end, we have begun to explore the feasibility of a long-term road improvement bond issue to make significant improvements city-wide on our road system.

City of Walled Lake, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

The City of Walled Lake's budget for the 2007-2008 fiscal year will see a slight increase in the property tax rate through the addition of the Oakland County Public Transportation Authority millage to the tax rolls. This millage will increase the City's rate by 0.5900 mills for the upcoming fiscal year.

The impact of Proposal A continues to have a significant effect on the City of Walled Lake property tax revenue and we must continue to watch our budget very closely. The statewide 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 of Walled Lake will grow less than the rate of inflation.

Sewer rates were increased for the 2006-2007 fiscal year by approximately 12 percent per unit (1,000 gallons) in order to bring our revenue and expenses more in line with one another. The fund balance and sewer tap-in fees have been utilized for the past several budget years to balance this Enterprise Fund, although the decrease in new development within the City has placed some strain on the financial health of this fund. Staff anticipates steady annual increases in the rate per unit of the Sewer Fund in order to bring sewer revenues and expenditures more in balance with one another.

Contacting the City of Walled Lake's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City of Walled Lake's finances and to show the City of Walled Lake's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact City Hall.

City of Walled Lake, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,778,410	\$ 1,679,014	\$ 3,457,424	\$ 728,863
Receivables:				
Customers	-	304,971	304,971	-
Due from other governmental units	62,020	57,213	119,233	7,000
Other	75,918	-	75,918	10,612
Due from component units	5,575	-	5,575	-
Prepaid expenses and other assets	121,102	68,563	189,665	3,037
Restricted assets (Note 1)	-	1,178	1,178	-
Nondepreciable capital assets (Note 4)	1,572,172	-	1,572,172	-
Depreciable capital assets - Net (Note 4)	9,103,810	6,827,197	15,931,007	785,561
Total assets	12,719,007	8,938,136	21,657,143	1,535,073
Liabilities				
Accounts payable	66,913	217,500	284,413	34,300
Due to other governmental units	32,724	-	32,724	896
Due to primary government	-	-	-	5,575
Accrued and other liabilities	247,146	4,685	251,831	1,046
Cash advances and deposits	183,294	-	183,294	-
Noncurrent liabilities (Note 6):				
Due within one year	504,247	7,736	511,983	63,625
Due in more than one year	3,417,522	69,624	3,487,146	219,625
Total liabilities	4,451,846	299,545	4,751,391	325,067
Net Assets				
Invested in capital assets - Net of related debt	7,643,863	6,827,197	14,471,060	785,561
Restricted:				
Major and local streets	484,905	-	484,905	-
Water and sewer projects	-	1,178	1,178	-
Unrestricted	138,393	1,810,216	1,948,609	424,445
Total net assets	\$ 8,267,161	\$ 8,638,591	\$ 16,905,752	\$ 1,210,006

City of Walled Lake, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 957,729	\$ 181,552	\$ 28,185	\$ -
Public safety	3,334,945	293,207	75,958	-
Public works	1,392,486	294,799	360,702	-
Recreation and culture	64,935	-	-	-
Interest on long-term debt	109,148	-	-	-
Total governmental activities	5,859,243	769,558	464,845	-
Business-type activities:				
Water	1,155,435	1,254,926	-	79,743
Sewer	1,327,199	718,965	-	246,928
Total business-type activities	2,482,634	1,973,891	-	326,671
Total primary government	<u>\$ 8,341,877</u>	<u>\$ 2,743,449</u>	<u>\$ 464,845</u>	<u>\$ 326,671</u>
Component units:				
Downtown Development Authority	\$ 1,859,431	\$ 521	\$ -	\$ -
Walled Lake City Library	456,439	38,134	2,664	5,257
Total component units	<u>\$ 2,315,870</u>	<u>\$ 38,655</u>	<u>\$ 2,664</u>	<u>\$ 5,257</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - 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			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (747,992)	\$ -	\$ (747,992)	\$ -
(2,965,780)	-	(2,965,780)	-
(736,985)	-	(736,985)	-
(64,935)	-	(64,935)	-
(109,148)	-	(109,148)	-
(4,624,840)	-	(4,624,840)	-
-	179,234	179,234	-
-	(361,306)	(361,306)	-
-	(182,072)	(182,072)	-
(4,624,840)	(182,072)	(4,806,912)	-
-	-	-	(1,858,910)
-	-	-	(410,384)
-	-	-	(2,269,294)
4,034,368	-	4,034,368	2,104,718
620,774	-	620,774	-
159,571	87,108	246,679	85,316
87,458	48,935	136,393	6,799
73,716	(73,716)	-	-
4,975,887	62,327	5,038,214	2,196,833
351,047	(119,745)	231,302	(72,461)
7,916,114	8,758,336	16,674,450	1,282,467
<u>\$ 8,267,161</u>	<u>\$ 8,638,591</u>	<u>\$ 16,905,752</u>	<u>\$ 1,210,006</u>

City of Walled Lake, Michigan

Governmental Funds Balance Sheet June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund		
Assets					
Cash and investments (Note 3)	\$ 1,310,676	\$ 444,540	\$ 23,194	\$ -	\$ 1,778,410
Receivables:					
Due from other governmental units	5,458	40,926	15,636	-	62,020
Other	33,117	-	-	-	33,117
Due from component units	5,575	-	-	-	5,575
Prepaid expenses and other assets	119,089	960	1,053	-	121,102
Total assets	\$ 1,473,915	\$ 486,426	\$ 39,883	\$ -	\$ 2,000,224
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 64,520	\$ 1,585	\$ 808	\$ -	\$ 66,913
Due to other governmental units	32,724	-	-	-	32,724
Accrued and other liabilities	149,365	37,846	1,165	-	188,376
Cash advances and deposits	183,294	-	-	-	183,294
Total liabilities	429,903	39,431	1,973	-	471,307
Fund Balances					
Reserved for prepaid expenses	119,089	-	-	-	119,089
Unreserved	924,923	446,995	37,910	-	1,409,828
Total fund balances	1,044,012	446,995	37,910	-	1,528,917
Total liabilities and fund balances	\$ 1,473,915	\$ 486,426	\$ 39,883	\$ -	\$ 2,000,224
Fund Balance - Total Governmental Funds					\$ 1,528,917
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					10,675,982
Compensated absences are included as a liability in governmental activities					(889,650)
Long-term liabilities and related accrued interest are not due and payable in the current period and are not reported in the funds					(3,090,890)
Delinquent property taxes are included as revenue in governmental activities					42,802
Net assets of governmental activities					\$ 8,267,161

