Michigan Department of Treasury
496 (2-04)

Auditing Procedures Report

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

Local Government Type	Local Government Name	County
☑ City ☐ Township ☐ Village ☐ Other	CITY OF ZILWAUKEE	SAGINAW

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
6/30/04	9/30/04	12/27/04

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.

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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). TIFA FUND--SEE PAGE 12

☐ 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)			
BERTHIAUME & COMPANY, CPAs			
Street Address	City	State	ZIP
60 HARROW LANE	SAGINAW	MI	48603
Accountant Signature		Date	
Kenneth U. Berthiaume		12/27/04	

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BERTHIAUME
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INDEPENDENT AUDITORS' REPORT

To the City Council
City of Zilwaukee, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Zilwaukee, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City of Zilwaukee's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Zilwaukee'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The management's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Zilwaukee's basic financial statements. The accompanying other 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. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of July 1, 2003.

Berthiaume & Co

September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENTS DISCUSSION & ANALYSIS

Overview of the Financial Statements:

The 2004 financial statements of the City of Zilwaukee follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

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

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Government Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Tax Increment Finance Authority in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Government Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

MANAGEMENTS DISCUSSION & ANALYSIS

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short- and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by $5,162,410 (net assets), an increase of $377,564 from the previous year. Of the $5.2 million reported in net assets, approximately $1.4 may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities increased $104,297, or 7.86 percent, while net assets of our business-type activities increased $273,267, or 5.75 percent.
- Unrestricted net assets for governmental activities are 63.3 percent of expenses. Unrestricted net assets for business-type activities are 161.8 percent.
- The General Fund reported expenditures in excess of revenues of $15,275 for the year. This resulted in a year end fund balance of $436,412. Of this amount, $436,412 is unreserved and undesignated, or 67.5 percent of General Fund expenditures.

The City as a Whole:

The City's combined net assets are $5,162,410 at June 30, 2004. Business-type activities make up $3.02 million and governmental activities make up $2.14 million of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities is not part of the management's discussion and analysis.

City of Zilwaukee – Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by $5,162,410 (net assets). However, a major portion (59.43 percent) of the City's net assets represents its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City decreased from $1,531,032 at June 30, 2003 to $1,382,539 at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

MANAGEMENTS DISCUSSION & ANALYSIS

City of Zilwaukee - Net Assets

	Governmental Activities	Business-type Activities	Total
Assets:			
Current and other assets	$ 1,457,213	$ 738,012	$ 2,195,225
Capital assets	882,582	2,729,349	3,611,931
Total assets	2,339,795	3,467,361	5,807,156
Liabilities:			
Long-term liabilities	134,013	410,002	544,015
Other liabilities	70,326	30,405	100,731
Total liabilities	204,339	440,407	644,746
Net assets:			
Invested in capital assets, net of related debt	748,569	2,319,347	3,067,916
Restricted	712,055	-	712,055
Unrestricted	674,932	707,607	1,382,539
Total net assets	$ 2,135,556	$ 3,026,954	$ 5,162,510

MANAGEMENTS DISCUSSION & ANALYSIS

The following table shows the changes in net assets for 2004:

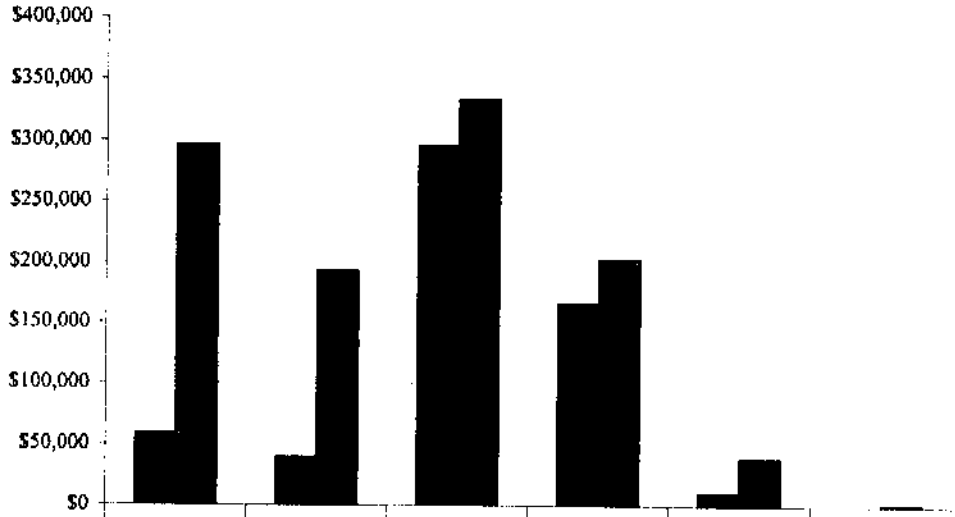
	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	$ 324,449	$ 417,363	$ 741,812
Operating grants and contributions	245,464	-	245,464
Capital grants and contributions	-	242,018	242,018
General revenues:			
Property taxes	375,224	44,732	419,956
Franchise taxes	18,293	-	18,293
Grants and contributions not restricted to specific programs	193,455	1,768	195,223
Investment earnings	13,399	4,513	17,912
Total revenues	1,170,284	710,394	1,880,678
Expenses:			
General government	296,188	-	296,188
Public safety	193,162	-	193,162
Public works	333,748	-	333,748
Community and economic development	202,855	-	202,855
Recreation and culture	38,546	-	38,546
Interest on long-term debt	1,488	-	1,488
Sewer		214,307	214,307
Water	-	222,820	222,820
Total expenses	1,065,987	437,127	1,503,114
Change in net assets	104,297	273,267	377,564
Net assets, beginning of year, as restated	2,031,159	2,753,687	4,784,846
Net assets, end of year	$ 2,135,456	$ 3,026,954	$ 5,162,410

MANAGEMENTS DISCUSSION & ANALYSIS

Governmental Activities:

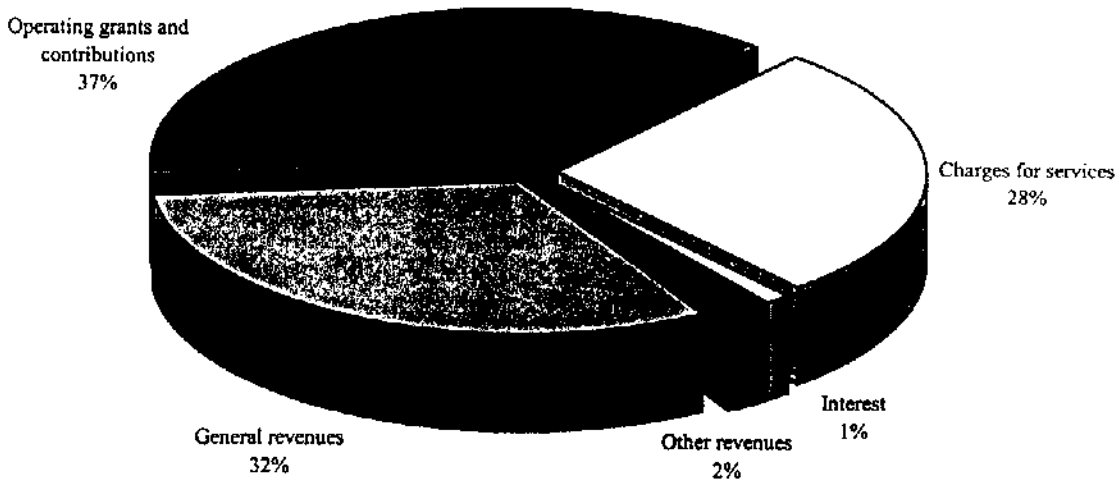
For the year ended June 30, 2004, revenues for the City's governmental activities totaled $1.17 million. Property taxes accounted for 32 percent of the total revenues, or $375,224. State-shared revenues were 16.5 percent, or $193,455; these revenues continue to be a concern as to future funding levels.

