

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Harbor Beach	County Huron
Audit Date 6/30/04	Opinion Date 9/3/04	Date Accountant Report Submitted to State: 12/20/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.			
Street Address 7274 Hartley Street	City Pigeon	State MI	ZIP 48755
Accountant Signature <i>Brian Hazard, CPA</i>		Date 12/20/04	

**CITY OF HARBOR BEACH
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT
Using the GASB 34 Model
JUNE 30, 2004**

CITY OF HARBOR BEACH, MICHIGAN

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CITY OF HARBOR BEACH, MICHIGAN

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Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

CPA's On Your Team

Report of Independent Auditors

To the City Council
City of Harbor Beach
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of and for the year ended June 30, 2004, 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 Harbor Beach's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of June 30, 2004, and the respective changes in financial position, and the cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, on our consideration of the City of Harbor Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Report of Independent Auditors (Continued)

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

**NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN**

September 3, 2004

**CITY OF HARBOR BEACH
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR – July 1, 2003 to June 30, 2004**

The management of the City of Harbor Beach presents to readers of the City's financial statements this narrative financial information. It contains an objective overview and analysis of the financial position of the City as of and for the twelve month period ended on June 30, 2004. As management of the City, we encourage readers to consider information contained in this discussion and the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- > The City's assets exceeded its liabilities at the end of the fiscal year by \$15,172,979.
- > Net assets decreased by a total of \$ 491,633, or by approximately 3.1% of last years total net assets of \$ 15,664,612.
- > Net Assets for the Internal Service Fund (Equipment Fund) increased by \$ 37,919 during the fiscal year.
- > The fund balance of the City's General Fund increased by \$ 51,150. The fund balance for Other Governmental Funds (Major Street and Trunkline and Local Streets) increased by \$ 51,325.
- > Appropriation Transfer Out support from the General Fund to Enterprise Funds decreased by \$ 117,000.

FINANCIAL STATEMENTS OVERVIEW

This Management Discussion and Analysis serves to introduce to the reader the City of Harbor Beach's essential financial statements. These financial statements consist of three components, as follows:

- > **Government-wide financial statements**
- > **Fund financial statements**
- > **Notes to the financial statements**

The above financial information will provide the reader with a general understanding of the City's current financial condition. Also, this report contains supplementary information in addition to the basic financial statements which provides a more detailed understanding of the City's finances.

Government-wide Financial Statements

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

The **Statement of Net Assets** presents information on all of the assets and liabilities of the City, with the difference between the two identified as net assets. Over a given period of time, increases or decreases in net assets can serve as a useful indicator of improving or declining financial position of the City.

The **Statement of Activities** shows changes in net assets that occurred during the most recent fiscal year. These changes were recorded on an accrual basis, which distinguishes between the time when a financial transaction occurs and when payment is actually made. An example of accrual accounting is when debt interest payments are scheduled between the fiscal year end. The Statement of Activities will show additional interest expense for the time period between the last interest payment and the end of the fiscal year as an accrual.

The Government-wide Financial Statement, in addition to the Statement of Activities, is broken down into two Activities; Governmental Activities and Business Type Activities. Governmental activities are primarily supported through tax and intergovernmental revenue. Business-type activities are primarily supported through user fees and charges.

Governmental Activities for the City of Harbor Beach include general governmental functions, such as Financial Administration (City Council and Administrative Staff), General Administration (Major and Local Street and Sidewalk Maintenance and Public Improvements) Planning, Police, Property Assessment and Sanitation. Business-type Activities include Sewer, Water, and Parks and Recreation.

Activities not included in this Report are the Harbor Beach Area Fire Department and the Eastern Huron Ambulance Service. Although the City contributes financially to both entities and has representation on their respective Boards, the City has no legislative control over their financial activity.

The Government-wide Financial Statements are found as listed in the table of contents.

Fund Financial Statements

A fund is a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The City of Harbor Beach uses fund accounting to demonstrate compliance with legal financial requirements, like all state and local governments. All City Funds can be categorized as either governmental or proprietary funds.

Fund Financial Statements (continued)

Governmental Funds account for essentially the same activities as the Governmental Activities in the Government-wide financial statements, but with a narrower focus. Governmental Funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short-term financing requirements.

Comparing similar information presented in the Government-wide statements for the Governmental Activities with that presented in Governmental Funds statements can provide useful information because of the different focus of the two approaches. With the long-term focus of the Government-wide statements, a reader may be able to better understand the long-term effects of the near term financing decisions. To aid in the comparison, both the Governmental Fund balance sheet and the Governmental Fund statement of revenues, expenditures and changes in fund balance show a reconciliation between the Governmental Funds statements to the Governmental Activities in the Government-wide statements.

The City of Harbor Beach uses three different individual Governmental Funds. Of these three, only the General Fund is deemed to be a major fund and its information is shown separately in the Fund Financial Statements. The remaining two funds are non-major funds and are identified as the Major Street and Trunkline Fund and the Local Street Fund. These are combined into a Special Revenue category and are presented in a single column in the Fund Financial Statements. The City adopts an annual appropriated budget for all its Governmental Funds.

The basic governmental fund financial statements can be found as listed in the table of contents.

Proprietary Funds include enterprise funds and an internal service fund. Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. The Internal Service Fund is used to report activities that provide goods or services to other funds or departments of the City.

The Enterprise Funds maintained by the City of Harbor Beach include water, sewer, water and sewer projects and recreation. The City uses the Internal Service Fund to account for vehicles and equipment activities. Because they charge fees and charges to outside users of their systems, the Enterprise Funds are included in the Business-type Activities column of the government-wide financial statements. The Internal Service Fund, which accounts for equipment and vehicles that support City functions, is included under the Governmental Activities column.

Proprietary Funds present the same information as in government-wide statements, except in more detail. The fund statements for proprietary funds provide separate information for the Water, Sewer, and Recreation funds, which are considered to be major funds of the City of Harbor Beach.

The basic proprietary fund financial statements can be found as listed in the table of contents.

Notes to the Financial Statements contain additional financial information to give the reader a complete understanding of the information contained in the government-wide and fund financial statements. Although these Notes provide detailed explanation and information related to the financial statements, this information is typically easy for the reader to follow. Notes to the Financial Statements are located after the financial statements as listed in the table of contents.

OTHER INFORMATION

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules are listed in the table of contents.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year the City of Harbor Beach has produced government-wide financial statements. As such, data for fiscal year ending June 30, 2003 related to governmental activities is unavailable.

CITY OF HARBOR BEACH'S NET ASSETS

June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Current assets	\$1,910,878	\$ 757,599	\$ 2,668,477
Capital assets	7,557,341	11,546,119	19,103,460
Restricted and other assets		<u>1,708,704</u>	<u>1,708,704</u>
Total assets	<u>\$9,468,219</u>	<u>\$14,012,422</u>	<u>\$23,480,641</u>
Current liabilities	\$ 77,026	\$ 1,039,935	\$ 1,116,960
Long-term liabilities	<u>587,546</u>	<u>6,603,155</u>	<u>7,190,701</u>
Total liabilities	<u>\$ 664,572</u>	<u>\$ 7,643,090</u>	<u>\$ 8,307,661</u>
Net assets:			
Invested in capital assets, net of related debt	\$7,032,341	\$ 4,997,738	\$12,030,079
Restricted		678,873	678,873
Unrestricted	<u>1,771,306</u>	<u>692,721</u>	<u>2,464,027</u>
Total net assets	<u>\$8,803,647</u>	<u>\$ 6,369,332</u>	<u>\$15,172,979</u>

As shown in the Statement of Net Assets provided, the largest portion, by far, of the Net Assets of the City of Harbor Beach is its investment in capital assets. The seventy-nine and three tenths percent (79.3%) of total net assets represents the City's investment in land and land improvements; curb, gutter and sidewalk; roads and storm drains; water and sewer lines; streetlights and signals, buildings, and machinery and equipment, less any related outstanding debt that was used to acquire these assets. The City of Harbor Beach uses these capital assets to provide essential services to citizens who live, work or visit the City. These assets, by design, are not available for future spending. Additionally, even though these capital assets are reported net of any related debt, resources needed to repay this debt must come from other sources, as these assets cannot be used to satisfy their related obligations.

Of the remaining Net Assets of the City, four and one-half percent (4.5%) are subject to external restrictions on how they may be expended (restricted assets). The balance of Net Assets, which total sixteen and two tenths percent (16.2%) can be used to meet the City's ongoing obligations to its creditors and citizens (unrestricted assets).

ACTIVITIES, GOVERNMENTAL AND BUSINESS-TYPE

Net assets in Governmental Activities decreased by \$71,306 for the year ended June 30, 2004. This amount is not significant as it comprises only eight tenths of a percent (.80%) of beginning Net assets for Governmental Activities, which was \$ 8,874,953. The decrease is due primarily to a substantial decrease in State Revenue Sharing while maintaining City services.

Net assets for Business-type Activities decreased by \$ 420,327 for the year ended June 30, 2004. This amount is significant as it comprises six and two tenths percent (6.2%) of the beginning Net assets for Business-type Activities, which was \$ 6,789,659. This is due primarily to user fees not keeping up with the cost of water and sewer service. City Council has adopted annual three and one-half percent (3.5%) increases in water and sewer rates, but only recently. Further, the City historically has not funded depreciation, and the reader needs to take this into account, as depreciation is a significant portion of the expenses in Business-type Activities.

CITY OF HARBOR BEACH'S CHANGES IN NET ASSETS

For the year ended June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 91,070	\$1,539,294	\$1,630,364
General revenues:			
Property taxes	1,074,283	296,352	1,370,635
State shares revenue	405,845		405,845
Unrestricted investment earnings	37,010	25,812	62,822
Miscellaneous	19,861	23,526	43,387

MANAGEMENT'S DISCUSSION AND ANALYSIS

Gain on sale of capital assets	<u>13,459</u>	<u>361</u>	<u>13,820</u>
Total revenue	<u>1,641,528</u>	<u>1,885,345</u>	<u>3,526,873</u>
Expenses:			
General government	770,892		770,892
Public safety	375,427		375,427
Highways and public improvements	424,491		424,491
Sanitation	81,837		81,837
Interest on long-term debt	4,187		4,187
Water		919,607	919,607
Sewer		748,102	748,102
Water & sewer projects		1,080	1,080
Parks and recreation		<u>692,883</u>	<u>692,883</u>
Total expenses	<u>1,656,834</u>	<u>2,361,672</u>	<u>4,018,506</u>
Change in net assets before transfers	<u>(15,306)</u>	<u>(476,327)</u>	<u>(491,633)</u>
Transfers	<u>(56,000)</u>	<u>56,000</u>	<u>-</u>
Change in net assets	(71,306)	(420,327)	(491,633)
Net assets – Beginning	<u>8,874,953</u>	<u>6,789,659</u>	<u>15,664,612</u>
Net assets – Ending	<u>\$8,803,647</u>	<u>\$6,369,332</u>	<u>\$15,172,979</u>

FINANCIAL ANALYSIS OF CITY OF HARBOR BEACH'S FUNDS

The City of Harbor Beach's governmental funds provide information on the short-term resource inflows and outflows and account balances at the end of the fiscal year. The total fund balance is a measure of total available resources and the unreserved portion of this total is a measure of the available spendable resources as of June 30, 2004.