City of Walled Lake, Michigan

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

	General Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Total Governmental Funds
Revenue					
Property taxes	\$ 3,963,784	\$ -	\$ 72,185	\$ -	\$ 4,035,969
Licenses and permits	270,042	-	-	-	270,042
Federal sources	89,671	-	-	-	89,671
State sources	620,774	249,209	111,493	-	981,476
Charges for services	196,127	-	-	-	196,127
Fines and forfeitures	70,925	-	-	-	70,925
Interest earnings and rent	162,398	29,010	632	-	192,040
Contributions - Downtown Development Authority	261,000	-	-	-	261,000
Other	154,415	650	680	-	155,745
Total revenue	5,789,136	278,869	184,990	-	6,252,995
Expenditures					
Current:					
General government	1,017,918	-	-	-	1,017,918
Public safety	3,194,420	-	-	-	3,194,420
Public works	826,969	219,325	187,549	-	1,233,843
Recreation and cultural	46,041	-	-	-	46,041
Planning and development	-	-	-	375	375
Debt service	279,469	-	-	251,260	530,729
Total expenditures	5,364,817	219,325	187,549	251,635	6,023,326
Excess of Revenue Over (Under) Expenditures	424,319	59,544	(2,559)	(251,635)	229,669
Other Financing Sources (Uses)					
Transportation financing	37,500	-	-	-	37,500
Transfers in	-	-	-	251,635	251,635
Transfers out	(177,919)	-	-	-	(177,919)
Total other financing sources (uses)	(140,419)	-	-	251,635	111,216
Net Change in Fund Balances	283,900	59,544	(2,559)	-	340,885
Fund Balances - Beginning of year	760,112	387,451	40,469	-	1,188,032
Fund Balances - End of year	<u>\$ 1,044,012</u>	<u>\$ 446,995</u>	<u>\$ 37,910</u>	<u>\$ -</u>	<u>\$ 1,528,917</u>

City of Walled Lake, 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	\$ 340,885
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:	
Capital outlay expenditures	141,821
Depreciation expense	(453,619)
Revenue reported in the statement of activities does not provide current financial resources and is not reported as revenue in the governmental funds	(1,601)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	413,225
Debt proceeds are not reported as financing sources on the statement of activities	(37,500)
Accrued interest payable is recorded when due in governmental funds	8,357
Increases in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	<u>(60,521)</u>
Change in Net Assets of Governmental Activities	<u>\$ 351,047</u>

City of Walled Lake, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Water Fund	Sewer Fund	Total Enterprise Fund
Assets			
Current assets:			
Cash and investments (Note 3)	\$ 1,361,387	\$ 317,627	\$ 1,679,014
Receivables:			
Customers	126,845	178,126	304,971
Due from other governmental units	57,213	-	57,213
Prepaid expenses and other assets	66,603	1,960	68,563
Total current assets	1,612,048	497,713	2,109,761
Noncurrent assets:			
Restricted assets (Note 1)	-	1,178	1,178
Capital assets - Net (Note 4)	746,892	6,080,305	6,827,197
Total noncurrent assets	746,892	6,081,483	6,828,375
Total assets	2,358,940	6,579,196	8,938,136
Liabilities			
Current liabilities:			
Accounts payable	6,152	211,348	217,500
Accrued and other liabilities	3,873	812	4,685
Current portion of compensated absences (Note 6)	3,868	3,868	7,736
Total current liabilities	13,893	216,028	229,921
Noncurrent liabilities - Compensated absences - Net of current portion (Note 6)	34,812	34,812	69,624
Total liabilities	48,705	250,840	299,545
Net Assets			
Investment in capital assets - Net of related debt	746,892	6,080,305	6,827,197
Restricted	-	1,178	1,178
Unrestricted	1,563,343	246,873	1,810,216
Total net assets	\$ 2,310,235	\$ 6,328,356	\$ 8,638,591

City of Walled Lake, Michigan

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

	Water Fund	Sewer Fund	Total Enterprise Fund
Operating Revenue			
Customer usage billings	\$ 1,159,607	\$ 718,711	\$ 1,878,318
Tap-in fees and permits	339	150	489
Other charges for services	94,540	-	94,540
Other income	3,323	45,716	49,039
	<u>1,257,809</u>	<u>764,577</u>	<u>2,022,386</u>
Operating Expenses			
Sewage treatment costs	-	837,098	837,098
Cost of water purchased	502,497	-	502,497
Depreciation	86,878	282,885	369,763
Personnel services	388,006	108,952	496,958
General and administrative	178,054	98,264	276,318
	<u>1,155,435</u>	<u>1,327,199</u>	<u>2,482,634</u>
Net Operating Income (Loss)	102,374	(562,622)	(460,248)
Nonoperating Revenue - Interest income	<u>71,971</u>	<u>15,577</u>	<u>87,548</u>
Income (Loss) - Before capital contributions	174,345	(547,045)	(372,700)
Capital Contributions - Capital charge/Tap-in fees	79,743	246,928	326,671
Transfers to Other Funds	<u>(36,858)</u>	<u>(36,858)</u>	<u>(73,716)</u>
Change in Net Assets	217,230	(336,975)	(119,745)
Net Assets - Beginning of year	<u>2,093,005</u>	<u>6,665,331</u>	<u>8,758,336</u>
Net Assets - End of year	<u>\$ 2,310,235</u>	<u>\$ 6,328,356</u>	<u>\$ 8,638,591</u>