Expenses and Program Revenues
Governmental Activities



	General government	Public safety	Public works	Community and economic development	Recreation and culture	Interest on long term debt
Program revenues	58,126	39,470	295,857	166,007	10,453	-
Expenses	296,188	193,162	333,748	202,855	38,546	1,488

Revenue by Source
Governmental Activities

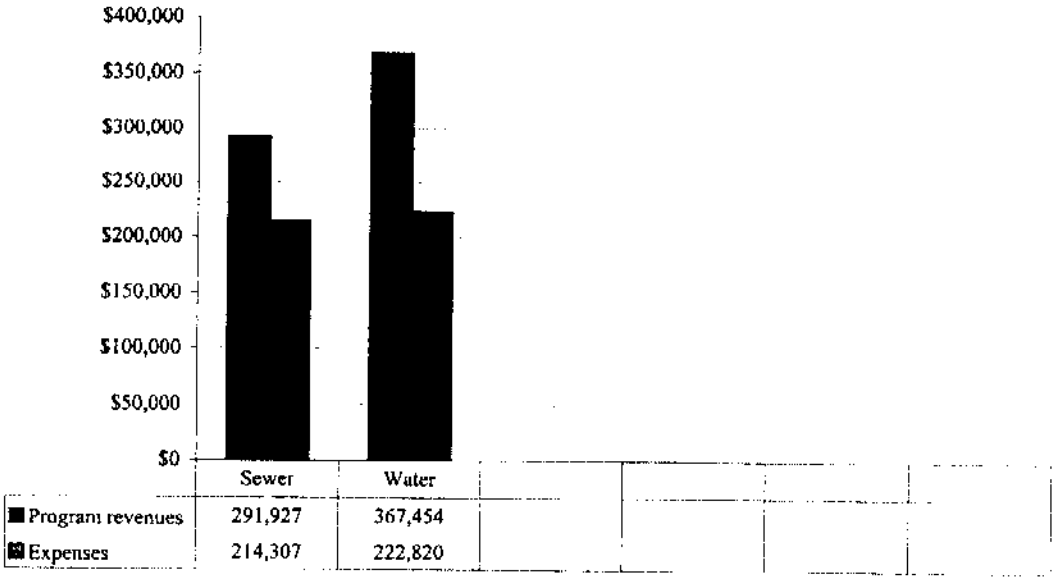


MANAGEMENTS DISCUSSION & ANALYSIS

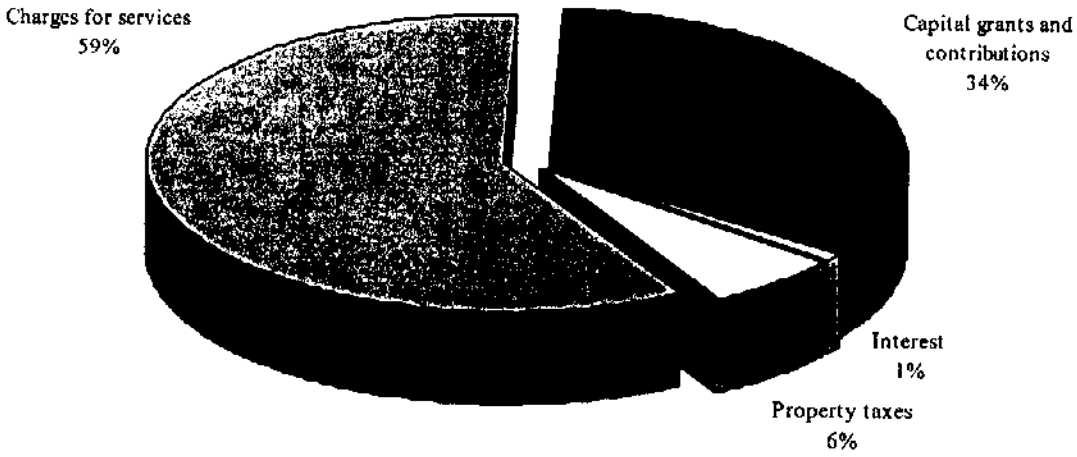
Business-type Activities:

For the year ended June 30, 2004, revenues for business-type activities were $710,394. Charges for services were 58.75 percent of gross revenues, or 417,363. Interest income on investments was .6 percent of gross revenues, or $4,513. Property taxes were 6.3 percent of gross revenues, or $44,732; these property taxes are used to make payments on debt incurred for the sewer system improvements.

Expenses and Program Revenues
Business-type Activities



Revenue by Source
Business-type Activities



MANAGEMENTS DISCUSSION & ANALYSIS

The City has two business type-activities: the sewer and water systems. In total, these two activities generated $417,363 in charges for services, $242,018 in Capital grants and contributions and incurred $437,127 in expenses. In addition, general revenues for business-type activities were approximately $51,013. The City's business-type activities experienced an increase in net assets of $273,267 for the year.

Capital Assets and Debt Administration:

At the end of the fiscal year 2004, the City has $5,658,703 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings, equipment, and sewer and water lines. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since July 1, 2003. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets. The value of the infrastructure assets, net of depreciation, contained in this report is $0 at June 30, 2004.

Debt of $134,013 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets. During the year, the City acquired an installment purchase contract. This contract was used to purchase a fire truck.

Debt related to the sewer and water systems totaling $410,002 is recorded as a liability in the business-type activities in the statement of net assets. Proceeds from this debt were used for improvements/ expansion of the water and sewer system.

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, Local Street Fund, Fire Replacement and Stock Building Supply Fund.

The City's governmental funds reported combined fund balance of $1,386,887 for this year, a decrease of $111,068 from last year. Included in this increase is the General Fund's excess of revenues over expenditures of $15,275.

General Fund Budgetary Highlights:

Differences between the original and final amended budgets for revenues and expenditures were relatively minor, except for an increase in the Fire Replacement fund for the purchase of a fire truck and the corresponding debt proceeds that were not included in the original budget.

MANAGEMENTS DISCUSSION & ANALYSIS

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care). We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while still providing the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Robert Moffit, City Manager, 319 Tittabawassee, Zilwaukee Michigan, 48604.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	TIFA
Assets:				
Cash and cash equivalents	$ 1,278,930	$ 604,243	$ 1,883,173	$ 3,674
Receivables	167,519	126,826	294,345	-
Internal balances	(6,943)	6,943	-	-
Prepaid items and other assets	17,707	-	17,707	-
Inventory	-	-	-	208,411
Capital assets:				
Nondepreciable capital assets	-	5,204	5,204	64,500
Depreciable capital assets, net	882,582	2,724,145	3,606,727	248,621
Total assets	2,339,795	3,467,361	5,807,156	525,206
Liabilities:				
Accounts payable and accrued expenses	70,326	30,405	100,731	1,944
Long-term liabilities:				
Due within one year	48,963	50,993	99,956	196,005
Due in more than one year	85,050	359,009	444,059	544,275
Total liabilities	204,339	440,407	644,746	742,224
Net assets:				
Invested in capital assets, net of related debt	748,569	2,319,347	3,067,916	118,865
Restricted for:				
Capital projects	7,952	-	7,952	-
Streets	704,103		704,103	
Unrestricted	674,832	707,607	1,382,439	(335,883)
Total net assets	$ 2,135,456	$ 3,026,954	$ 5,162,410	$ (217,018)