For the year ended June 30, 2004, the City's governmental funds reported a combined fund balance amount of \$ 1,397,241, which is an increase of \$ 102,475 from July 1, 2003.

The General Fund is the main operating fund for the City. As of June 30, 2004, the Fund Balance in the General Fund was \$ 940,502. At the start of the fiscal year on July 1, 2003, the Fund Balance was at \$ 889,352, resulting in an increase in fund balance of \$ 51,150. This is due primarily to a reduction in appropriation transfer out to other funds, specifically to Water, Sewer, Major and Local Streets, Recreation and Sick Leave. The prior fiscal year total for these transfers was \$ 247,000, while the current fiscal year shows \$ 56,000 in transfers from the General Fund.

A major difference in the original budget versus the actual budget was a \$ 525,000 land purchase. The City borrowed \$ 525,000 through an installment purchase agreement and purchased 6.85 acres of property north of Bathing Beach Park containing approximately 560 lineal feet of Lake Huron water frontage.

The City's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. Total Net Assets of the proprietary funds were \$ 6,369,332 and for the internal service fund were \$ 724,861. For the proprietary funds, the following information is provided for the appropriate fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Sewer	\$ 4,073,363	\$ 963,709	\$ 3,109,654
Water	\$ 6,346,383	\$ 5,023,202	\$ 1,323,181
Recreation	\$ 2,087,546	\$ 158,358	\$ 1,929,188
Water & Sewer Projects	\$ 1,615,542	\$ 1,614,886	\$ 656

The following information is provided for the Internal Service Fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Equipment	\$ 727,204	\$ 2,343	\$ 724,861

The City's Non-Major Governmental Funds, which include the Special Revenue Funds of Major Street and Trunkline and Local Street Funds, performed well during the 2003-04 fiscal year. The Major Street and Trunkline Fund showed an increase in fund balance of \$ 1,200 and the Local Street Fund showed an increase in fund balance of \$ 50,125. This is due to an increased focus on the M-25 reconstruction project with decreased attention to Local Street maintenance during the fiscal year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Again, the major difference between the original and final amended budget for the General Fund was an increase in capital outlay expenditures of \$ 525,000, which was for the purchase of land. The total actual Revenue was \$ 1,973,605 and the total actual Expenditures were \$ 1,922,455, leaving an Excess of Revenue over Expenditures of \$ 51,150.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Harbor Beach's investment, net of related debt, in capital assets for its governmental and business-type activities combined totaled \$12,030,079. The types of assets in this category are land, land improvements, buildings, machinery and equipment, park and recreation facilities, roads (including curb and gutter, sidewalks and storm drains), street lights, traffic signals, and

water and waste water distribution and collection systems and facilities. The City's investment in capital assets equals over seventy-nine percent (79 %) of total net assets.

CITY OF HARBOR BEACH'S CAPITAL ASSETS

June 30, 2004

	Governmental Activities	Business Type Activities	Total
Land	\$ 2,661,392	\$ 66,530	\$ 2,727,922
Land improvements	109,287		109,287
Buildings	552,182	4,256,524	4,808,706
Office furnishings	11,870		11,870
Equipment	1,164,557	6,893,432	8,057,989
Infrastructure	7,303,238		7,303,238
Water system		4,100,709	4,100,709
Sewer system		1,739,675	1,739,675
Marina improvements		2,652,640	2,652,640
Campground improvements		1,019,793	1,019,793
Construction in progress		697,182	697,182
Accumulated depreciation	<u>(4,245,185)</u>	<u>(9,880,367)</u>	<u>(14,125,552)</u>
Net book value	<u>\$ 7,557,341</u>	<u>\$11,546,119</u>	<u>\$ 19,103,460</u>

The City of Harbor Beach's debt consists of a 1993 Water Supply and Distribution System Bond (\$ 3,308,000), a 2000 Public Improvement Bond (\$ 2,560,000), a 2003 Installment Purchase Agreement (\$ 525,000), a 2004 Capital Improvement Bond (\$ 950,000), and a Harbor Beach Consolidated Drain Assessment (\$ 724,260). In 2004, the City paid off the 1986 General Obligation Wastewater Disposal Bonds. Normal payments of principal and interest in accordance with the associated debt service schedules were made during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Budget

The fiscal year budget for 2004-05 is at \$ 3,467,000, which is \$ 162,000 less than the 2003-04 fiscal year budget of \$ 3,629,000. This is due to a reduction in State Revenue Sharing payments and also to the stabilization of property valuation, hence, stabilization of property tax revenue. Revenue sharing in the fiscal year 2004-05 is projected to be a \$ 40,000 decrease. Next year's budget will include a similar decrease in projected State Revenue Sharing revenue, due to the State's fiscal problems, including a decrease in Sales Tax Revenue. Interest revenue from investments will also continue to be projected lower due to the sluggish economy.

The City has negotiated new three year employment agreements for all employees except the Police Union. These new agreements include revisions in health insurance and disability insurance, which will save the City a considerable amount of money over time.

The City plans to continue to encourage economic development in the City by taking advantage of several State grant and loan programs and economic development programs. Examples of previous grant and loan programs the City has recently utilized include Community Development Block Grants (CDBG), Urban Land Assembly Loans (ULA), Coastal Zone Management Grants (CZM), Natural Resources Trust Fund Grants, and Land and Water Conservation Fund Grants. Economic development programs the City has recently utilized include establishment of a Local Development Finance Authority (LDFA), a Downtown Development Authority (DDA) and a Brownfield Redevelopment Authority (BRA). With completion this fall of the new Downtown Streetscape, the City is encouraged that this will help attract new development.

Rates

The City continues to struggle financially with sufficient sewer and water fund revenue. The City has implemented annual three and one-half percent (3.5%) increases in both the water and sewer rates, which take effect July 1st of each year. The City continues to pick up new water customers through recent Water Sales Agreements with Sand Beach Township (approximately 168 customers) and the Village of Forestville (approximately 300 customers by the end of 2005). The Village of Forestville recently completed a new water main construction which extends approximately 14 miles. Both Sand Beach Township and the Village of Forestville are billed at one and one-half times (1 ½) the City residential rate.

The City has also replaced a significant portion of water and sewer mains over the last few years. In 2001, the City replaced 14,000 lineal feet of water main and 4,000 lineal feet of sewer main. In 2004, the City replaced 6,000 feet of water main and 3,000 feet of sewer main. In 2005, the City will reline approximately 4,000 feet of sewer main. These improvements will reduce maintenance costs of the respective distribution systems.

REQUESTS FOR INFORMATION

This financial report is designed to give the reader a basic understanding of the City of Harbor Beach's finances. Any questions or requests for financial information contained in this report may be obtained by contacting the Finance Officer, City of Harbor Beach, 766 State Street, Harbor Beach, Michigan 48441.

BASIC FINANCIAL STATEMENTS

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	GOVERNMENTAL BUSINESS-TYPE		
<u>ASSETS</u>	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	<u>TOTALS</u>
Cash	\$ 1,690,567	\$ 690,551	\$ 2,381,118
Accounts receivable	50,015	163,309	213,324
Accrued interest	604		604
Due from other governments	60,781	2,643	63,424
Inventory		10,007	10,007
Internal balances	108,911	(108,911)	
Nondepreciated capital assets	2,661,392	66,530	2,727,922
Capital assets	9,141,134	20,662,774	29,803,908
Less accumulated depreciation	(4,245,185)	(9,880,367)	(14,125,552)
Construction in progress		697,182	697,182
Restricted assets:			
Cash:			
Water and sewer project		935,161	935,161
Wastewater treatment bond & interest retirement		67,518	67,518
Wastewater treatment replacement		279,385	279,385
Water system revenue bond		26,988	26,988
Water bond reserve		259,979	259,979
Water equipment replacement		44,347	44,347
Operation and maintenance		53,267	53,267
Deferred charges		42,059	42,059
TOTAL ASSETS	<u>\$ 9,468,219</u>	<u>\$ 14,012,422</u>	<u>\$ 23,480,641</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	GOVERNMENTAL BUSINESS-TYPE		
	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	<u>TOTALS</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 29,926	\$ 69,889	\$ 99,815
Accrued payroll and related taxes	17,913	18,259	36,172
Accrued interest payable	4,187	44,639	48,826
Accrued vacation and sick leave	87,546	48,541	136,087
Bond anticipation note		655,637	655,636
Payable from restricted assets:			
Current maturities of debt		251,511	251,511
Long-term bonds payable	525,000	6,554,614	7,079,614
Total liabilities	<u>664,572</u>	<u>7,643,090</u>	<u>8,307,661</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	7,032,341	4,997,738	12,030,079
Restricted for:			
Debt service		354,485	354,485
Capital projects		324,388	324,388
Unrestricted	1,771,306	692,721	2,464,027
Total net assets	<u>\$ 8,803,647</u>	<u>\$ 6,369,332</u>	<u>\$ 15,172,979</u>

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

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF ACTIVITIES
JUNE 30, 2004

	PROGRAM REVENUES			NET (EXPENSE) REVENUES & CHANGES IN NET ASSETS			
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
Governmental Activities							
General government	\$ 770,892	\$ 2,739	-	-	\$ (768,153)		\$ (768,153)
Public safety	375,427				(375,427)		(375,427)
Highways and public improvements	424,491	11,207			(413,284)		(413,284)
Sanitation	81,837	77,124			(4,713)		(4,713)
Interest on long-term debt	4,187				(4,187)		(4,187)
Total governmental activities	1,656,834	91,070	-	-	(1,565,764)	-	(1,565,764)
Business-Type Activities							
Water	919,607	599,756			(319,851)		(319,851)
Sewer	748,102	423,551			(324,551)		(324,551)
Water & sewer projects	1,080				(1,080)		(1,080)
Parks and recreation	692,883	515,987			(176,896)		(176,896)
Total business-type activities	2,361,672	1,539,294	-	-	(822,378)	(822,378)	(822,378)
Total Government	\$ 4,018,506	\$ 1,630,364	\$ -	\$ -	(1,565,764)	(822,378)	(2,388,142)
General Revenue:							
Property taxes					1,074,283	296,352	1,370,635
State shared revenues					405,845		405,845
Unrestricted investment earnings					37,010	25,812	62,822
Miscellaneous					19,861	23,526	43,387
Gain on sale of capital assets					13,459	361	13,820
Transfers - net					(56,000)	56,000	-
Total general revenues and transfers					1,494,458	402,051	1,896,509
Change in net assets					(71,306)	(420,327)	(491,633)
Net assets - beginning					8,874,953	6,789,659	15,664,612
Net assets - ending					\$ 8,803,647	\$ 6,369,332	\$ 15,172,979

