

CITY OF OMER
Arenac County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2007

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|------------------------------------|--|-------------------------|
| 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 Omer | County Arenac |
| Audit Date March 31, 2007 | Opinion Date May 4, 2007 | Date Accountant Report Submitted to State: June 25, 2007 | |

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:

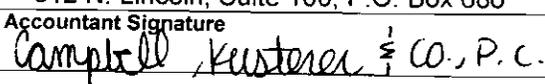
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

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.

- | | | |
|---|--|--|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> 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. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> 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]). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> 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 they year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> 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). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> 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. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | X | | |

| | | | |
|--|-------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C. | | | |
| Street Address 512 N. Lincoln, Suite 100, P.O. Box 686 | City Bay City | State MI | Zip 48707 |
| Accountant Signature  | | | |

CITY OF OMER
Arenac County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

May 4, 2007

To the City Council
City of Omer
Arenac County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Omer's management. Our responsibility is to express opinions on these financial statements based on our audit.

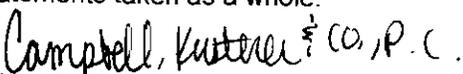
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 and each major fund of the City of Omer, Arenac County, Michigan as of March 31, 2007, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2007, on our consideration of the City's internal control over financial reporting and on 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 listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CITY OF OMER
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the City of Omer covers the City's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2007, totaled \$431,613.99 for governmental activities and \$1,161,854.66 for business activities.

Overall revenues were \$181,737.30 from governmental activities and \$862,684.76 from business-type activities. Governmental activities had a \$18,065.05 decrease in net assets. Business-type activities had a increase in net assets of \$778,102.53.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the City and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the City in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the City as a whole using accounting methods used by private companies. The statement of net assets includes all of the City's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the City are reported as governmental activities and business-type activities. These include the General Fund, Major Street Fund, Local Street Fund, Services Fund, Water Fund and the Current Tax Collection Fund.

CITY OF OMER
Arenac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The City Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The City has the following types of funds:

Governmental Funds: Some of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The City's governmental funds include the General Fund, Major Street Fund, Local Street Fund, and the Services Fund.

Business-Type Funds: The City has a Water Fund which includes the activity of providing water to City residents.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Our cash position in both the governmental and business-type activities remains strong.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The General Fund had a decrease in fund balance of \$33,649.58. The Major Street Fund had an increase in fund balance of \$5,714.35. The Local Street Fund had an increase in fund balance of \$3,997.32. The Services Fund had a decrease in fund balance of \$816.97.

The Water Fund had an increase in net assets of \$778,102.53.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The City's governmental activities invested \$0 in capital assets.

The City's business-type activities invested \$809,535.62 in capital assets.

The City's governmental activities paid \$12,038.33 of principal on long-term debt.

The City's business-type activities paid \$6,250.00 of principal on long-term debt and obtained bond proceeds of \$42,000.00.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE CITY'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the City's finances and to demonstrate the City's accountability for the revenues it receives. If you have any questions concerning this report please contact the City Clerk or City Treasurer at 989-653-2566.

CITY OF OMER
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2007

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|--|------------------------------------|-------------------------------------|----------------------------|
| ASSETS: | | | |
| CURRENT ASSETS: | | | |
| Cash in bank | 250 914 79 | 102 788 06 | 353 702 85 |
| Taxes receivable | 12 035 48 | - | 12 035 48 |
| Accounts receivable | - | 2 621 61 | 2 621 61 |
| Due from State of Michigan | <u>5 841 16</u> | <u>-</u> | <u>5 841 16</u> |
| Total Current Assets | <u>268 791 43</u> | <u>105 409 67</u> | <u>374 201 10</u> |
| NON-CURRENT ASSETS: | | | |
| Capital Assets | 237 821 00 | 1 746 942 65 | 1 984 763 65 |
| Less: Accumulated Depreciation | <u>(54 252 00)</u> | <u>(228 951 91)</u> | <u>(283 203 91)</u> |
| Total Non-current Assets | <u>183 569 00</u> | <u>1 517 990 74</u> | <u>1 701 559 74</u> |
| TOTAL ASSETS | <u><u>452 360 43</u></u> | <u><u>1 623 400 41</u></u> | <u><u>2 075 760 84</u></u> |
| LIABILITIES AND NET ASSETS: | | | |
| LIABILITIES: | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | <u>-</u> | <u>19 795 85</u> | <u>19 795 85</u> |
| Total Current Liabilities | <u>-</u> | <u>19 795 85</u> | <u>19 795 85</u> |
| NON-CURRENT LIABILITIES: | | | |
| Loans payable | 6 457 11 | - | 6 457 11 |
| Bonds payable | - | 441 750 00 | 441 750 00 |
| Judgment payable | <u>14 289 33</u> | <u>-</u> | <u>14 289 33</u> |
| Total Non-current Liabilities | <u>20 746 44</u> | <u>441 750 00</u> | <u>462 496 44</u> |
| Total Liabilities | <u>20 746 44</u> | <u>461 545 85</u> | <u>482 292 29</u> |
| NET ASSETS: | | | |
| Invested in Capital Assets, Net of Related Debt | 177 111 89 | 1 076 240 74 | 1 253 352 63 |
| Unrestricted | <u>254 502 10</u> | <u>85 613 82</u> | <u>340 115 92</u> |
| Total Net Assets | <u>431 613 99</u> | <u>1 161 854 56</u> | <u>1 593 468 55</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>452 360 43</u></u> | <u><u>1 623 400 41</u></u> | <u><u>2 075 760 84</u></u> |