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

CITY OF ZILWAUKEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

		Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue
Functions/Programs					
PRIMARY GOVERNMENT:					
Governmental activities:					
General government	$ 296,188	$ 19,126	$ 39,000	$ -	$ (238,062)
Public safety	193,162	6,978	32,492	-	(153,692)
Public works	333,748	124,385	171,472	-	(37,891)
Community and economic develop	202,855	166,007	-	-	(36,848)
Recreation and culture	38,546	7,953	2,500	-	(28,093)
Interest on long-term debt	1,488	-	-	-	(1,488)
Total governmental activities	1,065,987	324,449	245,464	-	(496,074)
Business-type activities:					
Sewer	214,307	233,906	-	58,021	77,620
Water	222,820	183,457	-	183,997	144,634
Total business-type activities	437,127	417,363	-	242,018	222,254
Total primary government	$ 1,503,114	$ 741,812	$ 245,464	$ 242,018	$ (273,820)
COMPONENT UNITS:					
Tax increment finance authority	$ 646,181	$ 12,710	$ -	$ -	$ (633,471)
Total component units	$ 646,181	$ 12,710	$ -	$ -	$ (633,471)

continued

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

	Primary Government			Unit
	Governmental Activities	Business-type Activities	Total	TIFA
Changes in net assets				
Net (Expense) Revenue	$ (496,074)	$ 222,254	$ (273,820)	$ (633,471)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	337,997	-	337,997	-
Property taxes, levied for fire protection	29,784	-	29,784	-
Property taxes, levied for recreation	7,443	-	7,443	-
Property taxes, levied for debt service	-	44,732	44,732	-
Property taxes captured by TIFA	-	-	-	279,230
Payment in lieu of property taxes	-	-	-	-
Franchise taxes	18,293	-	18,293	-
State shared revenues not restricted to specific programs	193,455	1,768	195,223	-
Unrestricted investment earnings	13,399	4,513	17,912	609
Special item - Gain on sale of inventory	-	-	-	66,613
Total general revenues, contributions, special items and transfers	600,371	51,013	651,384	346,452
Change in net assets	104,297	273,267	377,564	(287,019)
Net assets, beginning of year	2,031,159	2,753,687	4,784,846	70,001
Net assets, end of year	$ 2,135,456	$ 3,026,954	$ 5,162,410	$ (217,018)

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	General Fund	Major Street Fund	Local Street Fund	Fire Replace-ment	Stock Building Supply	Nonmajor Governmental Funds	Total Governmental Funds
Assets:							
Cash and cash equivalents	$ 362,783	$ 436,762	$ 247,307	$ 159,383	$ 7,952	$ 64,743	$ 1,278,930
Accounts receivable	7,686	-	-	-	-	2,008	9,694
Due from other governmental units	65,050	53,336	6,924	-	-	-	125,310
Due from other funds	2,258	-	22,236	-	-	21,822	46,316
Prepaid expenditures	7,153	-	-	-	-	10,554	17,707
Advance receivable from other funds	32,200	-	-	-	-	-	32,200
Total assets	$ 477,130	$ 490,098	$ 276,467	$ 159,383	$ 7,952	$ 99,127	$ 1,510,157
Liabilities and Fund Balances:							
Liabilities:							
Accounts payable and accrued expenses	$ 11,953	$ 38,621	$ 198	$ 2,904	$ -	$ 16,650	$ 70,326
Due to other funds	28,765	22,815	828	305	-	231	52,944
Total liabilities	40,718	61,436	1,026	3,209	-	16,881	123,270
Fund balances:							
Reserved for:							
Prepaid expenditures	7,153	-	-	-	-	10,554	17,707
Unreserved:							
Undesignated, reported in:							
General fund	429,259	-	-	-	-	-	429,259
Special revenue funds	-	428,662	275,441	156,174		71,692	931,969
Capital projects fund	-	-	-	-	7,952	-	7,952
Total fund balances	436,412	428,662	275,441	156,174	7,952	82,246	1,386,887
Total liabilities and fund balances	$ 477,130	$ 490,098	$ 276,467	$ 159,383	$ 7,952	$ 99,127	$ 1,510,157

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

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total fund balances for governmental funds		$ 1,386,887
Total net assets reported for governmental activities in the statement of of net assets is different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	1,246,409	
Less accumulated depreciation	(363,827)	882,582
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Contracts payable		(134,013)
Net assets of governmental activities		$ 2,135,456

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

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	General Fund	Major Street Fund	Local Street Fund	Fire Replacement Fund	Stock Building Supply	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	$ 337,997	$ -	$ -	$ 29,784	$ -	$ 7,443	$ 375,224
Licenses and permits	25,081	-	-	-	-	-	25,081
Federal grants	-	38,622	-	-	89,507	-	128,129
State grants	193,133	86,658	46,192	1,138	-	284	327,405
Contributions from other units	45,257	-	-	25,000	76,500	-	146,757
Charges from services	21,283	-	-	-	-	93,044	114,327
Fines and forfeits	135	-	-	-	-	-	135
Interest and rents	33,954	3,450	1,832	2,477	-	1,429	43,142
Other revenue	5,226	-	178	172	-	4,508	10,084
Total revenues	662,066	128,730	48,202	58,571	166,007	106,708	1,170,284
Expenditures:							
Current:							
General government	145,832	-	-	-	-	-	145,832
Public safety	164,622	-	-	4,464	-	332	169,418
Public works	129,989	67,387	43,423	-	-	86,714	327,513
Community and economic development	-	-	-	-	202,855	-	202,855
Recreation and culture	29,350	-	-	-	-	7,995	37,345
Other	144,309	-	-	-	-	-	144,309
Capital outlay	29,562	-	-	357,043	-	-	386,605
Debt service:							
Principal	-	-	-	15,987	-	-	15,987
Interest and charges	-	-	-	1,488	-	-	1,488
Total expenditures	643,664	67,387	43,423	378,982	202,855	95,041	1,431,352
Excess (deficiency) of revenues over expenditures	18,402	61,343	4,779	(320,411)	(36,848)	11,667	(261,068)
Other financing sources (uses):							
Capital related debt issued	-	-	-	150,000	-		150,000
Transfers in	-	-	21,664	3,127	-	-	24,791
Transfers out	(3,127)	(21,664)	-	-	-	-	(24,791)
Total other financing sources (uses)	(3,127)	(21,664)	21,664	153,127	-	-	150,000
Net change in fund balances	15,275	39,679	26,443	(167,284)	(36,848)	11,667	(111,068)
Fund balances, beginning of year, as restated	421,137	388,983	248,998	323,458	44,800	70,579	1,497,955
Fund balances, end of year	$ 436,412	$ 428,662	$ 275,441	$ 156,174	$ 7,952	$ 82,246	$ 1,386,887

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

RECONCILIATION OF 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 - total governmental funds		$ (111,068)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	378,184	
Less depreciation expense	(28,806)	349,378
Debt proceeds are a revenue in the statement of activities but are reported as long-term liabilities in the funds.		(150,000)
Repayments of principal on contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		15,987
Change in net assets of governmental activities		$ 104,297