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

CITY OF HARBOR BEACH, MICHIGAN

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash	\$ 801,963	\$ 440,508	\$ 1,242,471
Accounts receivable	23,317		23,317
Accrued interest	604		604
Due from other funds	25,000		25,000
Due from other governments	31,256	29,525	60,781
Note receivable - Other funds	90,564		90,564
TOTAL ASSETS	<u>\$ 972,704</u>	<u>\$ 470,033</u>	<u>\$ 1,442,737</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 16,063	\$ 12,440	\$ 28,503
Accrued payroll and related taxes	16,139	854	16,993
Total liabilities	<u>32,202</u>	<u>13,294</u>	<u>45,496</u>
 Fund balances:			
Unreserved, reported in:			
General Fund	940,502		940,502
Special Revenue Funds		456,739	456,739
Total fund balances	<u>940,502</u>	<u>456,739</u>	<u>1,397,241</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 972,704</u>	<u>\$ 470,033</u>	<u>\$ 1,442,737</u>

CITY OF HARBOR BEACH, MICHIGAN

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES
TO GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2004**

Total governmental fund balances	\$ 1,397,241
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. The cost of the assets is \$ 11,802,526 less the accumulated depreciation of \$4,245,185.	7,557,341
Interest on general obligation and lease revenue bonds are not accrued in governmental funds but rather is recognized as an expenditure when due.	(4,187)
Internal service fund is not included in the governmental funds.	465,798
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(612,546)
Net assets - governmental activities	<u>\$ 8,803,647</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:			
Taxes	\$ 988,144		\$ 988,144
Licenses and permits	2,350		2,350
Intergovernmental	228,956	\$ 243,755	472,711
Charges for services	155,863		155,863
Fines and forfeitures	9,302		9,302
Miscellaneous	<u>63,990</u>	<u>2,234</u>	<u>66,224</u>
TOTAL REVENUE	<u>1,448,605</u>	<u>245,989</u>	<u>1,694,594</u>
EXPENDITURES:			
Current:			
Legislative	7,971		7,971
Elections	2,151		2,151
Financial and administration	259,180	8,050	267,230
General	480,053		480,053
Police department	307,219		307,219
Planning	12,389		12,389
Street lighting	49,669		49,669
Sanitation	80,659		80,659
Streets		186,614	186,614
Capital outlay	<u>667,164</u>		<u>667,164</u>
TOTAL EXPENDITURES	<u>1,866,455</u>	<u>194,664</u>	<u>2,061,119</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(417,850)</u>	<u>51,325</u>	<u>(366,525)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from installment purchase agreement	525,000		525,000
Operating transfers (out)	<u>(56,000)</u>		<u>(56,000)</u>
TOTAL OTHER FINANCING SOURCES	469,000		469,000
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>51,150</u>	<u>51,325</u>	<u>102,475</u>
FUND BALANCE - JULY 1	889,352	405,414	1,294,766
FUND BALANCE - JUNE 30	<u>\$ 940,502</u>	<u>\$ 456,739</u>	<u>\$ 1,397,241</u>

CITY OF HARBOR BEACH, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
JUNE 30, 2004**

Net change in fund balances - governmental funds \$ 102,475

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

Governmental funds report capital outlays as expenditures. However, in the *Statement of Activities*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 176,669	
Depreciation expense	<u>(316,641)</u>	(139,972)

Some expenses reported in the *Statement of Activities* do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (11,347)

The net revenue of certain activities of internal service fund is reported with governmental activities. 31,266

Delinquent property taxes are not recorded in the governmental funds. 19,272

An elimination is made to remove intergovernmental administration fees. (73,000)

Change in net assets of governmental activities \$ (71,306)

CITY OF HARBOR BEACH, MICHIGAN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2004

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER</u>	<u>RECREATION</u>	<u>WATER & SEWER PROJECTS</u>	<u>TOTALS</u>	
ASSETS						
Current assets:						
Cash	\$ 377,867	\$ 172,993	\$ 139,691		\$ 690,551	\$ 448,096
Accounts receivable	66,955	96,355			163,310	26,898
Due from other funds	1,500				1,500	
Due from other governments			2,643		2,643	
Inventory			10,007		10,007	
Total current assets	<u>446,322</u>	<u>269,348</u>	<u>152,341</u>		<u>868,011</u>	<u>474,794</u>
Noncurrent assets:						
Capital assets	7,076,676	8,500,891	5,151,737		20,729,304	1,036,698
Less accumulated depreciation	(3,878,678)	(2,785,157)	(3,216,532)		(9,880,367)	(784,288)
Construction in progress	18,801			\$ 880,381	697,182	
Deferred charges	22,935	19,124			42,059	
Total noncurrent assets	<u>3,237,734</u>	<u>5,734,858</u>	<u>1,935,205</u>	<u>680,381</u>	<u>11,588,178</u>	<u>252,410</u>
Restricted assets:						
Cash:						
Water and sewer project				935,161	935,161	
Wastewater treatment bond & interest retirement	67,518				67,518	
Wastewater treatment replacement	279,385				279,385	
Water system revenue bond		26,988			26,988	
Water bond reserve		259,979			259,979	
Water equipment replacement		44,347			44,347	
Operation and maintenance	42,404	10,863			53,267	
Total restricted assets	<u>389,307</u>	<u>342,177</u>		<u>935,161</u>	<u>1,666,645</u>	
TOTAL ASSETS	<u>\$ 4,073,363</u>	<u>\$ 6,346,383</u>	<u>\$ 2,087,546</u>	<u>\$ 1,615,542</u>	<u>\$ 14,122,834</u>	<u>\$ 727,204</u>
LIABILITIES						
Current liabilities:						
Accounts payable	\$ 10,044	\$ 11,311	\$ 27,410	\$ 21,124	\$ 69,889	\$ 1,423
Due to other funds		1,500	25,000		26,500	
Notes payable-Other funds			22,450		22,450	
Accrued payroll and related taxes	6,217	2,995	9,048		18,260	920
Accrued interest payable	8,278	35,757	604		44,639	
Accrued vacation and sick leave	16,546	26,263	5,732		48,541	
Bond anticipation note				655,637	655,637	
Current maturities of debt	91,218	85,782		74,511	251,511	
Total current liabilities	<u>132,303</u>	<u>163,608</u>	<u>90,244</u>	<u>751,272</u>	<u>1,137,427</u>	<u>2,343</u>
Noncurrent liabilities:						
Long-term bonds payable	831,406	4,859,594		863,614	6,554,614	
Notes payable - other funds			66,114		66,114	
Total noncurrent liabilities	<u>831,406</u>	<u>4,859,594</u>	<u>66,114</u>	<u>863,614</u>	<u>6,622,728</u>	
Total liabilities	<u>963,709</u>	<u>5,023,202</u>	<u>158,358</u>	<u>1,614,886</u>	<u>7,760,155</u>	<u>2,343</u>
NET ASSETS						
Invested in capital assets, net of related debt	2,292,175	770,358	1,935,205		4,997,738	252,410
Restricted for:						
Debt service	67,518	286,967			354,485	
Capital projects	279,385	44,347		656	324,388	
Unrestricted	470,576	221,509	(6,017)		686,068	472,451
Total net assets	<u>\$ 3,109,654</u>	<u>\$ 1,323,181</u>	<u>\$ 1,929,188</u>	<u>\$ 656</u>	<u>6,362,679</u>	<u>\$ 724,861</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					6,653	
Net assets of business-type activities					<u>\$ 6,369,332</u>	

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004**

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>TOTALS</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES-</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>WATER & SEWER PROJECTS</u>		<u>INTERNAL SERVICE FUND</u>
OPERATING REVENUE:						
Charges for services	\$ 420,951	\$ 539,459	\$ 364,220		\$ 1,324,630	\$ 144,220
Permits	2,600	1,800			4,400	
Sale of materials and labor		8,497	151,767		160,264	
Fire hydrant rental		50,000			50,000	
TOTAL OPERATING REVENUE	<u>423,551</u>	<u>599,756</u>	<u>515,987</u>	<u>-</u>	<u>1,539,294</u>	<u>144,220</u>
OPERATING EXPENSES:						
Salaries	151,261	159,038	154,976		465,275	9,541
Unemployment			15,165		15,165	
Administrative cost	30,000	30,000	12,000		72,000	1,000
Fringe benefits	65,122	76,121	36,449		177,692	3,911
Cost of merchandise & petroleum sold			107,831		107,831	
Supplies	4,018	3,135	21,852	1,080	30,085	7,560
Office expense		414	305		719	
Postage	619		976		1,595	
Clothing	360				360	
Chemicals	15,526	21,569			37,095	
Professional services	5,376	8,461	2,880		16,717	1,930
Contracted services	64,098	1,265	2,272		67,635	
Event charges			2,469		2,469	
Special event expenses			12,074		12,074	
Community promotion			3,937		3,937	
Sanctioning fees			1,740		1,740	
Printing and publishing			2,430		2,430	
Telephone	1,317	571	3,350		5,238	811
Transportation	2,361	406	2,171		4,938	10,378
Insurance	5,985	5,421	5,386		16,792	4,821
Utilities	50,504	58,811	71,037		180,352	
Building repairs		784			784	
Equipment maintenance	4,158	8,752	38,455		51,365	3,194
Maintenance of mains	2,066	6,108			8,174	
Repairs and maintenance	3,290	2,089			5,379	
Equipment replacement		2,217			2,217	
Equipment rental	10,464	10,881	6,664		28,009	
Penalties and fines	3,500				3,500	
License			200		200	
Sales tax			7,773		7,773	
Diesel tax			3,097		3,097	
Education and training	143	494			637	
Dues and subscriptions	1,950	114	890		2,954	
Depreciation	268,898	318,738	169,214		756,850	67,817
Amortization	4,277	1,195			5,472	
Bank charges - Credit cards			4,728		4,728	
TOTAL OPERATING EXPENSES	<u>695,293</u>	<u>716,584</u>	<u>690,321</u>	<u>1,080</u>	<u>2,103,278</u>	<u>110,963</u>
OPERATING LOSS	<u>(271,742)</u>	<u>(116,828)</u>	<u>(174,334)</u>	<u>(1,080)</u>	<u>(563,984)</u>	<u>33,257</u>
NONOPERATING REVENUE (EXPENSES):						
Interest income	12,799	10,967	310	1,736	25,812	4,662
Gain (loss) on sale of asset			361		361	
Property tax levy	177,194	119,158			296,352	
Contributions			23,526		23,526	
Interest expense			(4,146)		(4,146)	
Bond interest expense	(55,037)	(205,432)			(260,469)	
Paying agent fees	(258)	(176)			(434)	
TOTAL NONOPERATING REVENUE (EXPENSES)	<u>134,698</u>	<u>(75,483)</u>	<u>20,051</u>	<u>1,736</u>	<u>81,002</u>	<u>4,662</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(137,044)</u>	<u>(192,311)</u>	<u>(154,283)</u>	<u>656</u>	<u>(482,982)</u>	<u>37,919</u>