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

CITY OF OMER
Arenac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2007

| | <u>Expenses</u> | <u>Program Revenue</u> <u>Charges for Services</u> | <u>Governmental Activities</u> <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|--------------------------------|--------------------------|---|--|
| FUNCTIONS/PROGRAMS | | | |
| Governmental Activities: | | | |
| General government | 107 687 47 | 21 131 67 | (86 555 80) |
| Public safety | 10 031 76 | - | (10 031 76) |
| Public works | 73 589 02 | 14 820 00 | (58 769 02) |
| Interest on long-term debt | <u>444 10</u> | <u>-</u> | <u>(444 10)</u> |
| Total Governmental Activities | <u>191 752 35</u> | <u>35 951 67</u> | <u>(155 800 68)</u> |
| Business-Type Activities: | | | |
| Water | 72 993 71 | 90 095 17 | - |
| Interest on long-term debt | <u>19 638 52</u> | <u>-</u> | <u>-</u> |
| Total Business-Type Activities | <u>92 632 23</u> | <u>90 095 17</u> | <u>-</u> |
| Total Government | <u><u>284 384 58</u></u> | <u><u>126 046 84</u></u> | <u><u>(155 800 68)</u></u> |
| General Revenues: | | | |
| Property taxes | | | 60 945 81 |
| State revenue sharing | | | 71 598 14 |
| Federal grants | | | - |
| Interest | | | 3 344 80 |
| Miscellaneous | | | 9 896 88 |
| Transfers | | | <u>(8 050 00)</u> |
| Total General Revenues | | | <u>137 735 63</u> |
| Change in net assets | | | (18 065 05) |
| Net assets, beginning of year | | | <u>449 679 04</u> |
| Net Assets, End of Year | | | <u><u>431 613 99</u></u> |

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

| Business-Type Activities | Total |
|--|--|
| Net (Expense) Revenue and Changes in Net Assets | Net (Expense) Revenue and Changes in Net Assets |
| - | (86 555 80) |
| - | (10 031 76) |
| - | (58 769 02) |
| - | (444 10) |
| - | (155 800 68) |
| 17 101 46 | 17 101 46 |
| (19 638 52) | (19 638 52) |
| (2 537 06) | (2 537 06) |
| (2 537 06) | (158 337 74) |
| - | 60 945 81 |
| - | 71 598 14 |
| 771 000 00 | 771 000 00 |
| 1 589 59 | 4 934 39 |
| - | 9 896 88 |
| 8 050 00 | - |
| 780 639 59 | 918 375 22 |
| 778 102 53 | 760 037 48 |
| 383 752 03 | 833 431 07 |
| 1 161 854 56 | 1 593 468 55 |

CITY OF OMER
Arenac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2007

| <u>Assets</u> | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Other Funds</u> |
|--|-------------------|---------------------|---------------------|--------------------|
| Cash in bank | 132 261 74 | 62 774 06 | 39 837 94 | 14 416 07 |
| Taxes receivable | 8 097 75 | - | 1 467 73 | 2 470 00 |
| Due from State of Michigan | - | 3 556 90 | 2 284 26 | - |
| Due from other funds | 1 596 40 | - | 917 78 | - |
| Total Assets | 141 955 89 | 66 330 96 | 44 507 71 | 16 886 07 |
| <u>Liabilities and Fund Equity</u> | | | | |
| Liabilities: | | | | |
| Due to other funds | - | 889 20 | - | - |
| Total liabilities | - | 889 20 | - | - |
| Fund equity: | | | | |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | 141 955 89 | 65 441 76 | 44 507 71 | 16 886 07 |
| Total fund equity | 141 955 89 | 65 441 76 | 44 507 71 | 16 886 07 |
| Total Liabilities and Fund Equity | 141 955 89 | 66 330 96 | 44 507 71 | 16 886 07 |