City of Walled Lake, Michigan

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

	Water Fund	Sewer Fund	Total Enterprise Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 1,151,240	\$ 692,106	\$ 1,843,346
Payments to suppliers	(562,756)	(826,257)	(1,389,013)
Payments to employees	(384,725)	(105,998)	(490,723)
Other payments	(82,553)	(52,555)	(135,108)
Net cash provided by (used in) operating activities	121,206	(292,704)	(171,498)
Cash Flows from Noncapital Financing Activities - Operating transfers out	(36,858)	(36,858)	(73,716)
Cash Flows from Capital and Related Financing Activities			
Collection of customer assessments	79,743	246,928	326,671
Purchase of capital assets	(54,600)	-	(54,600)
Net cash provided by capital and related financing activities	25,143	246,928	272,071
Cash Flows from Investing Activities - Interest received on investments	71,971	15,577	87,548
Net Increase (Decrease) in Cash and Cash Equivalents	181,462	(67,057)	114,405
Cash and Cash Equivalents - Beginning of year	1,179,925	384,684	1,564,609
Cash and Cash Equivalents - End of year	\$ 1,361,387	\$ 317,627	\$ 1,679,014
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 102,374	\$ (562,622)	\$ (460,248)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	86,878	282,885	369,763
Changes in assets and liabilities:			
Receivables	(2,210)	(26,755)	(28,965)
Other assets	(8,858)	(7)	(8,865)
Accounts payable	(60,259)	10,841	(49,418)
Accrued and other liabilities	3,281	2,954	6,235
Net cash provided by (used in) operating activities	\$ 121,206	\$ (292,704)	\$ (171,498)

City of Walled Lake, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Retiree Health Care Fund	Agency
Assets		
Cash (Note 3)	\$ 22,791	\$ 128,708
Investments (Note 3):		
Bank investment pool	-	11,251
Equity mutual fund	269,440	-
Bond mutual fund	165,784	
Prepaid expense and other assets	5,713	-
Total assets	463,728	<u>\$ 139,959</u>
Liabilities		
Due to other governmental units	1,016	\$ -
Cash bonds and deposits	-	139,959
Total liabilities	1,016	<u>\$ 139,959</u>
Net Assets - Held in trust for employee benefits	<u>\$ 462,712</u>	

City of Walled Lake, Michigan

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

	<u>Retiree Health Care Fund</u>
Additions	
Investment income:	
Interest and dividends	\$ 7,523
Net increase in fair value of investments	<u>49,841</u>
Net investment income	57,364
Contributions - Employer	<u>92,500</u>
Total additions	149,864
Deductions	
Retiree healthcare premium	68,866
Other	<u>6,999</u>
Total deductions	<u>75,865</u>
Change in Net Assets	73,999
Net Assets - Beginning of year	<u>388,713</u>
Net Assets - End of year	<u><u>\$ 462,712</u></u>

City of Walled Lake, Michigan

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority	Walled Lake City Library	Total
Assets			
Cash and equivalents	\$ 373,962	\$ 354,901	\$ 728,863
Delinquent property tax receivable	10,612	-	10,612
Due from other governmental units	-	7,000	7,000
Prepaid expenses and other assets	-	3,037	3,037
Depreciable capital assets - Net (Note 4)	438,713	346,848	785,561
Total assets	823,287	711,786	1,535,073
Liabilities			
Accounts payable	34,300	-	34,300
Due to primary government	5,575	-	5,575
Due to other governmental units	896	-	896
Accrued and other liabilities	-	1,046	1,046
Noncurrent liabilities (Note 6):			
Due within one year	63,625	-	63,625
Due in more than one year	219,625	-	219,625
Total liabilities	324,021	1,046	325,067
Net Assets			
Investment in capital assets	438,713	346,848	785,561
Unrestricted	60,553	363,892	424,445
Total net assets	<u>\$ 499,266</u>	<u>\$ 710,740</u>	<u>\$ 1,210,006</u>

City of Walled Lake, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants and Contributions
Downtown Development Authority - Public works	\$ 1,859,431	\$ 521	\$ -	\$ -
Walled Lake City Library - Recreation and culture	<u>456,439</u>	<u>38,134</u>	<u>2,664</u>	<u>5,257</u>
Total governmental activities	<u>\$ 2,315,870</u>	<u>\$ 38,655</u>	<u>\$ 2,664</u>	<u>\$ 5,257</u>

General revenues:

- Property taxes
- Unrestricted investment earnings
- Miscellaneous

Total general revenues and special item

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

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

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Walled Lake City Library	Total
\$ (1,858,910)	\$ -	\$ (1,858,910)
<u>-</u>	<u>(410,384)</u>	<u>(410,384)</u>
(1,858,910)	(410,384)	(2,269,294)
1,645,881	458,837	2,104,718
62,304	23,012	85,316
<u>6,799</u>	<u>-</u>	<u>6,799</u>
<u>1,714,984</u>	<u>481,849</u>	<u>2,196,833</u>
(143,926)	71,465	(72,461)
<u>643,192</u>	<u>639,275</u>	<u>1,282,467</u>
<u>\$ 499,266</u>	<u>\$ 710,740</u>	<u>\$ 1,210,006</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Walled Lake, 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:

Reporting Entity

The City is governed by an elected mayor and six-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Walled Lake, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

The following component units are reported within the component units column in the accompanying financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The authority's governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council.
- b. The Walled Lake City Library is governed by a five-member board appointed by the mayor and approved by the City Council. The library is funded by two specially voted property tax levies.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

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

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.

Major Streets Fund - The Major Streets Fund is used to account for maintenance and construction of major public roads within the City.

Local Streets Fund - The Local Streets Fund is used to account for maintenance and construction of local public roads within the City.

Capital Projects Fund - The Capital Projects Fund is used to account for the development of capital facilities and repayment of debt service associated with those capital facilities other than those financed by the operations of a proprietary fund.