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET
ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>TOTALS</u>	<u>GOVERNMENTAL</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>WATER & SEWER PROJECTS</u>		<u>INTERNAL SERVICE FUND</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in			56,000		56,000	
TOTAL OTHER FINANCING SOURCES (USES):			<u>56,000</u>		<u>56,000</u>	
CHANGE IN NET ASSETS	<u>(137,044)</u>	<u>(192,311)</u>	<u>(98,283)</u>	<u>656</u>	<u>(426,982)</u>	<u>37,919</u>
TOTAL NET ASSETS - BEGINNING	<u>3,246,698</u>	<u>1,515,492</u>	<u>2,027,471</u>			<u>686,942</u>
TOTAL NET ASSETS - ENDING	<u>\$3,109,654</u>	<u>\$1,323,181</u>	<u>\$1,929,188</u>	<u>\$ 656</u>		<u>\$ 724,861</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					<u>6,653</u>	
Changes in net assets of business-type activities					<u>\$ (420,329)</u>	

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>WATER AND SEWER PROJECTS</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers	\$ 411,555	\$ 592,472	\$ 515,988		\$ 1,520,015
Receipts from interfund services	(161,978)	(111,482)	(328,576)	(19,057)	(621,093)
Payments to suppliers of goods and services	(40,464)	(40,881)	(18,664)		(100,009)
Payments to interfund services	(150,097)	(162,337)	(150,359)		(462,793)
Payments to employees	(65,122)	(76,121)	(36,449)		(177,692)
Payments for fringe benefits					
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(6,106)</u>	<u>201,651</u>	<u>(18,060)</u>	<u>(19,057)</u>	<u>158,428</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Operating transfer in			56,000		56,000
Operating transfer out					
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>	<u>56,000</u>	<u>-</u>	<u>56,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of fixed assets	(59,458)	(20,700)	(4,789)		(84,947)
Proceeds from sale of asset	(16,801)		15,356		15,356
Increase in construction in progress				(641,281)	(658,082)
Payment on note payable-Other fund	(91,218)	(85,782)	(22,450)		(22,450)
Bond principal payment	(56,396)	(206,236)			(177,000)
Interest and fees paid on bonds			(4,334)		(262,632)
Interest paid					(4,334)
Property tax levy received	177,194	119,158			296,352

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SEWER	WATER SUPPLY	RECREATION	SEWER PROJECTS	TOTALS	
Proceeds from bonds				1,593,762	1,593,762	
Contributions from state			23,526		23,526	
Contributions from customer	23,600				23,600	
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(23,079)</u>	<u>(193,560)</u>	<u>7,309</u>	<u>952,481</u>	<u>743,151</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest on investments	12,799	10,967	310	1,736	25,812	4,677
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>12,799</u>	<u>10,967</u>	<u>310</u>	<u>1,736</u>	<u>25,812</u>	<u>4,677</u>
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>(16,386)</u>	<u>19,058</u>	<u>45,559</u>	<u>935,161</u>	<u>983,392</u>	<u>93,693</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	783,560	496,112	94,132	-	1,373,804	354,403
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 767,174</u>	<u>\$ 515,170</u>	<u>\$ 139,691</u>	<u>\$ 935,161</u>	<u>\$ 2,357,196</u>	<u>\$ 448,096</u>
Cash Reconciliation:						
Cash	377,867	172,993	139,691		690,551	448,096
Restricted cash	389,307	342,177		935,161	1,666,645	
Total	<u>\$ 767,174</u>	<u>\$ 515,170</u>	<u>\$ 139,691</u>	<u>\$ 935,161</u>	<u>\$ 2,357,196</u>	<u>\$ 448,096</u>

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND</u>
	<u>SEWER</u>	<u>WATER SUPPLY</u>	<u>RECREATION</u>	<u>WATER AND SEWER PROJECTS</u>	
Reconciliation of operating income (loss) loss to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (271,742)	\$ (116,828)	\$ (174,333)	\$ (1,080)	\$ (563,983)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	268,898	318,738	169,214		756,850
Amortization	4,276	1,195			5,471
(Increase) decrease in current assets:					
Accounts receivable	(11,996)	(7,284)			(19,280)
Due from other funds					
Due from other governments				307	307
Inventory				(4,896)	(4,896)
Increase (decrease) in current liabilities:					
Accounts payable	3,295	9,129	(7,967)	(17,977)	(13,522)
Accrued payroll and related taxes	(15,383)	(29,562)	(1,115)		(46,060)
Accrued vacation and sick leave	16,546	26,263	5,732		48,541
Due to other funds		(5,000)			(5,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (6,106)	\$ 201,651	\$ (18,060)	\$ (19,057)	\$ 158,428
					\$ 89,016

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF NET ASSETS - FIDUCIARY FUND
JUNE 30, 2004**

	<u>FIDUCIARY FUND TYPE EXPENDABLE TRUST</u>
<u>ASSETS</u>	
Cash	\$ 103,958
TOTAL ASSETS	<u>\$ 103,958</u>
<u>NET ASSETS</u>	
Reserved for sick leave	\$ 103,958
TOTAL NET ASSETS	<u>\$ 103,958</u>

CITY OF HARBOR BEACH, MICHIGAN

**STATEMENT OF ACTIVITIES
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004**

	<u>EXPENDABLE TRUST</u>
REVENUE:	
Employer contribution	\$ 3,868
Interest income	893
TOTAL REVENUE	<u>4,761</u>
EXPENDITURES:	
Sick leave payments	2,206
CHANGE IN NET ASSETS	<u>2,557</u>
NET ASSETS - JULY 1	101,401
NET ASSETS - JUNE 30	<u><u>\$ 103,958</u></u>

CITY OF HARBOR BEACH, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Harbor Beach operates a Council-Mayor form of government under provisions of a revised charter dated May 18, 1965, and provides the following services as authorized by its charter: public safety, (police, fire and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- For the first time the financial statements include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The city has elected to implement the general provisions of the Statement in the current year.

REPORTING ENTITY:

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

REPORTING ENTITY: (CONTINUED)

Excluded from the reporting entity:

Harbor Beach Historical Society - This potential component unit is excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

Harbor Beach Community Fire Protection Association - The Association is a separate entity formed by the City of Harbor Beach, Michigan and the Township of Sand Beach, both are located in Huron County, Michigan. The Association began operating February 1, 1985, under the terms of an interlocal agreement. The purpose of the Association is to provide fire protection to area property owners and residents. The governing body consists of two representatives appointed by each constituent unit. The Association is financed through assessments to the constituent units. The agreement states that the Association will operate on a calendar year and that its books will be audited annually by a certified public accounting firm chosen by the board. The Fire Department is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operations or approve budgets. The assessment to the City of Harbor Beach for the year ended June 30, 2004, amounted to \$44,949.

Harbor Beach Community School District - This potential component unit has a separate elected board and provides services to local residents of the Harbor Beach, Michigan area. The City does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS:

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and general administrative services are classified as governmental activities. The City's water, sewer, and parks and recreation are classified as business-type activities.

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
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 financial statements. Revenues are 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 become available. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF HARBOR BEACH, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT
PRESENTATION: (CONTINUED)

The City reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the City's wastewater treatment operations.

The Water Fund accounts for the activities of the City's water distribution system.

The Recreation Fund provides campground facilities for overnight and seasonal campers and recreational vehicles, sales of marine fuels, seasonal and overnight boat docking and boat launching.

Additionally, the City reports the following nonmajor fund types:

Special Revenue Funds - Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The City accounts for the Major Street and Local Street in special revenue funds.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments on a cost-reimbursement basis. The Equipment Fund rents equipment to other City funds and departments at an hourly rate determined by the State of Michigan.

Fiduciary Fund Types:

Trust Funds - Trust funds are used to account for assets held by the City in a trustee capacity. The City is in a trustee capacity in relation to the Sick Leave Fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

CITY OF HARBOR BEACH, MICHIGAN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING:

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

A. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds as well as for all Enterprise and Internal Service funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. The City Council approves, by ordinance, the total budget appropriations only. The City Finance Officer is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (Legislative, Election, Financial and Administration, General, etc.).

C. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.

D. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Enterprise Funds, and the Capital Project Funds. In the General Fund, budgets are adopted at the functional level and budgetary control is exercised at the department level. For Special Revenue Funds, budgets are adopted and control is exercised at the level of total expenditures for each individual fund. For Capital Project Funds, budgets are adopted and control is exercised at the project level.

Annual budgets for the General Fund, all Special Revenue Funds, Enterprise Funds, and the Capital Projects Funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

RECEIVABLES AND PAYABLES:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Other receivables at June 30, 2004 consist of property taxes, state road taxes, and billings for user charged services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

PROPERTY TAXES:

Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following December 1 and are payable without penalty through February 14. The City bills and collects its own property taxes and also taxes for the county and school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the current Tax Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. Delinquent taxes are expected to be fully collectible and therefore no allowance for uncollectible taxes is provided.

INVENTORY:

Inventory in the Harbor Authority, a Proprietary Fund, is valued at the lower of cost or market on the first-in first-out method.

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 columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
CAPITAL ASSETS: (CONTINUED)

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended June 30, 2004, was \$316,641. Capital asset acquisitions in the governmental funds totaled \$176,669 for the year ended June 30, 2004. A summary of Governmental Fund capital assets at June 30, 2004, follows:

Land	\$2,661,392
Land improvements	109,287
Buildings	552,182
Office furnishings	11,870
Equipment	127,859
Internal Service Fund assets	1,036,698
Storm sewer	593,865
Roads	4,978,543
Other infrastructure	<u>1,730,830</u>
Total capital assets	11,802,526
Less accumulated depreciation	(4,245,185)
NET GOVERNMENTAL FUND CAPITAL ASSETS	<u>\$7,557,341</u>

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended June 30, 2004, was \$756,850. Capital asset acquisitions in the business-type funds totaled \$84,933 and asset disposals totaled \$31,391 for the year ended June 30, 2004. A summary of Business-Type Fund capital assets at June 30, 2004, follows:

Land	\$ 66,530
Buildings	4,256,524
Water system	4,100,709
Sewer system	1,739,675
Harbor docks	799,646
Harbor and parking lot	1,852,994
Equipment	6,893,432
North Park sites and improvements	<u>1,019,793</u>
Total capital assets	20,729,304
Less accumulated depreciation	(9,880,367)
Construction in progress	<u>697,182</u>
NET BUSINESS-TYPE FUND CAPITAL ASSETS	<u>\$11,546,119</u>

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)
CAPITAL ASSETS: (CONTINUED)

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

Governmental activities:	
General government	\$ 18,801
Public safety	13,915
Highways and public improvement	282,747
Sanitation	1,178
Total depreciation expense – governmental activities	<u>\$316,641</u>
Business-type activities:	
Utility	\$587,636
Parks and recreation	169,214
Total depreciation expense – business-type activities	<u>\$756,850</u>

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

USE OF ESTIMATES:

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

NOTE 2 - BUDGET COMPLIANCE:

During the year ended June 30, 2004, the City incurred expenditures in the following fund which were in excess of the amounts appropriated:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Major Street Fund:			
Routine maintenance	\$31,000	\$32,710	\$(1,710)
Trunkline maintenance	35,500	40,719	(5,219)
Local Street Fund:			
Routine maintenance	28,000	31,720	(3,720)

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS:

A. As of June 30, 2004, the City has a carrying amount of \$4,150,276 of deposits (cash and deposits) in local banks and the bank balance was \$4,323,135. Of the bank balance \$500,000 was covered by the Federal Deposit Insurance Corporation and \$3,823,135 remained uninsured and uncollateralized.