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

Total

249 289 81
12 035 48
5 841 16
2 514 18
269 680 63

889 20
889 20

268 791 43
268 791 43
269 680 63

CITY OF OMER
Arenac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2007

| | |
|--|--------------------------|
| TOTAL FUND BALANCES – GOVERNMENTAL FUNDS | 268 791 43 |
| 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 governmental funds balance sheet: | |
| Capital assets at cost | 237 821 00 |
| Accumulated depreciation | (54 252 00) |
| Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds: | |
| Loan payable | (6 457 11) |
| Judgment payable | <u>(14 289 33)</u> |
| TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES | <u><u>431 613 99</u></u> |

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

CITY OF OMER
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2007

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> | <u>Other Funds</u> |
|--|--------------------|---------------------|---------------------|--------------------|
| Revenues: | | | | |
| Property taxes | 60 945 81 | - | - | - |
| State revenue sharing | 38 947 40 | 19 879 12 | 12 771 62 | - |
| Charges for services: | | | | |
| PTAF | 2 131 92 | - | - | - |
| Other | 18 999 75 | - | - | - |
| Interest | 2 661 01 | 386 38 | 224 02 | 73 39 |
| Special assessments | - | - | - | 14 820 00 |
| Miscellaneous | 465 98 | - | 9 430 90 | - |
| Total revenues | <u>124 151 87</u> | <u>20 265 50</u> | <u>22 426 54</u> | <u>14 893 39</u> |
| Expenditures: | | | | |
| General government | 105 548 97 | - | - | - |
| Public safety | 10 031 76 | - | - | - |
| Public works | 21 688 29 | 9 581 37 | 23 399 00 | 15 710 36 |
| Debt service | 12 482 43 | - | - | - |
| Total expenditures | <u>149 751 45</u> | <u>9 581 37</u> | <u>23 399 00</u> | <u>15 710 36</u> |
| Excess (deficiency) of revenues over expenditures | <u>(25 599 58)</u> | <u>10 684 13</u> | <u>(972 46)</u> | <u>(816 97)</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 4 969 78 | - |
| Operating transfers out | (8 050 00) | (4 969 78) | - | - |
| Total other financing sources (uses) | <u>(8 050 00)</u> | <u>(4 969 78)</u> | <u>4 969 78</u> | <u>-</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | <u>(33 649 58)</u> | <u>5 714 35</u> | <u>3 997 32</u> | <u>(816 97)</u> |
| Fund balances, April 1 | <u>175 605 47</u> | <u>59 727 41</u> | <u>40 510 39</u> | <u>17 703 04</u> |
| Fund Balances, March 31 | <u>141 955 89</u> | <u>65 441 76</u> | <u>44 507 71</u> | <u>16 886 07</u> |

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

Total

60 945 81
71 598 14

2 131 92
18 999 75
3 344 80
14 820 00
9 896 88

181 737 30

105 548 97
10 031 76
70 379 02
12 482 43

198 442 18

(16 704 88)

4 969 78
(13 019 78)
(8 050 00)

(24 754 88)

293 546 31

268 791 43

CITY OF OMER
Arenac County, Michigan

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

Year ended March 31, 2007

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (24 754 88)

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (5 348 50)
Capital Outlay -

Repayment of debt principal is an expenditure in the governmental funds, the repayment
does not have an effect in the statement of activities but does reduce the debt balance
in the statement of net assets

Principal payments on long-term debt 12 038 33

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (18 065 05)

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

CITY OF OMER
Arenac County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
March 31, 2007

| | <u>Total (Water)</u> |
|---|----------------------------|
| ASSETS: | |
| CURRENT ASSETS: | |
| Cash in bank | 102 788 06 |
| Accounts receivable | <u>2 621 61</u> |
| Total Current Assets | <u>105 409 67</u> |
| NON-CURRENT ASSETS: | |
| Capital Assets | 1 746 942 65 |
| Less: Accumulated Depreciation | <u>(228 951 91)</u> |
| Total Non-current Assets | <u>1 517 990 74</u> |
| TOTAL ASSETS | <u><u>1 623 400 41</u></u> |
| LIABILITIES AND NET ASSETS: | |
| LIABILITIES: | |
| CURRENT LIABILITIES: | |
| Accounts payable | <u>19 795 85</u> |
| Total Current Liabilities | <u>19 795 85</u> |
| NON-CURRENT LIABILITIES: | |
| Bonds payable | <u>441 750 00</u> |
| Total Non-current Liabilities | <u>441 750 00</u> |
| Total Liabilities | <u>461 545 85</u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 1 076 240 74 |
| Unrestricted | <u>85 613 82</u> |
| Total Net Assets | <u>1 161 854 56</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>1 623 400 41</u></u> |