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

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Major Enterprise Funds		
	Sewer Fund	Water Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	$ 465,085	$ 139,158	$ 604,243
Accounts receivable	-	124,826	124,826
Due from other funds	73,238	28,765	102,003
Total current assets	538,323	292,749	831,072
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets	3,000	2,204	5,204
Depreciable capital assets, net	904,388	1,819,757	2,724,145
Advance receivable from other funds	-	2,000	2,000
Total noncurrent assets	907,388	1,823,961	2,731,349
Total assets	1,445,711	2,116,710	3,562,421
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	2,738	16,734	19,472
Due to other governmental units	10,933	-	10,933
Due to other funds	-	95,060	95,060
Current portion of long-term debt	20,993	30,000	50,993
Total current liabilities	34,664	141,794	176,458
Noncurrent liabilities:			
Long-term debt	124,009	235,000	359,009
Total noncurrent liabilities	124,009	235,000	359,009
Total liabilities	158,673	376,794	535,467
Net assets:			
Invested in capital assets, net of related debt	762,386	1,556,961	2,319,347
Unrestricted	524,652	182,955	707,607
Total net assets	$ 1,287,038	$ 1,739,916	$ 3,026,954

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

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Major Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating revenues:			
Charges for services	$ 233,906	$ 168,107	$ 402,013
Total operating revenues	233,906	168,107	402,013
Operating expenses:			
Personnel	23,967	30,546	54,513
Fringe benefits	1,825	2,336	4,161
Supplies	396	1,465	1,861
Contracted services	9,221	1,165	10,386
Sewage treatment	93,005	-	93,005
Purchase of water	-	85,608	85,608
Administrative expense	2,500	2,900	5,400
Telephone	1,098	-	1,098
Mileage	300	-	300
Dues and membership fees	-	57	57
Education and training	-	192	192
Printing and publishing	509	-	509
Utilities	7,501	257	7,758
Repair and maintenance	25,186	3,903	29,089
Other services and supplies	968	1,985	2,953
Depreciation	37,679	72,102	109,781
Total operating expenses	204,155	202,516	406,671
Operating income (loss)	29,751	(34,409)	(4,658)
Non-operating revenues (expenses):			
Property taxes	-	44,732	44,732
State shared revenue	-	1,768	1,768
Interest income	3,597	916	4,513
Rental income	-	15,350	15,350
Capital contributions for construction- Federal and local	58,021	183,997	242,018
Interest expense	(10,152)	(20,304)	(30,456)
Total non-operating revenues (expenses)	51,466	226,459	277,925
Net income (loss)	81,217	192,050	273,267
Net assets, beginning of year	1,205,821	1,547,866	2,753,687
Net assets, end of year	$ 1,287,038	$ 1,739,916	$ 3,026,954

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

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Business-type Activities		
	Sewer Fund	Water Fund	Total
Cash flows from operating activities:			
Cash received from customers	$ 233,906	$ 166,608	$ 400,514
Cash payments to employees	(23,967)	(30,546)	(54,513)
Cash payments to suppliers for goods and services	(140,002)	(100,447)	(240,449)
Net cash provided (used) by operating activities	69,937	35,615	105,552
Cash flows from capital and related financing activities:			
Property taxes	-	44,732	44,732
State shared revenues	-	1,768	1,768
Rental income	-	15,350	15,350
Contributions	58,021	183,997	242,018
Acquisition and construction of capital assets	(54,771)	(195,343)	(250,114)
Principal payments	(18,660)	(30,000)	(48,660)
Interest paid	(10,152)	(20,304)	(30,456)
Net cash provided (used) by capital and related financing activities	(25,562)	200	(87,212)
Cash flows from investing activities:			
Interest received	3,597	916	4,513
Net cash provided (used) by investing activities	3,597	916	4,513
Net increase (decrease) in cash and cash equivalents	47,972	36,731	22,853
Cash and cash equivalents, beginning of year	417,113	102,427	519,540
Cash and cash equivalents, end of year	$ 465,085	$ 139,158	$ 542,393
Reconciliation of operating income (loss) to net cash from operating activities			
Operating income (loss):	$ 29,751	$ (34,409)	$ (4,658)
Adjustments:			
Depreciation	37,679	72,102	109,781
Decrease (increase) in current assets:			
Accounts receivable	-	(1,499)	(1,499)
Due from component unit	-	5,149	5,149
Due from other funds	(1,699)	-	(1,699)
Increase (decrease) in current liabilities:			
Accounts payable and accrued expenses	1,563	(8,264)	(6,701)
Due to other governmental units	2,643		2,643
Due to other funds	-	2,536	2,536
Net cash provided (used) by operating activities	$ 69,937	$ 35,615	$ 105,552

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

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Agency Funds
Assets:	
Cash and cash equivalents	$ 34,574
Total assets	34,574
Liabilities:	
Accounts payable and accrued expenses	374
Advance payable to other funds	34,200
Total liabilities	34,574
Net Assets:	
Unrestricted	-
Total net assets	$ -

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

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Zilwaukee was incorporated January, 1964 under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government in which the City Administrator is responsible for implementation and administration of City policy as established by the City Council.

The accounting policies of the City of Zilwaukee conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component unit discussed below is included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component unit column in the combined financial statements include the financial data of the City's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the City. The component unit is described as follows:

> ***Tax Increment Financing Authority*** - The Authority was established by the City under the authority contained in Act 450, Michigan Public Acts of 1981. The Act authorizes the City to designate a specific district within its corporate limits as a Tax Increment Finance Authority District. The Authority is appointed to preside over this specific district, and it is authorized to formulate plans for public improvements, economic development, neighborhood revitalization, and historic preservation within this area.
>
> The members of the governing board of the Tax Increment Financing Authority are appointed by the City Council. The budgets and expenditures of the Tax Increment Financing Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Tax Increment Financing Authority.

The City is involved in a joint venture -- the Northwest Utilities Authority. See Notes #11 and #12 which discusses the City's involvement in this separate entity.

Basis of Presentation – Fund Accounting:

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, fund equity, revenues, and expenditures, or expenses, as appropriate.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assts. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

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

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

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The City reports the following major governmental funds:

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

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

Fire Replacement – The Fire Replacement Fund is used to account for the maintenance and purchase of the City's fire vehicles and equipment.

Stock Building Supply – The Stock Building Supply Fund is used to account for the construction costs associated with the Stock Building Supply Capital Project that was funded with Federal funds and local contributions.

The City reports the following major enterprise funds:

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Properties are assessed as of December 31. The related property taxes are billed on the following July 1, are due on September 14, and become a lien on December 1 with the final collection date of February 14 before they are added to the county tax rolls.

The 2003 taxable valuation of the City totaled $ 37,058,226, on which ad valorem taxes levied consisted of 9.6396 mills for the City's operating and 3.7486 mills for special voted purposes.

The delinquent real property taxes of the City are purchased by Saginaw County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of $5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50-100 years
Vehicles	5-25 years
Furniture and other equipment	5-25 years

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

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

Use of Estimates:

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

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

Accounting Change:

GASB Statement No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.* Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities have been provided.