Michigan Compiled Laws Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority.

B. Property taxes are levied based on the taxable value of property located in the City. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2003 tax levy is as follows:

	<u>ASSESSED VALUE</u>	<u>TAXABLE VALUE</u>
Real property-Regular roll	\$47,822,500	\$38,431,723
Personal property-Regular roll	<u>10,545,400</u>	<u>10,545,400</u>
TOTAL	<u>\$58,367,900</u>	<u>\$48,977,123</u>

The City is permitted, by charter, to levy up to \$20 (20 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended June 30, 2004, the City levied 14.91 mills for general governmental services and 4.40 mills for debt service. Total millage levied was 19.31.

C. The balances of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 25,000	Recreation	\$ 25,000
General-Notes Receivable	90,564	Recreation-Notes Payable	90,564
Sewer	<u>1,500</u>	Water Supply	<u>1,500</u>
Totals	<u>\$117,064</u>		<u>\$117,064</u>

D. **Construction in Progress** – The Water and Sewer Projects Fund of the City is in the process of replacing the sanitary sewer and water main along M-25. When the project is completed, the engineering and construction fees will be capitalized in both the Water and Sewer Funds. The engineering and construction fees paid to date are \$680,381.

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS: (CONTINUED)

E. Pension Plan

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

2. Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

3. Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$35,927 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, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 2% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. 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.

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Annual pension cost	\$ 45,610	\$ 40,421	\$ 37,048
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	3,411,318	3,491,032	3,753,989
Actuarial Accrued Liability (entry age)	3,529,527	3,695,854	3,469,849
Unfunded (overfunded) AAL	118,209	204,822	(284,140)
Funded ratio	97%	94%	108%
Covered payroll	811,024	823,133	850,616
UAAL as a percentage of covered payroll	15%	25%	0%

F. Accumulated Sick Pay - The City allows one day per month sick leave; not to exceed 12 days per year, with unlimited maximum accumulation. All unused sick leave will be paid at one-half the current hourly rate of pay, up to a maximum payment of \$15,000, upon retirement with the City, provided that and conditional to the employee having ten years or more employment with the City. Upon death of the employee, all unused sick leave time will be paid to the employee's beneficiary in accordance with the above mentioned formula. The City has entered into an agreement with union employees whereby the City must deposit into a special group savings account in the City's name, the total accrued unused sick leave on December 31 of each year at one half the employees' current hourly rate. Upon eligible retirement, an employee may withdraw his credited balance including interest. Should an employee exhaust his yearly allotted sick leave, he then may draw one half days wages from his banked sick leave. The City will match the one half day's wages at the employees current rate. The employee may continue to draw until his bank is exhausted or the \$15,000 maximum is reached, whichever comes first. The liability for accumulated unpaid sick leave recorded in the governmental and business-type funds at June 30, 2004, is \$82,884.

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 - DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS: (CONTINUED)

G. Accrued Vacation Pay - The City's policy is to permit employees to accumulate limited amounts of earned, but unused, vacation benefits, which are vested in the employees. A long-term liability of \$53,204 of accrued vacation benefits at June 30, 2004, has been recorded in the governmental and business-type funds, representing the City's commitment to fund such costs from future operations.

H. Unemployment Benefits - The City has elected to be treated as a reimbursing employer for unemployment purposes. Any unemployment benefits paid to City employees by the Michigan unemployment fund must be reimbursed by the City on a dollar for dollar basis. The contingent liability for unemployment benefits is not recognized in the accompanying financial statements. The expense is recognized at the time the City becomes liable to the State of Michigan for unemployment benefits paid.

I. Risk Management - Property, liability and worker's compensation insurance and health and disability benefits are contracted by the City with commercial insurance providers. For the year ended June 30, 2004, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 4 - LONG-TERM DEBT:

The City of Harbor Beach issued 1986 General Obligation Wastewater Disposal bonds to aid in the construction of a new wastewater treatment plant. The bond issue totaled \$2.94 million dollars. Sixty-five percent (65%) of the issue was guaranteed through payments and ad valorem property taxes, by contract with an industrial sewage user. The industrial user's final payment was received in fiscal 1997. The City utilized its option to call \$300,000 of these bonds in inverse order. The bond premium to exercise this option amounted to \$7,500. The bond issue matured on May 1, 2004. The City has also issued 1993 Water Supply and Distribution System Revenue Bonds to aid in the construction of a new water plant. The bond issue totaled \$4.345 million dollars. Twenty-two and twenty seven-hundredths percent (22.27%) of the issue is guaranteed through payments, by contract with an industrial water user. A surety bond has been issued by an insurance company securing the industrial water user's share of this project. The issue matures on November 1, 2032. The City has also issued 2000 General Obligation Public Improvement Bonds to aid in the replacement of the City's water and sewer lines. The bond issue totaled \$2.75 million dollars. The bond issue will mature on May 1, 2020. The City has also issued 2004 Capital Improvement Bonds. The bond issue totaled \$950,000 and will mature on May 1, 2024. Bonds currently outstanding are as follows:

	<u>JUNE 30, 2003</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30, 2004</u>	<u>DUE WITHIN ONE YEAR</u>
Governmental activities:					
Installation purchase agreement	\$ -	\$ 525,000		\$ 525,000	\$ 25,000
Business-type activities:					
Bonds payable:					
Capital improvement	\$ -	\$ 950,000		\$ 950,000	\$ 35,000
Water supply and distribution	3,365,000		\$ 57,000	3,308,000	60,000
Public improvement	2,605,000		45,000	2,560,000	60,000
Total bonds payable – business-type activities	<u>\$5,970,000</u>	<u>\$ 1,475,000</u>	<u>\$102,000</u>	<u>\$7,343,000</u>	<u>\$155,000</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 - LONG-TERM DEBT: (CONTINUED)

The long-term debt, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>CAPITAL IMPROVEMENT</u>	<u>WATER SUPPLY AND DISTRIBUTION</u>	<u>PUBLIC IMPROVEMENT</u>	<u>TOTAL LONG- TERM DEBT</u>
2005	\$ 74,510	\$ 232,095	\$ 197,818	\$ 504,423
2006	76,878	231,866	199,744	508,488
2007	75,652	231,480	206,414	513,546
2008	74,392	231,910	212,568	518,870
2009	78,080	232,130	218,212	528,422
2010-2014	375,800	1,155,995	1,227,308	2,759,103
2015-2019	365,575	1,153,475	1,473,518	2,992,568
2020-2024	359,436	1,148,441	316,800	1,824,677
2025-2029		1,143,162		1,143,162
2030-2031		<u>366,275</u>		<u>366,275</u>
Total	1,480,323	6,126,829	4,052,382	11,659,534
Less interest	<u>530,323</u>	<u>2,818,829</u>	<u>1,492,382</u>	<u>4,841,534</u>
Outstanding principal	<u>\$ 950,000</u>	<u>\$3,308,000</u>	<u>\$2,560,000</u>	<u>\$6,818,000</u>

The City has also issued a 2003 Installment Purchase Agreement for the purchase of land. The agreement totaled \$525,000 and will mature on April 1, 2019. The agreement is recorded in the General Fund. The long-term debt, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>INSTALLMENT PURCHASE AGREEMENT</u>
2005	\$ 41,349
2006	40,551
2007	39,754
2008	43,877
2009	42,920
2010-2014	219,445
2015-2019	<u>238,341</u>
Total	666,237
Less interest	<u>141,237</u>
Outstanding principal	<u>\$525,000</u>

NOTE 5 - BOND ANTICIPATION NOTE:

On October 14, 2003, voters approved a \$1,300,000 bond issue to finance the replacement of the sanitary sewer and water main along M-25. As part of the project, a \$650,000 bond anticipation note was issued on November 18, 2003 with an interest rate of 1.4%. The bond anticipation note was paid off on July 1, 2004. Interest was paid on the note in the amount of \$5,637.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Taxes:				
Current property taxes	\$ 1,103,000	\$ 1,007,000	\$ 987,836	\$ (19,164)
Trailer park taxes	300	300	308	8
Total taxes	<u>1,103,300</u>	<u>1,007,300</u>	<u>988,144</u>	<u>(19,156)</u>
Licenses and permits:				
Building permits	2,000	2,300	2,350	50
Intergovernmental:				
State revenue sharing:				
Sales tax - Constitutional	115,000	120,000	120,868	868
Sales tax - Statutory	120,000	105,000	105,804	804
Liquor license	200	2,200	2,284	84
Total intergovernmental	<u>235,200</u>	<u>227,200</u>	<u>228,956</u>	<u>1,756</u>
Charges for services:				
Trash pickup collections	82,000	77,000	77,124	124
Charges for fees and services	80,000	78,000	78,739	739
Total charges for services	<u>162,000</u>	<u>155,000</u>	<u>155,863</u>	<u>863</u>
Fines and forfeitures	<u>10,000</u>	<u>9,300</u>	<u>9,302</u>	<u>2</u>
Miscellaneous:				
Interest income	30,000	11,100	31,521	20,421
Special assessments	7,000			
Sale of assets	20,000	13,400	13,459	59
Contributions	500	8,200	8,210	10
Rents and leases	10,000	10,200	10,800	600
Total miscellaneous	<u>67,500</u>	<u>42,900</u>	<u>63,990</u>	<u>21,090</u>
TOTAL REVENUE	<u>1,580,000</u>	<u>1,444,000</u>	<u>1,448,605</u>	<u>4,605</u>
EXPENDITURES:				
Legislative:				
Council and mayor salaries	8,000	6,400	6,365	35
Fringe benefits	600	600	503	97
Conferences and workshops	2,400	1,400	1,066	334
Supplies	600	100	37	63
Community promotion	1,400			
Total legislative	<u>13,000</u>	<u>8,500</u>	<u>7,971</u>	<u>529</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Elections:				
Salaries	1,000	1,000	827	173
Fringe benefits	200	100	96	4
Office supplies	200	400	319	81
Postage	200			
Printing and publishing	200	600	571	29
Contracted services	200	400	338	62
Total elections	<u>2,000</u>	<u>2,500</u>	<u>2,151</u>	<u>349</u>
Financial and administration:				
Salaries	160,000	160,000	158,891	1,109
Fringe benefits	78,000	67,000	66,573	427
Postage	1,000	500	453	47
Professional services	9,000	4,700	4,602	98
Contracted services	2,500	2,000	1,555	445
Office supplies	2,000	900	896	4
Telephone	5,000	3,100	3,069	31
Transportation	1,000	800	705	95
Conferences and workshops	3,500	2,200	2,168	32
Community promotion	1,000	100	32	68
Insurance	2,000	700	693	7
Assessor	20,000	20,000	19,132	868
Board of review	2,000	1,000	411	589
Total financial and administration	<u>287,000</u>	<u>263,000</u>	<u>259,180</u>	<u>3,820</u>
General:				
Salaries	105,000	114,000	113,916	84
Fringe benefits	100,000	84,500	84,311	189
Supplies	15,000	11,500	11,427	73
Postage	500	700	664	36
Clothing	1,500	1,200	1,137	63
Professional services	20,000	19,500	19,157	343
Contracted services	60,000	63,000	62,991	9
Engineering fees	25,000	2,000	3,945	(1,945)
Transportation	500			
Community promotion	10,000	1,800	1,728	72
Printing & publishing	3,000	3,200	3,145	55
Insurance	14,000	32,000	31,898	102
Utilities	22,000	20,000	20,537	(537)
Repairs and maintenance	6,000	9,300	9,203	97
Equipment rental	35,000	38,300	47,225	(8,925)
Dues and subscriptions	1,000	1,000	716	284
Interest expense	500	8,700	8,606	94
Sidewalk maintenance	7,000	8,800	8,792	8