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

CITY OF OMER
Arenac County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS-TYPE FUNDS
Year ended March 31, 2007

| | <u>Total (Water)</u> |
|---|----------------------------|
| OPERATING REVENUES: | |
| Charges for services | 64 972 73 |
| Miscellaneous | <u>25 122 44</u> |
| Total Operating Revenues | <u>90 095 17</u> |
| OPERATING EXPENSES: | |
| Wages | 11 430 82 |
| Benefits | 874 46 |
| Supplies | 11 188 17 |
| Water purchases | 8 262 39 |
| Insurance | 5 003 00 |
| Utilities | 7 546 32 |
| Repairs and maintenance | 9 556 59 |
| Miscellaneous | <u>2 174 61</u> |
| Total Operating Expenses | <u>56 036 36</u> |
| Operating Income (loss) before depreciation | 34 058 81 |
| Less: depreciation | <u>(16 957 35)</u> |
| Operating income (loss) | <u>17 101 46</u> |
| NON-OPERATING REVENUES (EXPENSES): | |
| Federal grants | 771 000 00 |
| Interest income | 1 589 59 |
| Transfers in | 8 050 00 |
| Interest expense | <u>(19 638 52)</u> |
| Total Non-operating Expenses | <u>761 001 07</u> |
| Change in net assets | 778 102 53 |
| Net assets, beginning of year | <u>383 752 03</u> |
| Net Assets, End of Year | <u><u>1 161 854 56</u></u> |

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

CITY OF OMER
Arenac County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS
Year ended March 31, 2007

| | Total (Water) |
|--|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Cash received from customers | 89 793 31 |
| Cash payments to suppliers for goods and services | (41 582 88) |
| Cash payments to employees for services | (11 430 82) |
| Net cash provided (used) by operating activities | 36 779 61 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Additions to capital assets | (809 535 62) |
| Capital grant proceeds | 771 000 00 |
| Bond proceeds | 42 000 00 |
| Principal paid on bonds | (6 250 00) |
| Interest paid on bonds | (19 638 52) |
| Net cash provided (used) by capital and related financing activities | (22 424 14) |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES: | |
| Transfers from other funds | 8 050 00 |
| Net cash provided (used) by non-capital and related financing activities | 8 050 00 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Interest income | 1 589 59 |
| Net cash provided (used) by investing activities | 1 589 59 |
| Net increase in cash | 23 995 06 |
| Cash beginning of year | 78 793 00 |
| Cash End of Year | 102 788 06 |
| RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Income (loss) from operations | 17 101 46 |
| Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities: | |
| Depreciation | 16 957 35 |
| (Increase) decrease in receivables | (301 86) |
| Increase (decrease) in payables | 3 022 66 |
| Net Cash Provided (Used) in Operating Activities | 36 779 61 |

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

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Omer, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the City contain all the City funds that are controlled by or dependent on the City's executive or legislative branches.

The reporting entity is the City of Omer. The City is governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the City as the primary government.

Joint Venture

The City is a member of the Omer-Arenac Fire Board. The City appoints two members to the joint venture's governing board, which then approves the annual budget. Financial information of the joint venture may be obtained from the Fire Board at 2234 Sterling Road in Omer, Michigan.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

This fund is used to account for assets held as an agent for others.

Proprietary Fund

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments 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

Receivables have been recognized for all significant amounts due to the City. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on February 14. The 2006 tax roll millage rate was 14.9238 and the taxable value was \$4,751,878.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the City as assets with an initial cost of more than \$2,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---------------------------------------|-------------|
| Buildings, additions and improvements | 10-25 years |
| Furniture and equipment | 5-10 years |

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The City provides no post-employment benefits to past employees.

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.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the City Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the City Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the City Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the City Council during the fiscal year.