The City reports the following major proprietary funds:

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fiduciary fund types:

Retiree Health Care Fund - The Retiree Health Care Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the governmental unit in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

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

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

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, such as water and sewer distribution and collection. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31; the related property taxes are billed on July 1 and become a lien on December 31 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with a final collection date of February 28 before they are added to the county tax rolls. The 2006 taxable valuation of the City totaled approximately \$247 million. The taxes levied and the resulting revenue by fund and component units were as follows:

	Millage	
	Rate	Revenue
	_____	_____
Operating millage	15.9526	\$ 3,788,541
Refuse millage	0.1644	40,436
Other - Tax collection and trailer park fees		<u>205,391</u>
Total governmental funds		<u>\$ 4,034,368</u>
Library Fund - Component unit	0.7975	\$ 205,332
Library Fund - Component unit	0.9846	253,505
Downtown Development Authority capture		<u>1,645,881</u>
Total component units		<u>\$ 2,104,718</u>

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For the purpose of the statement of cash flows, the proprietary fund considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

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 - Specific assets held at Oakland County for various water and sewer system-related contracts are classified as restricted assets on the balance sheet because the City has turned over control of these assets to Oakland County based on specific contracts with them.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 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:

Roads and sidewalks	40 to 50 years
Water and sewer distribution systems	38 to 50 years
Buildings and building improvements	25 to 50 years
Vehicles	3 to 15 years
Furniture and equipment	3 to 30 years

Compensated Absences - It is the City’s policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

Use of Estimates - The 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

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. 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 activity since January 1, 2000 is as follows:

Building permit revenue	\$ 101,539
Direct costs	(198,905)
Cumulative costs in excess of permit revenue:	
Beginning of year	<u>(38,235)</u>
End of year	<u>\$ (135,601)</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 local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Care Fund was organized under Public Act 149 of 1999. Under this act, the fund is authorized to invest in accordance with Public Act 314, and accordingly can invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City of Walled Lake's deposits and investment policies are in accordance with statutory authority.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

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 \$3,008,986 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 federal depository insurance coverage pertains to all deposits of the City; hence, the specific coverage pertaining to the component units, if any, is not determinable.

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 City holds \$216,490 of U.S. agency securities with a weighted maturity of 8.1 years. The Retiree Health Care Fund holds \$168,428 of pool investments with a weighted maturity of 4.5 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
<u>City</u>			
Bank investment pools	\$ 79,084	Aaa	Moody's
Bank investment pools	99,119	AAA-VI	Fitch
U.S. government agencies	216,490	Unrated	N/A
Retirees Health Care Fund - Pool investment	168,428	Unrated	N/A
<u>Component Units</u>			
Bank investment pools	26,617	Aaa	Moody's
Bank investment pools	14,260	AAA-VI	Fitch

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets

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

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 1,572,172	\$ -	\$ -	\$ 1,572,172
Capital assets being depreciated:				
Roads and sidewalks	9,120,541	-	-	9,120,541
Buildings and improvements	1,154,303	-	-	1,154,303
Vehicles	1,324,337	91,125	69,507	1,345,955
Furniture and equipment	984,732	50,696	-	1,035,428
Subtotal	12,583,913	141,821	69,507	12,656,227
Less accumulated depreciation	3,168,305	453,619	69,507	3,552,417
Net capital assets being depreciated	9,415,608	(311,798)	-	9,103,810
Net capital assets	<u>\$ 10,987,780</u>	<u>\$ (311,798)</u>	<u>\$ -</u>	<u>\$ 10,675,982</u>
	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 14,808,767	\$ -	\$ -	\$ 14,808,767
Furniture and equipment	994,252	54,600	-	1,048,852
Subtotal	15,803,019	54,600	-	15,857,619
Less accumulated depreciation	8,660,659	369,763	-	9,030,422
Net capital assets being depreciated	<u>\$ 7,142,360</u>	<u>\$ (315,163)</u>	<u>\$ -</u>	<u>\$ 6,827,197</u>

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

Capital asset activity for the City's component units for the year was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Component Units				
Capital assets not being depreciated - Construction in progress	\$ 22,505	\$ -	\$ 22,505	\$ -
Capital assets being depreciated:				
Street lighting	476,334	-	-	476,334
Furniture and equipment	65,936	25,697	-	91,633
Books, periodicals, and materials	859,548	38,465	-	898,013
Subtotal	1,401,818	64,162	-	1,465,980
Less accumulated depreciation	580,760	99,659	-	680,419
Net capital assets being depreciated	821,058	(35,497)	-	785,561
Net capital assets	<u>\$ 843,563</u>	<u>\$ (35,497)</u>	<u>\$ 22,505</u>	<u>\$ 785,561</u>

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

Governmental activities:	
General government	\$ 15,029
Public safety	186,260
Public works	233,436
Recreation and culture	18,894
Total governmental activities	<u>\$ 453,619</u>
Business-type activities:	
Water	\$ 86,878
Sewer	282,885
Total business-type activities	<u>\$ 369,763</u>
Component units:	
DDA	\$ 15,878
Library	83,781
Total component units	<u>\$ 99,659</u>

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Interfund Transfers

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 177,919
Water Fund	Capital Projects Fund	36,858
Sewer Fund	Capital Projects Fund	<u>36,858</u>
Total		<u>\$ 251,635</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations, debt service costs, and projects accounted for in the respective funds.

Note 6 - 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, capital leases, and installment purchase agreements are also general obligations of the government.

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
Limited Tax General Obligation Development Bonds:						
Amount of issue: \$2,500,000	5.65%-	\$200,000-				
Maturing through 2011	6.00%	\$250,000	\$ 1,100,000	\$ (200,000)	\$ 900,000	\$ 200,000
Building Authority Complex Bond:						
Amount of issue: \$1,400,000	4.00%-	\$50,000-				
Maturing through 2022	6.00%	\$100,000	1,300,000	(50,000)	1,250,000	50,000
Total general obligation bonds			2,400,000	(250,000)	2,150,000	250,000
Installment purchase agreements:						
Bundo property:						
Amount of issue: \$995,000		\$125,000-				
Maturing through 2011	4.80%	\$145,000	645,000	(110,000)	535,000	125,000
Fire truck:						
Amount of issue: \$551,180		\$55,933-				
Maturing through 2011	5.09%	\$68,220	362,844	(53,225)	309,619	55,933
SMART loan:						
Amount of issue: \$37,500						
Maturing through 2009	0%	\$12,500	-	37,500	37,500	12,500
Total installment purchase agreements			1,007,844	(125,725)	882,119	193,433
Total general obligation bonds and installment purchase agreements			3,407,844	(375,725)	3,032,119	443,433
Other long-term obligations - Compensated absences			829,129	60,521	889,650	60,814
Total governmental activities			4,236,973	(315,204)	3,921,769	504,247
Business-type Activities - Other long-term obligations - Compensated absences			72,098	5,262	77,360	7,736
Component Unit - Walled Lake Consolidated						
School Agreement:						
Amount of issue: \$769,000						
Maturing through 2012	-	\$63,625	346,875	(63,625)	283,250	63,625
Total governmental activities, business-type activities, and component unit			\$ 4,655,946	\$ (373,567)	\$ 4,282,379	\$ 575,608