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
General: (Continued)				
Hydrant rental	50,000	50,000	50,000	
Education	1,000	900	655	245
Total general	<u>477,000</u>	<u>470,400</u>	<u>480,053</u>	<u>(9,653)</u>
Police department:				
Salaries	195,000	201,000	200,563	437
Fringe benefits	63,000	69,000	68,715	285
Postage	200	200	155	45
Supplies	3,900	3,000	2,574	426
Dues and subscriptions	200	200	169	31
Uniforms	1,000	400	309	91
Cleaning allowance	300	300	276	24
Professional services	7,000	8,300	8,270	30
Telephone	3,400	3,600	3,527	73
Police car maintenance	11,000	11,700	11,452	248
Insurance	7,000	10,100	10,099	1
Education and training	1,000	1,200	1,110	90
Total police department	<u>293,000</u>	<u>309,000</u>	<u>307,219</u>	<u>1,781</u>
Planning:				
Salaries	14,000	8,000	7,898	102
Fringe benefits	1,000	700	604	96
Professional services	20,000	400	360	40
Engineering fees	6,000			
Postage	250			
Telephone	1,500	500	407	93
Supplies and tools	250	1,100	1,003	97
Conferences	500	800	706	94
Printing and publishing	500	1,500	1,411	89
Total planning	<u>44,000</u>	<u>13,000</u>	<u>12,389</u>	<u>611</u>
Street lighting	<u>60,000</u>	<u>50,000</u>	<u>49,669</u>	<u>331</u>
Sanitation:				
Contracted services	<u>82,000</u>	<u>81,000</u>	<u>80,659</u>	<u>341</u>
Capital Outlay:				
Land purchase		525,000	525,000	
Land improvements	100,000	109,300	109,287	13
Financial and administration	2,000	1,000	962	38
General	25,000	10,300	10,298	2

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
Capital Outlay: (Continued)				
Police	25,000	22,000	21,617	383
Total Capital Outlay	<u>152,000</u>	<u>667,600</u>	<u>667,164</u>	<u>436</u>
TOTAL EXPENDITURES	<u>1,410,000</u>	<u>1,865,000</u>	<u>1,866,455</u>	<u>(1,455)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>170,000</u>	<u>(421,000)</u>	<u>(417,850)</u>	<u>6,060</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from installment purchase agreement			525,000	525,000
Operating transfers out	(170,000)	(56,000)	(56,000)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(170,000)</u>	<u>(56,000)</u>	<u>469,000</u>	<u>525,000</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>(477,000)</u>	<u>51,150</u>	<u>531,060</u>
FUND BALANCE - JULY 1	889,352	889,352	889,352	
FUND BALANCE - JUNE 30	<u>\$ 889,352</u>	<u>\$ 412,352</u>	<u>\$ 940,502</u>	<u>\$ 531,060</u>

SUPPLEMENTAL INFORMATION

CITY OF HARBOR BEACH, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2004**

	<u>SPECIAL REVENUE</u>		<u>TOTALS</u>	
	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>JUNE 30, 2004</u>	<u>2003</u>
<u>ASSETS</u>				
Cash	\$ 208,030	\$ 232,478	\$ 440,508	\$ 379,860
Accounts receivable				3,169
Due from other governments	23,642	5,883	29,525	26,189
TOTAL ASSETS	<u>\$ 231,672</u>	<u>\$ 238,361</u>	<u>\$ 470,033</u>	<u>\$ 409,218</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 8,291	\$ 4,149	\$ 12,440	\$ 2,565
Accrued payroll and related taxes	570	284	854	1,239
Total liabilities	<u>8,861</u>	<u>4,433</u>	<u>13,294</u>	<u>3,804</u>
Fund balance - unreserved	222,811	233,928	456,739	405,414
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 231,672</u>	<u>\$ 238,361</u>	<u>\$ 470,033</u>	<u>\$ 409,218</u>

CITY OF HARBOR BEACH, MICHIGAN

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
YEAR ENDED JUNE 30, 2004**

	<u>SPECIAL REVENUE</u>		<u>TOTALS</u>	
	<u>MAJOR STREET & TRUNKLINE</u>	<u>LOCAL STREET</u>	<u>2004</u>	<u>JUNE 30, 2003</u>
REVENUE:				
Intergovernmental	\$ 139,771	\$ 103,984	\$ 243,755	\$ 223,167
Miscellaneous	967	1,267	2,234	3,269
TOTAL REVENUE	<u>140,738</u>	<u>105,251</u>	<u>245,989</u>	<u>226,436</u>
EXPENDITURES:				
Streets	134,893	51,721	186,614	240,602
Administrative	4,645	3,405	8,050	6,590
TOTAL EXPENDITURES	<u>139,538</u>	<u>55,126</u>	<u>194,664</u>	<u>247,192</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>1,200</u>	<u>50,125</u>	<u>51,325</u>	<u>(20,756)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in				64,000
Operating transfers (out)				(8,070)
TOTAL OTHER FINANCING SOURCES (USES)				<u>55,930</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>1,200</u>	<u>50,125</u>	<u>51,325</u>	<u>35,174</u>
FUND BALANCE - JULY 1	221,611	183,803	405,414	370,240
FUND BALANCE - JUNE 30	<u>\$ 222,811</u>	<u>\$ 233,928</u>	<u>\$ 456,739</u>	<u>\$ 405,414</u>

CITY OF HARBOR BEACH, MICHIGAN
MAJOR STREET AND TRUNKLINE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 95,000	\$ 93,000	\$ 102,055	\$ 9,055
State trunkline maintenance	<u>32,000</u>	<u>45,400</u>	<u>37,716</u>	<u>(7,684)</u>
Total Intergovernmental	<u>127,000</u>	<u>138,400</u>	<u>139,771</u>	<u>1,371</u>
Miscellaneous:				
Interest	<u>3,000</u>	<u>600</u>	<u>967</u>	<u>367</u>
TOTAL REVENUE	<u>130,000</u>	<u>139,000</u>	<u>140,738</u>	<u>1,738</u>
EXPENDITURES:				
Construction:				
Labor		300	257	43
Fringe benefits		100	96	4
Materials		1,800	1,730	70
Engineering fees	20,000			
Contracted services	<u>156,000</u>	<u>34,800</u>	<u>34,381</u>	<u>419</u>
Total construction	<u>176,000</u>	<u>37,000</u>	<u>36,464</u>	<u>536</u>
Routine maintenance:				
Labor	5,000	5,700	5,656	44
Fringe benefits	3,000	2,300	2,206	94
Materials	3,000	3,500	3,420	80
Contracted services		2,800	2,772	28
Repairs and maintenance	12,000	10,000	9,496	504
Equipment rental	<u>4,000</u>	<u>6,700</u>	<u>9,161</u>	<u>(2,461)</u>
Total routine maintenance	<u>27,000</u>	<u>31,000</u>	<u>32,711</u>	<u>(1,711)</u>
Traffic services:				
Labor	1,000	1,000	856	144
Fringe benefits	200	400	372	28
Materials	500	500	276	224
Equipment rental	<u>300</u>	<u>600</u>	<u>580</u>	<u>20</u>
Total traffic services	<u>2,000</u>	<u>2,500</u>	<u>2,084</u>	<u>416</u>
Winter maintenance:				
Labor	8,000	7,800	7,793	7
Fringe benefits	3,000	3,200	3,144	56
Materials	2,000	3,000	2,955	45
Equipment rental	<u>4,000</u>	<u>9,000</u>	<u>9,023</u>	<u>(23)</u>
Total winter maintenance	<u>17,000</u>	<u>23,000</u>	<u>22,915</u>	<u>85</u>
Administrative:				
Administrative cost	2,000	2,000	2,000	
Professional services	<u>2,000</u>	<u>3,000</u>	<u>2,645</u>	<u>355</u>
Total administrative	<u>4,000</u>	<u>5,000</u>	<u>4,645</u>	<u>355</u>
Trunkline Maintenance:				
Labor	8,000	15,000	14,854	146
Fringe benefits	4,000	6,400	6,102	298
Materials	1,000	1,000	962	38
Equipment rental	<u>5,000</u>	<u>13,100</u>	<u>18,801</u>	<u>(5,701)</u>
Total trunkline maintenance	<u>18,000</u>	<u>35,500</u>	<u>40,719</u>	<u>(5,219)</u>
TOTAL EXPENDITURES	<u>244,000</u>	<u>134,000</u>	<u>139,538</u>	<u>(5,538)</u>

CITY OF HARBOR BEACH, MICHIGAN
MAJOR STREET AND TRUNKLINE FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(114,000)	5,000	1,200	(3,800)
FUND BALANCE - JULY 1	221,611	221,611	221,611	
FUND BALANCE - JUNE 30	<u>\$ 107,611</u>	<u>\$226,611</u>	<u>\$222,811</u>	<u>\$ (3,800)</u>