Note 3 – Deposits and Investments

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 direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City Council has designated one bank for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

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

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

| | |
|----------------|-----------------------------|
| | <u>Carrying Amounts</u> |
| Total Deposits | <u>365 109 75</u> |

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

| | <u>Bank Balances</u> |
|--------------------------------|--------------------------|
| Insured (FDIC) | 108 193 23 |
| Uninsured and Uncollateralized | 314 838 57 |
| Total Deposits | 423 031 80 |

The City of Omer did not have any investments as of March 31, 2007.

Note 4 – Capital Assets

Capital asset activity of the City's Governmental and Business-Type activities for the current year was as follows:

| | <u>Balance 4/1/06</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 3/31/07</u> |
|-------------------------------------|---------------------------|------------------|------------------|----------------------------|
| <u>Governmental Activities:</u> | | | | |
| Land | 161 500 00 | - | - | 161 500 00 |
| Buildings | 38 836 00 | - | - | 38 836 00 |
| Equipment | 37 485 00 | - | - | 37 485 00 |
| Total | 237 821 00 | - | - | 237 821 00 |
| Accumulated Depreciation | (48 903 50) | (5 348 50) | - | (54 252 00) |
| Net Governmental Capital Assets | 188 917 50 | (5 348 50) | - | 183 569 00 |
| <u>Business-Type Activities:</u> | | | | |
| Water Systems | 937 407 03 | 809 535 62 | - | 1 746 942 65 |
| Accumulated Depreciation | (211 994 56) | (16 957 35) | - | (228 951 91) |
| Net Business-Type Capital Assets | 725 412 47 | 792 578 27 | - | 1 517 990 74 |

Note 5 – Deferred Compensation Plan

The City does not have a deferred compensation plan.

Note 6 – Pension Plan

The City does not have a pension plan.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 7 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

| | Balance 4/1/06 | Additions | Deductions | Balance 3/31/07 |
|-----------------------|-------------------|------------------|------------------|--------------------|
| Water bonds payable | 406 000 00 | 42 000 00 | 6 250 00 | 441 750 00 |
| Judgment payable | 23 314 17 | - | 9 024 84 | 14 289 33 |
| Loan payable – pickup | 9 470 60 | - | 3 013 49 | 6 457 11 |
| Total | 438 784 77 | 42 000 00 | 18 288 33 | 462 496 44 |

Note 8 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|------------------------|------------------------------|
| Local Street | 889 20 | Major Street | 889 20 |
| General | 1 596 40 | Current Tax Collection | 1 596 40 |
| Local Street | 28 58 | Current Tax Collection | 28 58 |
| Total | 2 514 18 | Total | 2 514 18 |

Note 9 – Water Revenue Bonds – 1997

On March 12, 1997, the City sold water revenue bonds, series A in the amount of \$277,000.00 and series B in the amount of \$90,000.00. The bond proceeds were used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.5% per annum are recorded in the Water Fund. As of March 31, 2007, the principal balance of the bonds outstanding was \$327,000.00.

| Due April 1 | Principal Amount |
|----------------|---------------------|
| 2007 | 5 000 00 |
| 2008 | 5 000 00 |
| 2009 | 5 000 00 |
| 2010 | 7 000 00 |
| 2011 | 7 000 00 |
| 2012 | 7 000 00 |
| 2013 | 7 000 00 |
| 2014 | 7 000 00 |
| 2015 | 8 000 00 |
| 2016 | 8 000 00 |
| 2017 | 8 000 00 |
| 2018 | 8 000 00 |
| 2019 | 9 000 00 |
| 2020 | 9 000 00 |
| 2021 | 9 000 00 |
| 2022 | 11 000 00 |

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 9 – Water Revenue Bonds- 1997 (continued)

| Due April 1 | Principal Amount |
|----------------|---------------------|
| 2023 | 11 000 00 |
| 2024 | 11 000 00 |
| 2025 | 12 000 00 |
| 2026 | 12 000 00 |
| 2027 | 12 000 00 |
| 2028 | 13 000 00 |
| 2029 | 14 000 00 |
| 2030 | 16 000 00 |
| 2031 | 16 000 00 |
| 2032 | 17 000 00 |
| 2033 | 17 000 00 |
| 2034 | 18 000 00 |
| 2035 | 19 000 00 |
| 2036 | 19 000 00 |
| Total | 327 000 00 |

Note 10 – Water Revenue Bonds – 2007

On February 28, 2007, the City sold water revenue bonds, series A in the amount of \$86,000.00 and series B in the amount of \$30,000.00. The bond proceeds were used to partially pay for improvements to the water system. The bonds which bear interest at the rate of 4.25% and 4.50% respectively, per annum and are recorded in the Water Fund. As of March 31, 2007, the principal balance of the bonds outstanding was \$114,750.00.