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

Annual debt service requirements, exclusive of compensated absences, for the above bonds and note obligations are as follows:

	Governmental Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 443,433	\$ 148,240	\$ 591,673	\$ 63,625	\$ -	\$ 63,625
2009	496,280	124,393	620,673	63,625	-	63,625
2010	514,272	94,257	608,529	52,000	-	52,000
2011	484,914	73,037	557,951	52,000	-	52,000
2012	143,220	49,697	192,917	52,000	-	52,000
2013-2017	450,000	201,797	651,797	-	-	-
2018-2022	500,000	94,200	594,200	-	-	-
Total	<u>\$ 3,032,119</u>	<u>\$ 785,621</u>	<u>\$ 3,817,740</u>	<u>\$ 283,250</u>	<u>\$ -</u>	<u>\$ 283,250</u>

Note 7 - 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 and participates in the Michigan Municipal League risk pool for claims relating to general liability and property, unemployment compensation, and employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Defined Benefit Pension Plan

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Note 8 - Defined Benefit Pension Plan (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the collective bargaining units and requires no contribution from the employees.

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$454,177 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using an entry age normal funding method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, noncompounded after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 387,292	\$ 408,984	\$ 454,177
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

City of Walled Lake, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Defined Benefit Pension Plan (Continued)

	Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 2,667,445	\$ 2,996,775	\$ 3,364,957
Actuarial accrued liability (entry age) (AAL)	\$ 7,622,313	\$ 9,593,477	\$ 10,095,789
Unfunded AAL (UAAL)	\$ 4,954,868	\$ 6,596,702	\$ 6,730,832
Funded ratio	35%	31%	33%
Covered payroll	\$ 2,102,954	\$ 2,260,917	\$ 2,344,612
UAAL as a percentage of covered payroll	236%	292%	287%

Note 9 - Defined Contribution Retirement Plan

The City provides pension benefits to substantially all employees other than those included in a collective bargaining unit through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Walled Lake City Council, the City contributes 7 percent to 10 percent of employees' base earnings. The employees are not required to make a contribution but may make a voluntary contribution. In accordance with these requirements, the City contributed \$10,872 during the current year, and the employees contributed \$7,766.

Note 10 - Joint Venture

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (the "Authority"). The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. During the current year, the City contributed approximately \$5,700 for its operations. Complete financial statements for the Authority can be obtained from the administrative offices at 20000 West 8 Mile Road, Southfield, Michigan 48075.

Note 11 - Contingent Liability - Disputed Property Taxes

The City has collected approximately \$71,000 in taxes, which are now being disputed by various property owners. The majority of these disputed taxes relate to personal property taxes. The City has accrued \$71,000 for the potential refund of these disputed property taxes.

Note 12 - Retiree Health Care Fund

Effective January 1, 2000, the City entered into an agreement with its employees to provide retiree healthcare benefits. Under terms of the agreement, the City is required to set aside \$75 per pay for each employee. Of this amount, \$70 is set aside to pay premiums of up to \$800 per month for retiree health care. The other \$5 is set aside to reimburse employees, who upon retirement or separation from the City do not wish to participate in the retiree healthcare program. The \$75 contributed to the plan is set aside by the City in a fund established in compliance with PA 149 of 1999, called the Retiree Health Care Fund.

In order to offset these new costs to the City, the employees contribute \$25 per pay to the City's General Fund for current healthcare costs. To be eligible for retirement healthcare benefits, an employee must have a minimum of 15 years' seniority, or six years' seniority if they were a member of the clerical unit prior to January 1, 2000. For most employees, benefits do not commence until the employee starts to draw from the City's MERS pension plan. If an employee elects not to receive a healthcare benefit upon retirement, the City will provide a severance benefit equal to \$25 multiplied by the number of pay periods the employee worked subsequent to January 1, 2000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2008.

Required Supplemental Information

City of Walled Lake, 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:				
Real and personal property tax	\$ 3,577,575	\$ 3,074,407	\$ 3,504,704	\$ 430,297
Refuse tax	324,273	332,773	324,273	(8,500)
Walled Lake Villa and mobile home taxes	10,750	10,750	15,786	5,036
Delinquent taxes	6,500	10,000	7,032	(2,968)
Collection fees	39,953	62,489	69,953	7,464
Interest, penalties, and other	17,343	20,000	42,036	22,036
Total property taxes	3,976,394	3,510,419	3,963,784	453,365
Licenses and permits:				
Building permits	105,266	152,010	101,539	(50,471)
Cablevision fee	102,634	80,000	102,634	22,634
Planning and zoning fees	32,055	31,500	32,205	705
Other licenses and permits	30,864	17,100	33,664	16,564
Total licenses and permits	270,819	280,610	270,042	(10,568)
Federal sources	28,185	102,190	89,671	(12,519)
State sources:				
Revenue sharing	600,000	624,975	614,182	(10,793)
Police training	5,061	3,400	6,578	3,178
Liquor license fees	14	1,000	14	(986)
Total state sources	605,075	629,375	620,774	(8,601)
Charges for services:				
Radio service	40,019	40,019	40,019	-
Weed cutting	(3,039)	2,000	5,278	3,278
Cemetery lot sales	2,810	2,500	1,620	(880)
School liaison	14,057	20,000	34,390	14,390
Administrative charges to other funds	111,000	110,500	114,820	4,320
Total charges for services	164,847	175,019	196,127	21,108
Fines and forfeitures - District Court	59,780	70,500	70,925	425
Interest and rent:				
Interest and earnings	122,064	28,500	129,454	100,954
Equipment and building rental	29,703	22,250	32,944	10,694
Total interest and rent	151,767	50,750	162,398	111,648