CITY OF HARBOR BEACH, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
REVENUE:				
Intergovernmental:				
Gas and weight tax	\$ 33,000	\$ 34,000	\$ 37,118	\$ 3,118
County road millage	65,000	66,800	66,866	66
Total Intergovernmental	<u>98,000</u>	<u>100,800</u>	<u>103,984</u>	<u>3,184</u>
Miscellaneous:				
Interest	1,500	800	860	60
Charges	500	400	407	7
Total miscellaneous	<u>2,000</u>	<u>1,200</u>	<u>1,267</u>	<u>67</u>
TOTAL REVENUE	<u>100,000</u>	<u>102,000</u>	<u>105,251</u>	<u>3,251</u>
EXPENDITURES:				
Construction:				
Labor	1,000	400		400
Fringe benefits	500	100		100
Materials		500		500
Contracted services	38,000			
Engineering fees	10,000			
Equipment rental	500			
Total construction	<u>50,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Routine maintenance:				
Labor	5,000	6,600	6,699	(99)
Fringe benefits	3,000	3,000	2,750	250
Materials	4,000	400	759	(359)
Repairs & maintenance	15,000	11,500	11,347	153
Equipment rental	4,000	6,500	10,165	(3,665)
Total routine maintenance	<u>31,000</u>	<u>28,000</u>	<u>31,720</u>	<u>(3,720)</u>
Traffic services:				
Labor	400	800	421	379
Fringe benefits	200	200	160	40
Materials	300			
Equipment rental	100	500	468	32
Total traffic services	<u>1,000</u>	<u>1,500</u>	<u>1,049</u>	<u>451</u>
Winter maintenance:				
Labor	6,000	6,500	6,408	92
Fringe benefits	3,000	3,000	2,609	391
Materials	1,000	1,500	1,477	23
Equipment rental	4,000	8,500	8,458	42
Total winter maintenance	<u>14,000</u>	<u>19,500</u>	<u>18,952</u>	<u>548</u>
Administrative:				
Administration cost	1,000	1,000	1,000	
Engineering fees	1,000			
Professional services	2,000	3,000	2,405	595
Total administrative	<u>4,000</u>	<u>4,000</u>	<u>3,405</u>	<u>595</u>
TOTAL EXPENDITURES	<u>100,000</u>	<u>54,000</u>	<u>55,126</u>	<u>(1,124)</u>

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**LOCAL STREET FUND
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET - FAVORABLE (UNFAVORABLE)</u>
EXCESS OF REVENUE OVER EXPENDITURES	<u>-</u>	<u>48,000</u>	<u>50,124</u>	<u>2,126</u>
FUND BALANCE - JULY 1	183,803	183,803	183,803	
FUND BALANCE - JUNE 30	<u>\$ 183,803</u>	<u>\$231,803</u>	<u>\$233,927</u>	<u>\$ 2,126</u>

CITY OF HARBOR BEACH, MICHIGAN

**SEWER FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Sewer service charge	\$ 401,600	\$ 420,951	\$ 19,351
Sewer permits	<u>2,000</u>	<u>2,600</u>	<u>600</u>
TOTAL OPERATING REVENUE	<u>403,600</u>	<u>423,551</u>	<u>19,951</u>
OPERATING EXPENSES:			
Salaries	153,000	151,261	1,739
Administrative cost	30,000	30,000	
Fringe benefits	65,200	65,122	78
Dues and subscriptions	2,000	1,950	50
Supplies	4,100	4,018	82
Postage	700	619	81
Clothing	400	360	40
Chemicals	15,600	15,526	74
Education and training	400	143	257
Professional services	5,400	5,376	24
Contracted services	81,000	64,098	16,902
Penalties and fines	3,500	3,500	
Telephone	1,400	1,317	83
Transportation	2,400	2,361	39
Insurance	6,000	5,985	14
Utilities	47,900	50,504	(2,604)
Equipment maintenance	4,200	4,158	42
Repairs and maintenance	3,300	3,290	10
Equipment rental	8,200	10,464	(2,264)
Sewer main maintenance	2,100	2,066	34
Equipment replacement	59,500		59,500
Depreciation	268,000	268,898	(898)
Amortization	<u>3,600</u>	<u>4,277</u>	<u>(677)</u>
TOTAL OPERATING EXPENSES	<u>767,900</u>	<u>695,293</u>	<u>72,607</u>
OPERATING LOSS	<u>(364,300)</u>	<u>(271,742)</u>	<u>92,558</u>
NONOPERATING REVENUE (EXPENSES):			
Interest income	12,400	12,799	399
Property tax levy	110,000	177,194	67,194
Bond interest expense	(4,900)	(55,037)	(50,137)
Paying agent fees	<u>(200)</u>	<u>(258)</u>	<u>(58)</u>
TOTAL NONOPERATING REVENUE	<u>117,300</u>	<u>134,698</u>	<u>17,398</u>
NET LOSS	<u>\$ (247,000)</u>	<u>\$ (137,044)</u>	<u>\$ 109,956</u>

CITY OF HARBOR BEACH, MICHIGAN

**WATER SUPPLY FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Water sales	\$ 539,000	\$ 539,459	\$ 459
Sale of material and labor	8,200	8,497	297
Water permits	1,800	1,800	
Fire hydrant rental	<u>50,000</u>	<u>50,000</u>	
TOTAL OPERATING REVENUE	<u>599,000</u>	<u>599,756</u>	<u>756</u>
OPERATING EXPENSES:			
Salaries	162,000	159,038	2,962
Administrative cost	30,000	30,000	
Fringe benefits	76,500	76,121	379
Supplies	3,200	3,135	65
Postage	500	414	86
Dues	200	114	86
Chemicals	21,600	21,569	31
Professional services	8,500	8,461	39
Contracted services	20,600	1,265	19,335
Telephone	600	571	29
Transportation	500	406	94
Insurance	5,500	5,421	79
Utilities	60,000	58,811	1,189
Equipment maintenance	8,800	8,752	48
Repairs and maintenance	2,100	2,089	11
Maintenance of mains	6,200	6,108	92
Maintenance of grounds	800	784	16
Equipment rental	8,400	10,881	(2,481)
Education and training	500	494	6
Depreciation	320,000	318,738	1,262
Amortization		1,195	(1,195)
Equipment replacement	2,300	2,217	83
Capital outlay	<u>1,500</u>		<u>1,500</u>
TOTAL OPERATING EXPENSES	<u>740,300</u>	<u>716,584</u>	<u>23,716</u>
OPERATING LOSS	<u>(141,300)</u>	<u>(116,828)</u>	<u>24,472</u>
NONOPERATING REVENUE (EXPENSES):			
Property taxes		119,158	119,158
Paying agent fees		(176)	(176)
Interest income	10,000	10,967	967
Interest expense	<u>(116,700)</u>	<u>(205,432)</u>	<u>(88,732)</u>
TOTAL NONOPERATING (EXPENSES)	<u>(106,700)</u>	<u>(75,483)</u>	<u>31,217</u>
NET LOSS	<u>\$ (248,000)</u>	<u>\$ (192,311)</u>	<u>\$ 55,689</u>

CITY OF HARBOR BEACH, MICHIGAN

**RECREATION FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Fees for marina services	\$ 132,100	\$ 136,375	\$ 4,275
Sale of marina material and labor	147,900	148,756	856
Rentals	193,400	194,472	1,072
Retail merchandise	2,500	3,011	511
Recreation fees	2,900	2,928	28
Trip fees	6,000	6,610	610
Membership fees	12,000	12,125	125
Storage fees	8,200	8,322	122
Aerobics class fees	<u>3,000</u>	<u>3,388</u>	<u>388</u>
TOTAL OPERATING REVENUE	<u>508,000</u>	<u>515,987</u>	<u>7,987</u>
OPERATING EXPENSES:			
Salaries	155,700	154,976	724
Unemployment	15,200	15,165	35
Administrative cost	12,000	12,000	
Office expense	500	305	195
Fringe benefits	37,100	36,449	651
Supplies and tools	23,300	21,852	1,448
Merchandise	108,400	107,831	569
Professional services	3,000	2,880	120
Contracted services	2,400	2,272	128
Telephone	3,600	3,350	250
Transportation	2,300	2,171	129
Community promotion	4,200	3,937	263
Sanctioning fees	2,000	1,740	260
Printing & publishing	2,600	2,430	170
Postage	1,600	976	624
Insurance	5,900	5,386	514
Utilities	68,900	71,037	(2,137)
Repairs and maintenance	38,900	38,455	445
Equipment rental	6,200	6,664	(464)
Dues and subscriptions	1,000	890	110
License	200	200	
Diesel tax	3,100	3,097	3
State sales tax	7,900	7,773	127
Depreciation	170,000	169,214	786
Event charges	2,500	2,469	31
Special event expenses	12,300	12,074	226
Bank Charge - Credit cards	5,000	4,728	272
Land improvements	<u>5,000</u>		<u>5,000</u>
TOTAL OPERATING EXPENSES	<u>700,800</u>	<u>690,321</u>	<u>10,479</u>
OPERATING LOSS	<u>(192,800)</u>	<u>(174,334)</u>	<u>18,466</u>
NONOPERATING REVENUE (EXPENSE):			
Interest income	200	310	110
Sale of fixed assets	13,000	361	(12,639)
Contributions	22,800	23,526	726
Interest expense	<u>(4,200)</u>	<u>(4,146)</u>	<u>54</u>
TOTAL NONOPERATING REVENUE	<u>31,800</u>	<u>20,051</u>	<u>(11,749)</u>
LOSS BEFORE OPERATING TRANSFERS	<u>(161,000)</u>	<u>(154,283)</u>	<u>6,717</u>
OTHER FINANCING SOURCES:			
Operating transfers in	56,000	56,000	
NET LOSS	<u>\$ (105,000)</u>	<u>\$ (98,283)</u>	<u>\$ 6,717</u>

CITY OF HARBOR BEACH, MICHIGAN

**INTERNAL SERVICE FUND
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2004**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE- FAVORABLE (UNFAVORABLE)</u>
OPERATING REVENUE:			
Rental of equipment	\$ 117,500	\$ 144,220	\$ 26,720
OPERATING EXPENSES:			
Salaries	9,600	9,541	59
Administrative cost	1,000	1,000	
Fringe benefits	4,000	3,911	89
Supplies and tools	1,600	1,503	97
Repair parts	6,100	6,057	43
Professional services	2,000	1,930	70
Telephone	900	811	89
Gas and oil	10,400	10,378	22
Insurance	5,200	4,821	379
Equipment maintenance	3,200	3,194	6
Depreciation		67,817	(67,817)
TOTAL OPERATING EXPENSES	<u>44,000</u>	<u>110,963</u>	<u>(66,963)</u>
OPERATING INCOME	<u>73,500</u>	<u>33,257</u>	<u>(40,243)</u>
NONOPERATING REVENUE:			
Interest income	4,500	4,662	162
NET INCOME	<u>\$ 78,000</u>	<u>\$ 37,919</u>	<u>\$ (40,081)</u>