| Due April 1 | Principal Amount |
|----------------|---------------------|
| 2007 | 1 250 00 |
| 2008 | 1 250 00 |
| 2009 | 1 250 00 |
| 2010 | 1 250 00 |
| 2011 | 1 250 00 |
| 2012 | 1 250 00 |
| 2013 | 1 250 00 |
| 2014 | 1 250 00 |
| 2015 | 1 500 00 |
| 2016 | 1 500 00 |
| 2017 | 1 500 00 |
| 2018 | 1 500 00 |
| 2019 | 1 500 00 |
| 2020 | 2 500 00 |
| 2021 | 2 500 00 |
| 2022 | 2 500 00 |
| 2023 | 2 500 00 |
| 2024 | 2 500 00 |
| 2025 | 2 500 00 |

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 10 – Water Revenue Bonds – 2007 (continued)

| Due April 1 | Principal Amount |
|----------------|---------------------|
| 2026 | 2 750 00 |
| 2027 | 2 750 00 |
| 2028 | 2 750 00 |
| 2029 | 2 750 00 |
| 2030 | 2 750 00 |
| 2031 | 3 000 00 |
| 2032 | 4 000 00 |
| 2033 | 4 000 00 |
| 2034 | 4 000 00 |
| 2035 | 4 000 00 |
| 2036 | 4 000 00 |
| 2037 | 4 000 00 |
| 2038 | 4 250 00 |
| 2039 | 4 250 00 |
| 2040 | 5 250 00 |
| 2041 | 5 250 00 |
| 2042 | 5 500 00 |
| 2043 | 5 500 00 |
| 2044 | 5 500 00 |
| 2045 | 6 000 00 |
| Total | 114 750 00 |

Note 11 – Loan Payable – Pickup

On September 13, 2005, the City obtained a loan in the amount of \$9,470.60 to fund the purchase of a pickup. The loan requires 3 annual payments of \$3,457.59, including interest at the rate of 4.625% per annum. As of March 31, 2007, the outstanding principal balance was \$6,457.11.

Note 12 – Judgment Payable

On August 23, 2005, a judgment was made against the City in the amount of \$27,074.52. The judgment requires 36 monthly payments of \$752.07. As of March 31, 2007, the outstanding principal balance was \$14,289.33.

Note 13 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The City has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 14 – Building Permits

The City of Omer does not issue building permits. Building permits are issued by the County of Arenac.

CITY OF OMER
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 15 – Interfund Transfers

The amounts of interfund transfers are as follows:

| <u>Fund</u> | <u>Transfers In</u> | <u>Fund</u> | <u>Transfers Out</u> |
|--------------|-------------------------|--------------|-------------------------|
| Water | 8 050 00 | General | 8 050 00 |
| Local Street | <u>4 969 78</u> | Major Street | <u>4 969 78</u> |
| Total | <u><u>13 019 78</u></u> | Total | <u><u>13 019 78</u></u> |

Note 16 – Budget Variances

During the fiscal year ended March 31, 2007, City expenditures exceeded the budgeted amounts in the activities as follows:

| | <u>Total Budget</u> | <u>Total Expenditures</u> | <u>Excess Expenditures</u> |
|-----------------------------|-------------------------|-------------------------------|--------------------------------|
| General Fund Activity: | | | |
| General government | 98 200 00 | 105 548 97 | 7 348 97 |
| Public safety | 10 000 00 | 10 031 76 | 31 76 |
| Public works | 14 500 00 | 21 688 29 | 7 188 29 |
| Debt service | - | 12 482 43 | 12 482 43 |
| Local Street Fund Activity: | | | |
| Public Works | 14 750 00 | 23 399 00 | 8 649 00 |