City of Walled Lake, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue (Continued)				
Other:				
Sale of fixed assets	\$ 16,572	\$ 6,500	\$ 15,372	\$ 8,872
DARE contributions	40,000	40,000	30,000	(10,000)
Reimbursements	24,000	24,000	21,297	(2,703)
DDA sharing agreement	-	321,000	-	(321,000)
Refunds and rebates	1,145	17,100	5,417	(11,683)
Reimbursement for Maple Road debt service	272,300	272,300	261,000	(11,300)
Other	124,562	56,600	82,329	25,729
Total other	<u>478,579</u>	<u>737,500</u>	<u>415,415</u>	<u>(322,085)</u>
Total revenue	5,735,446	5,556,363	5,789,136	232,773
Other Financing Sources - Transportation funding	-	-	37,500	37,500
Total revenues and other financing sources	5,735,446	5,556,363	5,826,636	270,273
Expenditures				
General government:				
Mayor and Council	16,270	20,725	17,879	2,846
City manager	61,649	55,058	60,029	(4,971)
Assessor	53,791	53,791	49,068	4,723
Board of Review	1,100	1,300	1,025	275
Attorney	35,700	36,000	38,700	(2,700)
Prosecution and litigation	164,050	128,000	159,699	(31,699)
Clerk	282,536	278,208	277,706	502
Treasurer	259,490	268,648	256,363	12,285
General government	<u>197,462</u>	<u>222,126</u>	<u>157,449</u>	<u>64,677</u>
Total general government	1,072,048	1,063,856	1,017,918	45,938
Public safety:				
Police	1,616,889	1,599,644	1,624,352	(24,708)
Fire	915,735	954,050	902,400	51,650
Dispatch	339,257	327,714	336,014	(8,300)
Zoning Board of Appeals	1,000	3,000	740	2,260
Building inspection	190,717	220,015	198,905	21,110
Planning Commission	<u>131,226</u>	<u>117,584</u>	<u>132,009</u>	<u>(14,425)</u>
Total public safety	3,194,824	3,222,007	3,194,420	27,587
Public works:				
Department of Public Works	467,843	493,528	474,690	18,838
Sanitation	321,642	328,773	322,360	6,413
Transportation	51,903	51,903	29,919	21,984
Debt service	<u>272,300</u>	<u>272,300</u>	<u>279,469</u>	<u>(7,169)</u>
Total public works	1,113,688	1,146,504	1,106,438	40,066

City of Walled Lake, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Cultural and recreation:				
Parks and recreation	\$ 32,166	\$ 49,925	\$ 43,479	\$ 6,446
Beautification Commission	2,288	2,000	2,562	(562)
Total cultural and recreation	<u>34,454</u>	<u>51,925</u>	<u>46,041</u>	<u>5,884</u>
Total expenditures	5,415,014	5,484,292	5,364,817	119,475
Other Financing Uses - Transfer out	<u>177,727</u>	<u>177,727</u>	<u>177,919</u>	<u>(192)</u>
Total expenditures and other financing uses	<u>5,592,741</u>	<u>5,662,019</u>	<u>5,542,736</u>	<u>119,283</u>
Excess of Revenue Over (Under) Expenditures and Other Financing Uses	142,705	(105,656)	283,900	389,555
Fund Balance - Beginning of year	<u>760,112</u>	<u>760,112</u>	<u>760,112</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 902,817</u>	<u>\$ 654,456</u>	<u>\$ 1,044,012</u>	<u>\$ 389,555</u>

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue	\$ 268,293	\$ 268,293	\$ 249,209	\$ (19,084)
Interest earnings	15,000	15,000	29,010	14,010
Other	618	618	650	32
Total revenue	283,911	283,911	278,869	(5,042)
Expenditures				
Street construction	64,500	64,500	8,825	55,675
Street maintenance	108,793	108,793	122,198	(13,405)
Traffic signs	38,657	38,657	32,491	6,166
Administrative	58,369	58,434	55,811	2,623
Total expenditures	270,319	270,384	219,325	51,059
Excess of Revenue Over Expenditures	13,592	13,527	59,544	46,017
Fund Balance - Beginning of year	387,451	387,451	387,451	-
Fund Balance - End of year	<u>\$ 401,043</u>	<u>\$ 400,978</u>	<u>\$ 446,995</u>	<u>\$ 46,017</u>

City of Walled Lake, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Streets Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 52,030	\$ 52,030	\$ 72,185	\$ 20,155
State-shared revenue	119,320	119,320	111,493	(7,827)
Interest earnings	1,000	1,000	632	(368)
Other	670	670	680	10
Total revenue	173,020	173,020	184,990	11,970
Expenditures				
Street construction	53,500	53,500	45,716	7,784
Street maintenance	88,263	88,263	88,393	(130)
Traffic signs	4,829	4,829	4,644	185
Administrative	54,932	53,485	48,796	4,689
Total expenditures	201,524	200,077	187,549	12,528
Excess of Expenditures Over Revenue	(28,504)	(27,057)	(2,559)	24,498
Fund Balance - Beginning of year	40,469	40,469	40,469	-
Fund Balance - End of year	\$ 11,965	\$ 13,412	\$ 37,910	\$ 24,498

City of Walled Lake, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Budgetary Information

The City adopts a formal budget for the General Fund, the Capital Project Fund, and all Special Revenue Funds. By the end of February, all department heads submit spending requests to the City manager so that a budget may be prepared. At the beginning of April, the proposed budget is submitted to the City Council for review. Public hearings are held and a final budget is adopted by the City Council no later than the third Monday in May. The City Council must approve any budget amendments. Unexpended appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2007 has not been calculated.

The budget document presents information by fund, activity, and line items. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. During the current year, the budget was amended after year end.

City of Walled Lake, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Budgetary Information (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Walled Lake incurred expenditures that were in excess of the amounts budgeted in the following funds:

		Amended Budget	Actual	Variance
General Fund:				
General government:				
City manager	(1)	\$ 55,058	\$ 60,029	\$ (4,971)
Attorney	(2)	36,000	38,700	(2,700)
Prosecution and litigation	(2)	128,000	159,699	(31,699)
Public safety:				
Police	(3)	1,599,644	1,624,352	(24,708)
Dispatch	(3)	327,714	336,014	(8,300)
Planning commission	(4)	117,584	132,009	(14,425)
Public works - Debt service	(1)	272,300	279,469	(7,169)
Cultural and recreation - Beautification				
Commission	(1)	2,000	2,562	(562)
Other financing uses - Transfer out	(1)	177,727	177,919	(192)
Major Streets Fund - Street maintenance	(5)	108,793	122,198	(13,405)
Local Streets Fund - Street maintenance	(5)	88,263	88,393	(130)

- (1) The unfavorable expenditure variances were due to miscellaneous expenditures that became necessary during the year
- (2) The unfavorable expenditure variance related to attorney and prosecution and litigation was caused by additional fees incurred related to the DDA settlement with the County.
- (3) The unfavorable variances in the police and dispatch departments relate primarily to an increase in command officer expense, as well as expenses for retirements.
- (4) The unfavorable variance in the planning commission occurred due to a consultant retainer with the City's attorneys for various projects throughout the year.
- (5) The unfavorable variance in the Major Streets Fund and Local Street Fund for street maintenance was due to additional rental fees incurred for the equipment used by the City.