CITY OF HARBOR BEACH, MICHIGAN

ENTERPRISE FUNDS
 SCHEDULE OF CAPITAL ASSETS AND ACCUMULATED DEPRECIATION
 YEAR ENDED JUNE 30, 2004

	CAPITAL ASSETS			ACCUMULATED DEPRECIATION			NET ASSET COST
	BALANCE JUNE 30, 2003	ADDITIONS	RETIREMENTS	BALANCE JUNE 30, 2004	PROVISION FOR DEPRECIATION	RETIREMENTS	
SEWER FUND:							
Buildings	\$ 1,052,143			\$ 1,052,143	\$ 26,304		\$ 434,015
Equipment	4,227,760	\$ 59,456	\$ 2,358	4,284,858	177,519	\$ 2,358	2,818,393
Sewer lines	1,739,675			1,739,675	65,075		626,270
TOTAL SEWER FUND	7,019,578	59,456	2,358	7,076,676	268,898	2,358	3,878,678
WATER SUPPLY FUND:							
Buildings	2,540,310			2,540,310	50,806		465,723
Equipment	1,863,183	1,453	4,764	1,859,872	186,012	4,764	1,627,976
Water mains	3,977,191	19,236		3,996,427	79,834		621,582
Water tower	104,282			104,282	2,086		69,876
TOTAL WATER SUPPLY FUND	8,484,966	20,689	4,764	8,500,891	318,738	4,764	2,785,157
RECREATION FUND:							
Land	66,530			66,530			66,530
Buildings	664,071			664,071	24,943		295,516
Docks	799,646			799,646	13,631		775,135
Harbor & parking lot	1,852,994			1,852,994	62,383		992,274
Machinery & equipment	767,221		18,519	748,702	24,305	4,561	645,397
Sites & improvements	1,020,755	4,789	5,750	1,019,794	43,952	4,705	508,210
TOTAL PARKS AND RECREATION FUND	5,171,217	4,789	24,269	5,151,737	169,214	9,266	3,216,532
TOTALS	\$ 20,675,761	\$ 84,934	\$ 31,391	\$ 20,729,304	\$ 756,850	\$ 16,388	\$ 9,880,367
							\$ 10,848,937

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS
AT JUNE 30, 2004**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/04	\$ 60,000	5.25%	\$ 86,835	\$ 146,835
05/01/05			85,260	85,260
11/01/05	63,000	5.25	85,260	148,260
05/01/06			83,606	83,606
11/01/06	66,000	5.25	83,606	149,606
05/01/07			81,874	81,874
11/01/07	70,000	5.25	81,874	151,874
05/01/08			80,036	80,036
11/01/08	74,000	5.25	80,036	154,036
05/01/09			78,094	78,094
11/01/09	77,000	5.25	78,094	155,094
05/01/10			76,073	76,073
11/01/10	81,000	5.25	76,073	157,073
05/01/11			73,946	73,946
11/01/11	86,000	5.25	73,946	159,946
05/01/12			71,689	71,689
11/01/12	90,000	5.25	71,689	161,689
05/01/13			69,326	69,326
11/01/13	95,000	5.25	69,326	164,326
05/01/14			66,833	66,833
11/01/14	100,000	5.25	66,833	166,833
05/01/15			64,208	64,208
11/01/15	105,000	5.25	64,208	169,208
05/01/16			61,451	61,451
11/01/16	111,000	5.25	61,451	172,451
05/01/17			58,538	58,538
11/01/17	116,000	5.25	58,538	174,538
05/01/18			55,492	55,492
11/01/18	123,000	5.25	55,492	178,492
05/01/19			52,264	52,264
11/01/19	129,000	5.25	52,264	181,264
05/01/20			48,877	48,877
11/01/20	136,000	5.25	48,877	184,877
05/01/21			45,307	45,307
11/01/21	143,000	5.25	45,307	188,307
05/01/22			41,554	41,554
11/01/22	150,000	5.25	41,554	191,554
05/01/23			37,616	37,616
11/01/23	158,000	5.25	37,616	195,616
05/01/24			33,469	33,469
11/01/24	167,000	5.25	33,469	200,469

(Continued)

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS
AT JUNE 30, 2004**

MATURITY DATE	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
05/01/25			29,085	29,085
11/01/25	175,000	5.25	29,085	204,085
05/01/26			24,491	24,491
11/01/26	185,000	5.25	24,491	209,491
05/01/27			19,635	19,635
11/01/27	194,000	5.25	19,635	213,635
05/01/28			14,542	14,542
11/01/28	204,000	5.25	14,542	218,542
05/01/29			9,187	9,187
11/01/29	215,000	5.25	9,187	224,187
05/01/30			3,544	3,544
11/01/30	135,000	5.25	3,544	138,544
TOTALS	<u>\$ 3,308,000</u>		<u>\$ 2,818,829</u>	<u>\$ 6,126,829</u>

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
2000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS
AT JUNE 30, 2004**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/04			\$ 68,909	\$ 68,909
05/01/05	\$ 60,000	5.125%	68,909	128,909
11/01/05			67,372	67,372
05/01/06	65,000	5.125	67,372	132,372
11/01/06			65,707	65,707
05/01/07	75,000	5.125	65,707	140,707
11/01/07			63,784	63,784
05/01/08	85,000	5.125	63,784	148,784
11/01/08			61,606	61,606
05/01/09	95,000	5.125	61,606	156,606
11/01/09			59,172	59,172
05/01/10	110,000	5.125	59,172	169,172
11/01/10			56,353	56,353
05/01/11	125,000	5.125	56,353	181,353
11/01/11			53,150	53,150
05/01/12	140,000	5.125	53,150	193,150
11/01/12			49,563	49,563
05/01/13	155,000	5.35	49,563	204,563
11/01/13			45,416	45,416
05/01/14	170,000	5.35	45,416	215,416
11/01/14			40,869	40,869
05/01/15	190,000	5.35	40,869	230,869
11/01/15			35,786	35,786
05/01/16	210,000	5.45	35,786	245,786
11/01/16			30,064	30,064
05/01/17	235,000	5.45	30,064	265,064
11/01/17			23,660	23,660
05/01/18	260,000	5.60	23,660	283,660
11/01/18			16,380	16,380
05/01/19	285,000	5.60	16,380	301,380
11/01/19			8,400	8,400
05/01/20	300,000	5.60	8,400	308,400
TOTALS	\$ 2,560,000		\$ 1,492,382	\$ 4,052,382

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
2004 GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
AT JUNE 30, 2004**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/04			\$ 17,959	\$ 17,959
05/01/05	\$ 35,000	3.500%	21,551	56,551
11/01/05			20,939	20,939
05/01/06	35,000	3.500	20,939	55,939
11/01/06			20,326	20,326
05/01/07	35,000	3.600	20,326	55,326
11/01/07			19,696	19,696
05/01/08	35,000	3.750	19,696	54,696
11/01/08			19,040	19,040
05/01/09	40,000	3.900	19,040	59,040
11/01/09			18,260	18,260
05/01/10	40,000	4.000	18,260	58,260
11/01/10			17,460	17,460
05/01/11	40,000	4.150	17,460	57,460
11/01/11			16,630	16,630
05/01/12	40,000	4.300	16,630	56,630
11/01/12			15,770	15,770
05/01/13	45,000	4.400	15,770	60,770
11/01/13			14,780	14,780
05/01/14	45,000	4.500	14,780	59,780
11/01/14			13,768	13,768
05/01/15	45,000	4.500	13,768	58,768
11/01/15			12,755	12,755
05/01/16	50,000	4.600	12,755	62,755
11/01/16			11,605	11,605
05/01/17	50,000	4.700	11,605	61,605
11/01/17			10,430	10,430
05/01/18	50,000	4.800	10,430	60,430
11/01/18			9,230	9,230
05/01/19	55,000	4.850	9,230	64,230
11/01/19			7,896	7,896
05/01/20	55,000	5.000	7,896	62,896
11/01/20			6,521	6,521
05/01/21	60,000	5.000	6,521	66,521
11/01/21			5,021	5,021
05/01/22	60,000	5.150	5,021	65,021
11/01/22			3,476	3,476
05/01/23	65,000	5.150	3,476	68,476
11/01/23			1,803	1,803
05/01/24	70,000	5.150	1,803	71,803
TOTALS	\$ 950,000		\$ 530,323	\$ 1,480,323

CITY OF HARBOR BEACH, MICHIGAN

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS
2003 INSTALLMENT PURCHASE AGREEMENT
AT JUNE 30, 2004**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
10/01/04	25,000	3.190%	\$ 8,374	\$ 33,374
04/01/05			7,975	7,975
10/01/05	25,000	3.19	7,975	32,975
04/01/06			7,576	7,576
10/01/06	25,000	3.190	7,576	32,576
04/01/07			7,178	7,178
10/01/07	30,000	3.190	7,178	37,178
04/01/08			6,699	6,699
10/01/08	30,000	3.190	6,699	36,699
04/01/09			6,221	6,221
10/01/09	30,000	3.190	6,221	36,221
04/01/10			5,742	5,742
10/01/10	30,000	3.190	5,742	35,742
04/01/11			5,264	5,264
10/01/11	35,000	3.190	5,264	40,264
04/01/12			4,705	4,705
10/01/12	35,000	3.190	4,705	39,705
04/01/13			4,147	4,147
10/01/13	40,000	3.190	4,147	44,147
04/01/14			3,509	3,509
10/01/14	40,000	3.190	3,509	43,509
04/01/15			2,871	2,871
10/01/15	40,000	3.190	2,871	42,871
04/01/16			2,233	2,233
10/01/16	45,000	3.190	2,233	47,233
04/01/17			1,515	1,515
10/01/17	45,000	3.190	1,515	46,515
04/01/18			798	798
10/01/18	50,000	3.190	798	50,798
TOTALS	<u>\$ 525,000</u>		<u>\$ 141,237</u>	<u>\$ 666,237</u>



ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

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

To the City Council
City of Harbor Beach
Harbor Beach, Michigan 48441

We have audited the general purpose financial statements of the City of Harbor Beach as of and for the year ended June 30, 2004, and have issued our report thereon dated September 3, 2004. In our report, our opinion was qualified because the City does not maintain a record of its general fixed assets, and because the internal service fund treats capital expenditures as current expenditures rather than capitalizing and depreciating the items as required by governmental generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Harbor Beach's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated September 3, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harbor Beach's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated September 3, 2004.

(Continued)

7274 Hartley St. • Box 499 • Pigeon, MI 48755
989.453.3122 • Fax 989.453.2219

- 62 -
email@nfcpa.com
www.nfcpa.com

41 E. Main St. • Sebawaing, MI 48759
989.883.3122 • Fax 989.883.3400

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

Nietzke & Faupel, PC
NIETZKE & FAUPEL, P.C.
PIGEON, MICHIGAN

September 3, 2004