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|--------------------------|--|
| Revenues: | | | | |
| Property taxes | 59 000 00 | 59 000 00 | 60 945 81 | 1 945 81 |
| State revenue sharing | 38 000 00 | 38 000 00 | 38 947 40 | 947 40 |
| Charges for services: | | | | |
| PTAF | 1 999 00 | 1 999 00 | 2 131 92 | 132 92 |
| Other | 20 00 | 20 00 | 18 999 75 | 18 979 75 |
| Interest | 1 400 00 | 1 400 00 | 2 661 01 | 1 261 01 |
| Miscellaneous | <u>15 000 00</u> | <u>15 000 00</u> | <u>465 98</u> | <u>(14 534 02)</u> |
| Total revenues | <u>115 419 00</u> | <u>115 419 00</u> | <u>124 151 87</u> | <u>8 732 87</u> |
| Expenditures: | | | | |
| General government | 98 200 00 | 98 200 00 | 105 548 97 | 7 348 97 |
| Public safety | 10 000 00 | 10 000 00 | 10 031 76 | 31 76 |
| Public works | 14 500 00 | 14 500 00 | 21 688 29 | 7 188 29 |
| Capital outlay | 5 000 00 | 5 000 00 | - | (5 000 00) |
| Debt service | <u>-</u> | <u>-</u> | <u>12 482 43</u> | <u>12 482 43</u> |
| Total expenditures | <u>127 700 00</u> | <u>127 700 00</u> | <u>149 751 45</u> | <u>22 051 45</u> |
| Excess (deficiency) of revenues over expenditures | <u>(12 281 00)</u> | <u>(12 281 00)</u> | <u>(25 599 58)</u> | <u>(13 318 58)</u> |
| Other financing sources (uses): | | | | |
| Loan proceeds | - | - | - | - |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>(8 050 00)</u> | <u>(8 050 00)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(8 050 00)</u> | <u>(8 050 00)</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | (12 281 00) | (12 281 00) | (33 649 58) | (21 368 58) |
| Fund balance, April 1 | <u>50 000 00</u> | <u>50 000 00</u> | <u>175 605 47</u> | <u>125 605 47</u> |
| Fund Balance, March 31 | <u><u>37 719 00</u></u> | <u><u>37 719 00</u></u> | <u><u>141 955 89</u></u> | <u><u>104 236 89</u></u> |

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended March 31, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------------|--|
| Revenues: | | | | |
| State revenue sharing | 20 000 00 | 20 000 00 | 19 879 12 | (120 88) |
| Interest | 250 00 | 250 00 | 386 38 | 136 38 |
| Miscellaneous | <u>20 00</u> | <u>20 00</u> | <u>-</u> | <u>(20 00)</u> |
| Total revenues | <u>20 270 00</u> | <u>20 270 00</u> | <u>20 265 50</u> | <u>(4 50)</u> |
| Expenditures: | | | | |
| Public works: | | | | |
| Highways and streets | <u>14 750 00</u> | <u>14 750 00</u> | <u>9 581 37</u> | <u>(5 168 63)</u> |
| Total expenditures | <u>14 750 00</u> | <u>14 750 00</u> | <u>9 581 37</u> | <u>(5 168 63)</u> |
| Excess (deficiency) of revenues over expenditures | <u>5 520 00</u> | <u>5 520 00</u> | <u>10 684 13</u> | <u>5 164 13</u> |
| Other financing sources (uses): | | | | |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>(4 969 78)</u> | <u>(4 969 78)</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>(4 969 78)</u> | <u>(4 969 78)</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 5 520 00 | 5 520 00 | 5 714 35 | 194 35 |
| Fund balance, April 1 | <u>59 291 74</u> | <u>59 291 74</u> | <u>59 727 41</u> | <u>435 67</u> |
| Fund Balance, March 31 | <u><u>64 811 74</u></u> | <u><u>64 811 74</u></u> | <u><u>65 441 76</u></u> | <u><u>630 02</u></u> |

CITY OF OMER
Arenac County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended March 31, 2007

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget Over (Under)</u> |
|--|----------------------------|-------------------------|-------------------------|--|
| Revenues: | | | | |
| State revenue sharing | 12 500 00 | 12 500 00 | 12 771 62 | 271 62 |
| Interest | 1 150 00 | 1 150 00 | 224 02 | (925 98) |
| Miscellaneous | <u>100 00</u> | <u>100 00</u> | <u>9 430 90</u> | <u>9 330 90</u> |
| Total revenues | <u>13 750 00</u> | <u>13 750 00</u> | <u>22 426 54</u> | <u>8 676 54</u> |
| Expenditures: | | | | |
| Public works: | | | | |
| Highways and streets | <u>14 750 00</u> | <u>14 750 00</u> | <u>23 399 00</u> | <u>8 649 00</u> |
| Total expenditures | <u>14 750 00</u> | <u>14 750 00</u> | <u>23 399 00</u> | <u>8 649 00</u> |
| Excess (deficiency) of revenues over expenditures | <u>(1 000 00)</u> | <u>(1 000 00)</u> | <u>(972 46)</u> | <u>27 54</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | <u>-</u> | <u>-</u> | <u>4 969 78</u> | <u>4 969 78</u> |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>4 969 78</u> | <u>4 969 78</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | (1 000 00) | (1 000 00) | 3 997 32 | 4 997 32 |
| Fund balance, April 1 | <u>36 716 68</u> | <u>36 716 68</u> | <u>40 510 39</u> | <u>3 793 71</u> |
| Fund Balance, March 31 | <u><u>35 716 68</u></u> | <u><u>35 716 68</u></u> | <u><u>44 507 71</u></u> | <u><u>8 791 03</u></u> |