Capital assets in the governmental activities column of the statement of net assets include assets totaling $1,246,409 previously reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by $309,481 to reflect the historical cost of the City's capital assets at that date. In addition, the governmental activities column includes bonds and other long-term obligations totaling $134,013 previously reported in the General Long-term Debt Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

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

1. The City Manager submits to the City Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to June 1, the budget is legally enacted by adoption of the City Council.
4. The City Manager is authorized to transfer certain budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were in excess of the amounts budgeted.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

State Construction Code Act:

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

Cumulative surplus at July 1, 2003		$ -
Current year building permit revenue		6,788
Related expenses:		
Direct costs	9,351	
Estimated indirect costs	2,263	
Total construction code expenses		11,614
Cumulative surplus at June 30, 2004		$ -

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2004 are included in the statement of net assets under the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit
Cash and cash equivalents	$ 1,278,930	$ 604,243	$ 1,883,173	$ 3,674

Deposits:

The breakdown between deposits and petty cash for the City is as follows:

	Primary Government	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	$ 1,882,923	$ 3,674
Petty cash and cash on hand	250	-
Total	$ 1,883,173	$ 3,674

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

The deposits of the primary government and component unit were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at $ 1,897,331, of which $ 150,000 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

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

NOTE 4: INVENTORY – COMPONENT UNIT

As of June 30, 2004 the Tax Increment Finance Authority had an inventory of land totaling $ 208,411. This land consists of lots in the industrial park that were purchased and developed for resale. During the current year the Authority sold land with a cost basis of $69,154.

NOTE 5: CAPITAL ASSETS

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

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental activities:				
Capital assets being depreciated:				
Buildings and improvements	$ 524,162	$ -	$ -	$ 524,162
Equipment	72,254	19,380	-	91,634
Vehicles	271,809	358,804	-	630,613
Subtotal	868,225	378,184	-	1,246,409
Accumulated depreciation:				
Buildings and improvements	162,392	6,303	-	168,695
Equipment	33,535	3,644	-	37,179
Vehicles	139,094	18,859	-	157,953
Subtotal	335,021	28,806	-	363,827
Net capital assets being depreciated	533,204	349,378	-	882,582
Net governmental capital assets	$ 533,204	$ 349,378	$ -	$ 882,582

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type activities:				
Sewer capital assets:				
Capital assets not being depreciated				
Land	3,000	-	-	3,000
Capital assets being depreciated:				
Equipment	9,888	-	-	9,888
Distribution system	1,520,366	106,765	-	1,627,131
Subtotal	1,530,254	106,765	-	1,637,019
Accumulated depreciation:				
Equipment	9,422	254	-	9,676
Distribution system	685,530	37,425	-	722,955
Subtotal	694,952	37,679	-	732,631
Net sewer capital assets	838,302	69,086	-	907,388
Water capital assets:				
Capital assets not being depreciated:				
Land	2,204	-	-	2,204
Capital assets being depreciated:				
Buildings and improvements	13,423	-	-	13,423
Equipment	25,299	-	-	25,299
Distribution system	2,536,006	195,343	-	2,731,349
Subtotal	2,574,728	195,343	-	2,770,071
Accumulated depreciation:				
Buildings and improvements	11,922	136	-	12,058
Equipment	25,299	-	-	25,299
Distribution system	840,991	71,966	-	912,957
Subtotal	878,212	72,102	-	950,314
Net capital assets being depreciated	1,696,516	123,241	-	1,819,757
Net water capital assets	1,698,720	123,241	-	1,821,961
Net business-type activities capital assets	$ 2,537,022	$ 192,327	$ -	$ 2,729,349

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Component Units				
Capital assets not being depreciated				
Land	$ -	$ 64,500	$ -	$ 64,500
Capital assets being depreciated				
Buildings and improvements	-	242,836	-	242,836
Machinery and other equipment	-	7,720	-	7,720
Total capital assets being depreciated	-	250,556	-	250,556
Accumulated depreciation	-	1,935	-	1,935
Net capital assets being depreciated	-	248,621	-	248,621
Net component units capital assets	$ -	$ 313,121	$ -	$ 313,121

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

Governmental activities:	
General government	$ 1,563
Public safety	19,807
Public works	6,235
Recreation and culture	1,201
Total governmental activities	$ 28,806
Business-type activities:	
Sewer	$ 37,679
Water	72,102
Total business-type activities	$ 109,781
Component Units:	
TIFA	$ 1,935
Total component units	$ 1,935

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 6: LONG-TERM DEBT

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:						
Installment purchase contract -						
Fire truck						
Amount of Issue - $150,000						
Maturing through 2007	3.10%	$15,987-$50,503	$ -	$ 134,013	$ 134,013	$ 48,963
Total governmental activities			-	134,013	134,013	48,963
Business-type activities:						
Contracts payable -						
Saginaw County						
1990 Northwest Utilities						
Authority Bonds						
Amount of Issue - $307,890	5.5%-8.5%	12,080-30,322	163,662	(18,660)	145,002	20,993
Maturing through 2010						
Contracts payable -						
Saginaw County						
1991 Zilwaukee Water						
Supply System Bonds						
Amount of Issue - $ 525,000	6.0%-10.0%	15,000-45,000	295,000	(30,000)	265,000	30,000
Maturing through 2020						
Total business-type activities			458,662	(48,660)	410,002	50,993
Total primary government			$ 458,662	$ 85,353	$ 544,015	$ 99,956
Component Units:						
General obligation bond -						
2002 Tax Increment Bonds						
Amount of Issue - $450,000	4.30%	$32,842-$143,929	314,706	(137,935)	176,771	143,929
Maturing through Oct 2005						
Loan Payable - 2001 Strategic Loan						
Amount of Issue - $369,253	6.00%	$18,965-$45,496	369,253	-	369,253	-
Maturing through June 2016						
Land contract payable -						
Building and Land						
Amount of Issue - $220,000	4%-4.75%	$25,7434-$57,063	-	194,256	194,256	52,076
Maturing through June 2016						
Total component units			$ 683,959	$ 56,321	$ 740,280	$ 196,005

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Component Units:						
General obligation bond - 2002 Tax Increment Bonds						
Amount of Issue - $ 450,000						
Maturing through Oct 2005	4.30%	$32,842-$143,929	$ 314,706	$ (137,935)	$ 176,771	$ 143,929
Loan Payable - 2001 Strategic Loan						
Amount of Issue - $ 369,253						
Maturing through June 2016	6.00%	18,965-45,496	369,253	-	369,253	-
Land contract payable - Building and Land						
Amount of Issue - $ 220,000						
Maturing through June 2016	4%-4.75%	25,7434-57,063	-	194,256	194,256	52,076
Total component units			$ 683,959	$ 56,321	$ 740,280	$ 196,005

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

Year Ended June 30,	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	$ 48,963	$ 3,462	$ 52,425	$ 50,993	$ 26,706	$ 77,699
2006	50,502	1,923	52,425	53,325	23,174	76,499
2007	34,548	403	34,951	58,325	19,315	77,640
2008			-	65,658	15,378	81,036
2009			-	67,990	11,117	79,107
2010			-	68,711	13,139	81,850
2011	-	-	-	45,000	1,620	46,620
	$ 134,013	$ 5,788	$ 139,801	$ 410,002	$ 110,449	$ 520,451

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

Year Ended June 30,	Total Primary Government			Component Units		
	Principal	Interest	Total	Principal	Interest	Total
2005	$ 99,956	$ 30,168	$ 130,124	$ 196,004	$ 13,996	$ 210,000
2006	103,827	25,097	128,924	106,228	6,285	112,513
2007	92,873	19,718	112,591	85,316	2,937	88,253
2008	65,658	15,378	81,036	60,684	438	61,122
2009	67,990	11,117	79,107	31,827	-	31,827
2010	68,711	13,139	81,850	33,780	-	33,780
2011	45,000	1,620	46,620	35,853	-	35,853
2012	-	-	-	38,053	-	38,053
2013	-	-	-	40,388	-	40,388
2014	-	-	-	42,866	-	42,866
2015	-	-	-	45,496	-	45,496
2016	-	-	-	23,785	-	23,785
	$ 544,015	$ 116,237	$ 660,252	$ 740,280	$ 23,656	$ 763,936