Other Supplemental Information

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Downtown Development Authority Year Ended June 30, 2007

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property tax capture	\$ 1,662,696	\$ (16,815)	\$ 1,645,881
Interest earnings	62,304	-	62,304
Other income	7,320	-	7,320
Total revenue	1,732,320	(16,815)	1,715,505
Expenditures			
Depreciation	-	15,878	15,878
Personnel costs	1,312	-	1,312
Office and administrative expenses	2,444	-	2,444
Maple Road debt service	261,000	-	261,000
School facility reimbursement	63,625	(63,625)	-
Planning and development	7,500	-	7,500
Prior year refund to County	44,818	-	44,818
Refund for tax tribunal settlements	91,072	-	91,072
Refund to taxing authorities	1,434,155	-	1,434,155
Miscellaneous	1,252	-	1,252
Total expenditures	1,907,178	(47,747)	1,859,431
Excess of Expenditures Over Revenue	(174,858)	30,932	(143,926)
Net Assets - Beginning of year	508,049	135,143	643,192
Net Assets - End of year	\$ 333,191	\$ 166,075	\$ 499,266
Note: Net assets have been designated as follows - Proceeds from property sale	\$ 299,089		

City of Walled Lake, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Net Assets Walled Lake City Library Year Ended June 30, 2007

	Modified Accrual	Full Accrual Adjustments	Full Accrual
Revenue			
Property taxes	\$ 458,837	\$ -	\$ 458,837
State-shared revenue	2,664	-	2,664
Interest earnings	23,012	-	23,012
Video rentals	2,670	-	2,670
Library fines and fees	35,464	-	35,464
Other income	5,213	-	5,213
Total revenue	527,860	-	527,860
Expenditures			
Personnel costs	254,135	-	254,135
Office and administrative expenses	108,251	-	108,251
Depreciation	-	83,781	83,781
Capital outlay	74,390	(64,162)	10,228
Total expenditures	436,776	19,619	456,395
Excess of Revenues Over Expenditures	91,084	(19,619)	71,465
Net Assets - Beginning of year	272,808	366,467	639,275
Net Assets - End of year	\$ 363,892	\$ 346,848	\$ 710,740



Plante & Moran, PLLC
27400 Northwestern Highway
P.O. Box 307
Southfield, MI 48037-0307
Tel: 248.352.2500
Fax: 248.352.0018
plantemoran.com

November 27, 2007

To the Honorable Mayor and
Members of the City Council
City of Walled Lake
1499 East West Maple Road
Walled Lake, MI 48390

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Walled Lake for the year ended June 30, 2007. In addition to the audit report, we offer the following comments for your consideration:

Financial Health Measures

The City has been watching its financial position very carefully the last several years, due to several negative fiscal trends (sluggish tax base for the General Fund budget; declining building permit activity and state-shared revenue; increased employee fringe benefit costs). As a result of close budget monitoring, we are pleased to report that the City's financial position has improved measurably. We have attached as Exhibit A a four-year history of a series of key financial measures. This analysis includes short-term measures of financial health (General Fund unreserved fund balance), mid-term measures (unreserved fund balance of all governmental funds), and long-term measures (unrestricted and restricted net assets of the governmental activities, from the government-wide statements).

Regardless of whether you focus on short-term or longer-term measures, the City has improved in every category. This is important, obviously, for the City to maintain its long-term financial health. As of June 30, 2007, the City is still below the median of Oakland County communities; however, the trends are all going in the right direction, and we encourage you to continue the financial path you are on.

Audit Standards Changes - This Year and Next

The American Institute of Certified Public Accountants Audit Standards Board recently issued several new Statements on Auditing Standards that significantly affect the audit process. The first two changes impacted the current audit of the year ended June 30, 2007; the other changes will have a much more significant impact, and will be applicable next year.

The current year's audit changes impacted audit documentation procedures and communications of internal control deficiencies to the City Council. Under these new rules, when we become aware of any internal control deficiencies that could result in more than a remote likelihood of an error in the financial statements (unless clearly inconsequential), we must communicate those to you in writing. The purpose of this new rule is to make you aware of potential issues before they arise to the level of material weaknesses. As a result, we identified several items to communicate to you (below, under "internal control issues"), in much more detail than in prior years.

For next year's audit, eight new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. We have recently put on a seminar explaining these new rules, which was attended by your staff. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control
- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider "what could go wrong" in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor's work to those charged with governance (the City Council)

As you can see, auditors will spend significantly more time working with all aspects of your internal control (accounting processes, information technology general and application controls, and traditional internal control procedures). The intent of these new rules is to help audited organizations deal with their internal control. The thought process is that internal control is critically important to any organization, and it would be better served if the annual audit focused significant work on its effectiveness. These new rules are not limited to the public sector - they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.).

These new rules will impact audited organizations in two ways: your finance staff will incur more time and effort in preparation for the audit, and the audit process will require additional time. Plante & Moran, PLLC has spent the last six months creating the new audit forms and documents that will be needed to meet these new rules. The internal control and accounting process documentation documents have already been shared with your finance staff.

Internal Control Issues

During this year's audit, we identified material weaknesses in the City's internal controls. We have discussed this in detail with management, and would like to communicate the issues with the City Council as well. In planning and performing our audit 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 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 material weaknesses.

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 accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

- During the fiscal year, bank accounts were not accurately reconciled to the general ledger. It would appear that this was caused primarily by the transfer of bank reconciliation duties from the Treasurer to the Deputy Treasurer. The City has spent considerable time evaluating the causes, and has concluded to change several of its bank accounts and accounting procedures in order to better synchronize the general ledger with the bank account structure. This should significantly simplify the bank reconciliation process beginning in October 2007.