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	Governmental Activities	Business-type Activities
Receivables:		
Accounts	$ 42,209	$ 126,826
Intergovernmental	125,310	-
Total receivables	$ 167,519	$ 126,826
Accounts payable and accrued expenses:		
Accounts	$ 70,326	$ 13,200
Interest	-	6,272
Intergovernmental	-	10,933
Total accounts payable and accrued expenses	$ 70,326	$ 30,405

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Major Street	$ 579
	Local Street	828
	Fire Replacement	305
	Recreation	231
		1,943
Local Street	Major Street	22,236
Refuse Fund	Water Fund	21,822
Sewer Fund	Water Fund	73,238
Water Fund	General Fund	28,765
		$ 148,004

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

The composition of advances receivable and payable balances at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Agency Funds	$ 32,200
Water Fund	Agency Funds	2,000
		$ 34,200

Management does not anticipate the advance receivable and payable to be paid within one year.

Interfund transfers reported in the fund statements were as follows:

Major Street Fund	Local Street Fund	$ 21,664	(I)
General Fund	Fire Replacement	3,127	(II)
		$ 24,791	

(I) 25% transfer of Michigan Transportation Funds from Major Street to Local Street

(II) Funding transfer to cover additional fire equipment purchased.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool program for workers' compensation. The City manages its liability and property risk by participating in the Township Participation Plan. This insurance provider is a public entity risk pool providing coverage to its members. The City pays an annual premium to this provider for its insurance coverage. This provider is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based on property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The City has a defined contribution pension plan through Benefits Consultants Group, covering all employees who worked at least 1,000 hours in the previous fiscal year, are between the age of 21 and 64, and are employed with the City for more than six months. The City's 2003-04 payroll covered by the plan was $265,700. Total payroll was $350,149. The City's pension contribution was $13,285 for the year. The City's policy is to contribute 5 percent of the annual salaries of covered employees. The plan provides for employees vesting at 20% per year with full vesting after 5 years.

The City has no postemployment benefits plans at this time other than its defined contribution pension plan.

NOTE 11: RELATED PARTY TRANSACTIONS

The City has various transactions with the Northwest Utilities Authority of which the City is a part owner. In this connection:

(1) The City's share of the sewage treatment and capital improvement expenses for the year was $93,005 which is included in the Sanitary Sewer Fund's operating expenses.

(2) The City charged the Northwest Utilities Authority for administrative and accounting services for the year.

(3) A separate audit financial statement report has been issued for the Northwest Utilities Authority for the year.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 12: COMMITMENTS AND CONTINGENCIES

JOINT VENTURE

On August 3, 1987, the City of Zilwaukee and Townships of Carrollton, Saginaw, and Kochville created the Northwest Utilities Authority. The purpose of the Authority is to acquire, own, improve, enlarge, extend, and operate a sewage disposal system in accordance with State Act 233, PA 1955. The Authority consists of a five person governing body -- one appointed from each municipality, and one person selected at-large.

On May 18, 1990, Under *Act 185 of the Michigan Public Acts of 1957*, the City of Zilwaukee and Townships of Carrollton, Kochville, and Saginaw and the Northwest Utilities Authority entered into a contract with the County of Saginaw to obtain financing for a joint sewage transmission system.

As a separate unit the Authority operates on a cost reimbursement basis. Costs are prorated monthly among the City and Townships based on metered usage. The City's allocation is approximately 9%.

City of Zilwaukee Sewer Fund payments to the Northwest Utilities Authority during fiscal year 2003-04 were allocated as follows:

Operation & maintenance expenses and repair and replacement costs (sewer treatment expense)	$ 93,005
Debt service	28,812
	$ 121,817

Each of the Authority's participants has a contingent liability resulting from its secondary full-faith and credit pledge supporting the Saginaw County Bond Issue dated August 1, 1990, in the principal amount of $3,300,000. This bond issue was subsequently refinanced with the 1997 Sewer Improvement and Refunding Bond Issue dated December 1, 1997.

The annual debt service is allocated to the various participating units. This allocation is based on the aggregate sewage flows from participating units during the three preceding calendar years.

The Northwest Utility Authority is audited separately from the City. The audit report can be obtained from the City of Zilwaukee manager.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2004

NOTE 13: PRIOR PERIOD ADJUSTMENT

Correction of Errors

In the prior year, receivables for the May and June sales tax collections were not recorded. The effect on the beginning net assets of the fund was as follows:

	General Fund
Net assets, beginning of year, as previously stated	$ 376,764
Prior period adjustments to:	
Recognize May and June 2003 sales tax collections	44,373
Net assets, beginning of year, as restated	$ 421,137

REQUIRED SUPPLEMENTAL INFORMATION

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 310,847	$ 310,847	$ 337,997	$ 27,150
Licenses and permits	26,675	26,675	25,081	(1,594)
State grants	230,005	230,005	193,133	(36,872)
Contributions from other units	28,811	28,811	45,257	16,446
Charges from services	24,900	24,900	21,283	(3,617)
Fines and forfeits	1,000	1,000	135	(865)
Interest and rents	22,700	22,700	33,954	11,254
Other revenue	6,000	6,000	5,226	(774)
Total revenues	650,938	650,938	662,066	11,128
Expenditures:				
General government	159,806	158,306	145,832	(12,474)
Public safety	178,585	170,965	164,622	(6,343)
Public works	177,163	177,163	129,989	(47,174)
Community and economic development	1,600	1,600	-	(1,600)
Recreation and culture	39,650	39,350	29,350	(10,000)
Other	155,112	160,108	144,309	(15,799)
Capital outlay	20,500	29,620	29,562	(58)
Total expenditures	732,416	737,112	643,664	(93,448)
Excess (deficiency) of revenues over expenditures	(81,478)	(86,174)	18,402	104,576
Other financing sources (uses):				
Transfers out	(20,655)	(20,655)	(3,127)	(17,528)
Total other financing sources (uses)	(20,655)	(20,655)	(3,127)	17,528
Net change in fund balance	(102,133)	(106,829)	15,275	122,104
Fund balance, beginning of year, as restated	421,137	421,137	421,137	-
Fund balance, end of year	$ 319,004	$ 314,308	$ 436,412	$ 122,104

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
Federal grants	$ -	$ -	$ 38,622	$ 38,622
State grants	88,611	88,611	86,658	(1,953)
Interest and rents	3,500	3,500	3,450	(50)
Total revenues	92,111	92,111	128,730	36,619
Expenditures:				
Public works	153,600	149,436	67,387	(82,049)
Total expenditures	153,600	149,436	67,387	(82,049)
Excess (deficiency) of revenues over expenditures	(61,489)	(57,325)	61,343	118,668
Other financing sources (uses):				
Transfers out	(17,500)	(21,664)	(21,664)	-
Total other financing sources (uses)	(17,500)	(21,664)	(21,664)	-
Net change in fund balance	(78,989)	(78,989)	39,679	118,668
Fund balance, beginning of year	388,983	388,983	388,983	-
Fund balance, end of year	$ 309,994	$ 309,994	$ 428,662	$ 118,668