- The City should institute stronger formal documentation of the initiation and recording of wire transfers. We noted several wire transfers performed at the financial institution level that were not recorded in the City's general ledger on a timely basis. It would appear that this was caused by the new separation of general ledger duties from wire transfer responsibility. This separation will now require better documentation of wire transfers, in order to ensure that all wire transfer activity is adequately recorded in the general ledger.
- Auditor identified journal entries were posted to the City's financial records during the audit. The entries were needed to adjust year-end balances to be in conformity with generally accepted accounting principles. We are happy to assist in adjusting the City's general ledger, but are also required to communicate our part in completing the City's accounting records to you. A number of these journal entries were related to property taxes, intergovernmental activities, and those required for the full-accrual presentation of the government-wide statements.
- Segregation of accounting duties is a fundamental control activity that separates the duties of authorization, recordkeeping, and custody of assets. It is our understanding that the city treasurer at times has the ability to collect cash, electronically transfer funds out of the bank, prepare bank reconciliations, and create journal entries. To improve internal controls, we recommend segregating the recordkeeping functions from the collection of cash and initiation of bank transactions. Perhaps the new deputy treasurer position can be used to accomplish this separation.

In addition to the above, we have identified additional matters that we would like to communicate as a result of our audit. These matters are not considered to be significant deficiencies or material weaknesses.

Reconciling Activities

- As discussed in the prior year, during the audit we noted that the City experienced some difficulty reconciling property tax revenues to the final tax settlement sheet approved by Oakland County. As property taxes are collected, a reconciliation should be performed to verify all property tax activity is accurately included in general ledger accounts. We have personnel available who specialize in this area and could walk through the settlement process with the treasurer to assist with accurate recording of the activity.

- The department of public works compares volume data from the Detroit water bills to the water units sold as measured by the billing registers. This comparison is one of the important measures used to determine whether there could be any number of issues in the system (potential water leaks, inaccurate meters, etc.) We noted in our audit that the volume of water sold as measured by the billing registers appears to have some inaccuracies when aggregating multi-meter customers. We recommend the City attempt to correct any errors in this measurement. Software enhancements may also be a potential solution. These reconciliations will assist the DPW director in monitoring the usage billed in relation to the amount purchased as an indicator of potential water loss due to line breaks and other system leaks.

Journal Entries

During the testing of journal entries, it was noted that the process for dating journal entries could be improved. Currently, many journal entries that relate to prior periods (one or two months earlier) are dated with the earlier date, rather than the date at which the journal entry is created and posted. We believe this system has the propensity to confuse bank reconciliations and other reports, since it changes data after reports have been run. It would be preferable to date most journal entries as of the creation and posting date, rather than the date at which the original transaction might have occurred.

In addition, we noted that journal entries between funds are often recorded on a “net” basis. To properly document activity, transactions should be recorded on a “gross” basis and not netted with other transactions.

Capital Assets

During review of capital assets, it was noted that several capital assets were entered into the City’s system before the City had actual rights to the assets. Proper dating of capital assets in the system is important to maintain the correct amount of depreciation and value of capital assets.

Legislative Matters with Financial Impact to the City

State-shared Revenue

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not yet been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels. The City's historical state-shared revenue on a June 30 fiscal year basis is as follows:

<u>Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>
2003	\$ 260,047	\$ 447,509	\$ 707,556
2004	193,269	442,649	635,918
2005	175,773	453,213	628,986
2006	161,060	460,927	621,987
2007	152,115	451,349	603,464
2008 (est.)	146,710	456,755	603,465

As can be seen, total state-shared revenue has decreased by 15 percent during this period (including a 44 percent decrease in the statutory portion). The declines have slowed in recent years, but the following factors will still impact the ability of the State to maintain the level of state-shared revenue:

- The statutory portion of revenue sharing sunsets on September 30, 2007. It has been temporarily extended, but the distribution (or allocation) formulas will need to be worked on to make distributions equitable.
- Counties will be coming back into the state-shared revenue formula, which might reduce amounts available to cities, unless it is fully funded at statutory levels.
- Michigan's tax structure has changed drastically in the last few months (with the Michigan business tax, and the (perhaps to be repealed) sales tax on services). However, there were indications that the size of the deficit could grow in the 2008/2009 fiscal year, and these new taxes may or may not cover that budget.

We will continue to update the City as developments occur.

To the Honorable Mayor and
Members of the City Council
City of Walled Lake

7

November 27, 2007

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund to their Local Streets Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the major and local streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Streets Fund to the Local Streets Fund can only be done to the extent that local revenues exist in the Major Streets Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

Plante & Moran, PLLC



Joseph C. Heffernan



William E. Brickey

Key Financial Trends

	2004	2005	2006	2007
General Fund Measures (Short Term)				
Unreserved fund balance - General Fund	\$ 365,124	\$ 345,243	\$ 645,563	\$ 901,814
Unreserved fund balance compared to expenditures	7.3%	6.4%	11.0%	16.4%
Current ratio (assets/liabilities)	1.8	1.8	2.4	3.4
All Governmental Fund Measures (Mid Term)				
Unreserved fund balance - All governmental funds	\$ 1,148,938	\$ 937,011	\$ 1,073,483	\$ 1,409,828
Unreserved fund balance compared to expenditures	20.6%	15.5%	18.0%	23.4%
Current ratio (assets/liabilities)	2.8	2.2	2.6	4.2
Cash position (cash and inv/unreserved fund balance)	1.3	1.1	1.1	1.3
Government-wide, Governmental Activities (Long Term)				
Unrestricted net assets	\$ (311,671)	\$ (324,010)	\$ (91,742)	\$ 138,393
Restricted plus unrestricted net assets	\$ 465,101	\$ 267,758	\$ 336,178	\$ 623,298
Unrestricted net assets, as a percentage of annual expenses	-5.9%	-5.9%	-1.6%	2.4%
Restricted plus unrestricted net assets, as a percentage of annual expenses	8.8%	4.9%	5.8%	10.6%
Unrestricted net assets per capita	\$ (46)	\$ (47)	\$ (13)	\$ 20
Restricted plus unrestricted net assets per capita	\$ 68	\$ 39	\$ 49	\$ 90
Current ratio (current assets/current liabilities)	2.4	2.4	2.6	2.9
Change in net assets as % of expenses	-1.3%	0.4%	2.7%	6.0%