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
State grants	$ 48,615	$ 48,615	$ 46,192	$ (2,423)
Interest and rents	2,100	2,100	1,832	(268)
Other revenue	100	100	178	-
Total revenues	50,815	50,815	48,202	(2,691)
Expenditures:				
Public works	103,900	108,064	43,423	(64,641)
Total expenditures	103,900	108,064	43,423	(64,641)
Excess (deficiency) of revenues over expenditures	(53,085)	(57,249)	4,779	61,950
Other financing sources (uses):				
Transfers in	17,500	21,664	21,664	-
Total other financing sources (uses)	17,500	21,664	21,664	-
Net change in fund balance	(35,585)	(35,585)	26,443	61,950
Fund balance, beginning of year	248,998	248,998	248,998	-
Fund balance, end of year	$ 213,413	$ 213,413	$ 275,441	$ 61,950

SPECIAL REVENUE FUND – FIRE REPLACEMENT FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	$ 26,783	$ 26,811	$ 29,784	$ 2,973
State grants	1,138	1,138	1,138	-
Contributions from other units		-	25,000	25,000
Interest and rents	4,000	4,000	2,477	(1,523)
Other revenue	-	-	172	-
Total revenues	31,921	31,949	58,571	26,450
Expenditures:				
Public safety	8,000	8,000	4,464	(3,536)
Capital outlay	210,000	411,905	357,043	(54,862)
Debt service:				
Principal	-	15,987	15,987	-
Interest and charges	-	1,488	1,488	-
Total expenditures	218,000	437,380	378,982	(58,398)
Excess (deficiency) of revenues over expenditures	(186,079)	(405,431)	(320,411)	84,848
Other financing sources (uses):				
Debt proceeds		150,000	150,000	-
Transfers in	3,155	3,127	3,127	-
Total other financing sources (uses)	3,155	153,127	153,127	-
Net change in fund balance	(182,924)	(252,304)	(167,284)	84,848
Fund balance, beginning of year	323,458	323,458	323,458	-
Fund balance, end of year	$ 140,534	$ 71,154	$ 156,174	$ 84,848

SPECIAL REVENUE FUND – CAPITAL PROJECTS

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues:				
Federal grants	$ -	$ -	$ 89,507	$ 89,507
Contributions from other units		-	76,500	76,500
Total revenues	-	-	166,007	166,007
Expenditures:				
Capital outlay	-	-	202,855	202,855
Total expenditures	-	-	202,855	202,855
Excess (deficiency) of revenues over expenditures	-	-	(36,848)	(36,848)
Net change in fund balance	-	-	(36,848)	(36,848)
Fund balance, beginning of year	-	-	44,800	44,800
Fund balance, end of year	$ -	$ -	$ 7,952	$ 7,952

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended June 30, 2004

Revenues:	
Current taxes:	
Property taxes	$ 315,245
Penalties and interest on taxes	5,547
Administration fees	17,205
	337,997
Licenses and permits:	
Nonbusiness licenses and permits	6,788
CATV franchise fees	18,293
	25,081
State grants:	
Liquor license fees	600
State revenue sharing - sales tax	192,033
Police grant	500
	193,133
Contribution from other units:	
Fire protection fees	6,257
Tax Increment Finance Authority - Administration charges	15,000
Northwest Utility Authority - Administration charges	24,000
	45,257
Charges for services:	
Recreation fees	7,293
Police services and reports	18
Weed control	72
Charges to other funds	13,900
	21,283
Fines and forfeitures:	
Ordinance fines	135
	135
Interest and rents:	
Interest	4,211
Equipment rental	29,083
Rents	660
	33,954
Other revenue:	
Sale of fixed assets	60
Reimbursements	2,384
Insurance recoveries	325
Refunds and rebates	388
Other	2,069
	5,226
Total revenues	$ 662,066

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended June 30, 2004

Expenditures:	
General Government:	
Council:	
Personnel	$ 3,100
Contracted services	1,003
Dues and memberships	1,608
Conference and travel	1,660
Other	65
	7,436
Manager:	
Personnel	42,184
Contracted services	500
Dues and memberships	75
Conference and travel	659
	43,418
Clerk:	
Personnel	3,883
Supplies	21
Contracted services	1,428
Dues and memberships	75
Conference and travel	780
Printing and publications	1,752
Other	25
	7,964
Audit:	
Contracted services	6,393
	6,393
Board of Review:	
Personnel	312
	312
Treasurer:	
Personnel	37,331
Supplies	5,142
Contracted services	408
Conference and travel	91
Repairs and maintenance	1,530
Other	309
	44,811

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2004

Expenditures:	
General Government, continued:	
Assessor:	
Supplies	358
Contracted services	8,695
Printing and publications	2,318
Other	49
	11,420
Buildings & Grounds:	
Personnel	2,274
Supplies	968
Telephone	4,310
Utilities	7,405
Repairs and maintenance	4,666
	19,623
Attorney:	
Contracted services	1,460
	1,460
Community Newspaper:	
Contracted services	2,995
	2,995
Total general government	145,832
Public Safety:	
Police:	
Personnel	$ 68,920
Supplies	5,826
Contracted services	370
Telephone	2,193
Dues & memberships	200
Education & training	827
Repairs & maintenance	6,944
Other	48
	85,328

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2004

Expenditures, continued:	
Public Safety, continued:	
Fire:	
Personnel	31,580
Supplies	2,621
Contracted services	3,697
Telephone	1,318
Dues & memberships	145
Education & training	2,345
Insurance	360
Utilities	5,097
Repairs & maintenance	6,818
Equipment rental	15,350
Other	612
	69,943
Protective Inspection & Regulation:	
Supplies	228
Contracted services	9,023
Dues & memberships	100
	9,351
Total public safety	164,622
Public Works:	
Department of Public Works:	
Personnel	69,382
Supplies	9,779
Contracted services	171
Telephone	3,567
Conference and travel	200
Utilities	7,154
Repairs and maintenance	7,334
Other	257
	97,844
Sidewalks:	
Personnel	419
Supplies	4,450
	4,869
Drains - Public Benefit, at Large:	
Personnel	1,629
Contracted services	5,263
Repairs and maintenance	22
	6,914

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2004

Expenditures, continued:	
Public Works, continued	
Street Lighting:	
Utilities	19,159
	19,159
Total public works	128,786
Recreation and Culture:	
Recreation/Parks:	
Personnel	19,224
Fringe benefits	1,471
Supplies	2,228
Contracted services	804
Utilities	4,192
Repairs and maintenance	1,307
Other	124
	29,350
Total recreation and culture	29,350
Other:	
Insurance and Bonds:	
Insurance	41,323
	41,323
Employee Benefits:	
Fringe benefits	67,944
	67,944
Retirement:	
Fringe benefits	14,923
	14,923
Payroll Taxes:	
Payroll taxes	20,119
	20,119
Total other	144,309

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Year Ended June 30, 2004

Capital Outlay:	
General government	4,484
Public safety	25,078
	29,562
Total expenditures	642,461
Other Financing Uses:	
Transfers to other funds	3,127
	3,127
Total expenditures and other financing uses	$ 645,588

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2004

	Special Revenue Funds			
	Police Drug Enforcement Fund	Recreation Fund	Refuse Fund	Total Nonmajor Governmental Funds
Assets:				
Cash and cash equivalents	$ -	$ 8,668	$ 56,075	$ 64,743
Accounts receivable	-	-	2,008	2,008
Due from other funds	-	-	21,822	21,822
Prepaid expenditures	-	-	10,554	10,554
Total assets	$ -	$ 8,668	$ 90,459	$ 99,127
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	$ -	$ 974	$ 15,676	$ 16,650
Due to other funds	-	231	-	231
Total liabilities	-	1,205	15,676	16,881
Fund balances:				
Reserved for:				
Prepaid expenditures	-	-	10,554	10,554
Unreserved:				
Special revenue funds	-	7,463	64,229	71,692
Total fund balances	-	7,463	74,783	82,246
Total liabilities and fund balances	$ -	$ 8,668	$ 90,459	$ 99,127

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	Special Revenue Funds			
	Police Drug Enforcement Fund	Recreation Fund	Refuse Fund	Total Nonmajor Governmental Funds
Revenues:				
Property taxes	$ -	$ 7,443	$ -	$ 7,443
State grants	-	284	-	284
Charges for services	-	-	93,044	93,044
Interest and rents	-	41	1,388	1,429
Other revenue	-	2,500	2,008	4,508
Total revenues	-	10,268	96,440	106,708
Expenditures:				
Public safety	332	-	-	332
Public works	-	-	86,714	86,714
Recreation and culture	-	7,995	-	7,995
Total expenditures	332	7,995	86,714	95,041
Excess (deficiency) of revenues over expenditures	(332)	2,273	9,726	11,667
Fund balance, beginning of year	332	5,190	65,057	70,579
Fund balance, end of year	$ -	$ 7,463	$ 74,783	$ 82,246

FIDUCIARY FUNDS – AGENCY FUND

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

June 30, 2004

	July 1, 2003	Additions	Deductions	June 30, 2004
Payroll Withholding Fund				
Assets:				
Cash and cash equivalents	$ 29,414	$ 389,636	$ 389,476	$ 29,574
Total assets	$ 29,414	$ 389,636	$ 389,476	$ 29,574
Liabilities :				
Accounts payable and accrued expenses	$ 214	$ 389,636	$ 389,476	$ 374
Advance payable to other funds	29,200	-	-	29,200
Total liabilities	$ 29,414	$ 389,636	$ 389,476	$ 29,574
Tax Fund				
Assets:				
Cash and cash equivalents	$ 5,568	$ 1,790,021	$ 1,790,589	$ 5,000
Total assets	$ 5,568	$ 1,790,021	$ 1,790,589	$ 5,000
Liabilities:				
Due to other governmental units	$ 568.00	$ 1,790,021	$ 1,790,589	$ -
Advance payable to other funds	5,000	-	-	5,000
Total liabilities	$ 5,568	$ 1,790,021	$ 1,790,589	$ 5,000
Total Agency Funds				
Assets:				
Cash and cash equivalents	$ 34,982	$ 2,179,657	$ 2,180,065	$ 34,574
Total assets	$ 34,982	$ 2,179,657	$ 2,180,065	$ 34,574
Liabilities:				
Accounts payable and accrued expenses	$ 214	$ 389,636	$ 389,476	$ 374
Due to other governmental units	568	1,790,021	1,790,589	-
Advance payable to other funds	34,200	-	-	34,200
Total liabilities	$ 34,982	$ 2,179,657	$ 2,180,065	$ 34,574

DETAIL DEBT REPAYMENT SCHEDULES

June 30, 2004

	Interest Rate	*Date of Maturity*	*Principal Due*	*Interest Due*	*Total Due*
GOVERNMENTAL FUNDS:					
2004 Installment Purchase Contact Payable, Dated February 11, 2004, Original amount of $150,000 due in monthly payments of $4,369 from March 11, 2004 to February 11, 2007. Original loan repayment follows:					
	3.10%	2005	$ 48,963	$ 3,462	$ 52,425
		2006	50,502	1,923	52,425
		2007	34,548	403	34,951
Total Governmental Funds			$ 134,013	$ 5,788	$ 139,801
ENTERPRISE FUNDS:					
Saginaw County Northwest Utilities Project Bonds, Dated 8/1/90, Original Total Amount - $3,300,000, City Share - $307,890 (These bonds were refinanced in 1997 with a refunding bond issues)					
	6.90%	5/1/05	$ 20,993	$ 8,924	$ 29,917
	5.75	5/1/06	23,325	7,476	30,801
	5.50	5/1/07	23,325	5,901	29,226
	5.50	5/1/08	25,658	4,618	30,276
	5.50	5/1/09	27,990	3,207	31,197
	5.50	5/1/10	23,711	8,279	31,990
			145,002	38,405	183,407
Saginaw County Zilwaukee Water Supply System Bonds, Dated 4/1/91, Original Total Amount - $525,000					
	6.90	9/1/04	30,000	17,782	47,782
	7.00	9/1/05	30,000	15,698	45,698
	7.05	9/1/06	35,000	13,414	48,414
	7.10	9/1/07	40,000	10,760	50,760
	7.15	9/1/08	40,000	7,910	47,910
	7.20	9/1/09	45,000	4,860	49,860
	7.20	9/1/10	45,000	1,620	46,620
			265,000	72,044	337,044
Total Enterprise Funds			$ 410,002	$ 110,449	$ 520,451

DETAIL DEBT REPAYMENT SCHEDULES, continued

June 30, 2004

	Interest Rate	*Date of Maturity*	*Principal Due*	*Interest Due*	*Total Due*
COMPONENT UNIT:					
2002 Tax Increment Bonds, Dated 5/31/02, Original Amount $450,000					
	4.3%	10/1/04	$ 71,199	$ 3,801	$ 75,000
	4.3	4/1/05	72,730	2,270	75,000
	4.3	10/1/05	32,842	706	33,548
			176,771	6,777	183,548
2003 Land Contact Payable, Dated December 18, 2003, Original amount of $220,000 with monthly equal payments from January 19, 2004 to June 19, 2007. Original loan repayment follows:					
	4.75%	2005	52,075	7,925	60,000
		2006	54,421	5,579	60,000
		2007	57,063	2,937	60,000
		2008	30,697	438	31,135
			194,256	16,879	211,135

DETAIL DEBT REPAYMENT SCHEDULES, continued

June 30, 2004

	Interest Rate	Date of Maturity	Principal Due	Interest Due	Total Due
2001 Michigan Strategic Loan, Dated June 2001, Original amount of $369,253 (plus $104,099 accrued interest for the period July 2002 through September 1, 2006) with quarterly equal payments from September 1, 2006 to June 30, 2016. Original loan repayment follows:					
	6.00%	2005	-	-	-
		2006	18,965	-	18,965
		2007	28,253	-	28,253
		2008	29,987	-	29,987
		2009	31,827	-	31,827
		2010	33,780	-	33,780
		2011	35,853	-	35,853
		2012	38,053	-	38,053
		2013	40,388	-	40,388
		2014	42,866	-	42,866
		2015	45,496	-	45,496
		2016	23,785	-	23,785
			369,253	-	369,253
Total Component Unit			$ 740,280	$ 23,656	$ 763,936

In connection with the Michigan Strategic Loan agreement, the City may receive a reduction in the interest to be paid on this loan. This will depend on the number of net new jobs created as a result of this loan/project. This loan was funded by federal CDBG monies passed through the State of Michigan to the City of Zilwaukee. The City and the City of Zilwaukee Tax Increment Finance Authority have an agreement whereby the TIFA will be responsible for repayment of this loan.

BERTHIAUME
& COMPANY
Certified Public Accountants

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MANAGEMENT LETTER

To the Honorable Mayor and City Council
City of Zilwaukee, Michigan

We have completed our audit of the financial statements of the City of Zilwaukee for the year ended June 30, 2004, and have issued our report thereon dated September 30, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Zilwaukee taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

September 30, 2004