CITY OF OMER
Arenac County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2007

| | <u>Major Street</u> | <u>Local Street</u> | <u>Services</u> | <u>Total</u> |
|--|-------------------------|-------------------------|-------------------------|--------------------------|
| <u>Assets</u> | | | | |
| Cash in bank | 62 774 06 | 39 837 94 | 14 416 07 | 117 028 07 |
| Taxes receivable | - | 1 467 73 | 2 470 00 | 3 937 73 |
| Due from State of Michigan | 3 556 90 | 2 284 26 | - | 5 841 16 |
| Due from other funds | - | 917 78 | - | 917 78 |
| Total Assets | <u><u>66 330 96</u></u> | <u><u>44 507 71</u></u> | <u><u>16 886 07</u></u> | <u><u>127 724 74</u></u> |
| <u>Liabilities and Fund Balances</u> | | | | |
| Liabilities: | | | | |
| Due to other funds | 889 20 | - | - | 889 20 |
| Total liabilities | <u><u>889 20</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>889 20</u></u> |
| Fund balances: | | | | |
| Unreserved: | | | | |
| Undesignated | 65 441 76 | 44 507 71 | 16 886 07 | 126 835 54 |
| Total fund balances | <u><u>65 441 76</u></u> | <u><u>44 507 71</u></u> | <u><u>16 886 07</u></u> | <u><u>126 835 54</u></u> |
| Total Liabilities and Fund Balances | <u><u>66 330 96</u></u> | <u><u>44 507 71</u></u> | <u><u>16 886 07</u></u> | <u><u>127 724 74</u></u> |

CITY OF OMER
Arenac County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2007

| | <u>Major Street</u> | <u>Local Street</u> | <u>Services</u> | <u>Total</u> |
|--|---------------------|---------------------|------------------|-------------------|
| Revenues: | | | | |
| State revenue sharing | 19 879 12 | 12 771 62 | - | 32 650 74 |
| Interest | 386 38 | 224 02 | 80 36 | 683 79 |
| Special assessments | - | - | 14 725 00 | 14 820 00 |
| Miscellaneous | - | 9 430 90 | - | 9 430 90 |
| | <u>20 265 50</u> | <u>22 426 54</u> | <u>14 805 36</u> | <u>57 858 43</u> |
| Total revenues | | | | |
| Expenditures – Public Works: | | | | |
| Highways and streets | 9 581 37 | 23 399 00 | - | 32 980 37 |
| Sanitation | - | - | 15 710 36 | 15 710 36 |
| | <u>9 581 37</u> | <u>23 399 00</u> | <u>15 710 36</u> | <u>48 690 73</u> |
| Total expenditures | | | | |
| Excess (deficiency) of revenues over expenditures | <u>10 684 13</u> | <u>(972 46)</u> | <u>(816 97)</u> | <u>8 894 70</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | 4 969 78 | - | 4 969 78 |
| Operating transfers out | (4 969 78) | - | - | (4 969 78) |
| Total other financing sources (uses) | <u>(4 969 78)</u> | <u>4 969 78</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues and other sources over expenditures and other uses | 5 714 35 | 3 997 32 | (816 97) | 8 894 70 |
| Fund balances, April 1 | <u>59 727 41</u> | <u>40 510 39</u> | <u>17 703 04</u> | <u>117 940 84</u> |
| Fund Balances, March 31 | <u>65 441 76</u> | <u>44 507 71</u> | <u>16 886 07</u> | <u>126 835 54</u> |

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2007

| | <u>Balance</u> <u>4/1/06</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>3/31/07</u> |
|--------------------|---------------------------------|-------------------|-------------------|----------------------------------|
| <u>Assets</u> | | | | |
| Cash in Bank | <u>12 618 96</u> | <u>206 521 95</u> | <u>206 109 03</u> | <u>13 031 88</u> |
| <u>Liabilities</u> | | | | |
| Due to other funds | 1 196 22 | 87 012 28 | 86 583 52 | 1 624 98 |
| Due to others | <u>11 422 74</u> | <u>119 509 67</u> | <u>119 525 51</u> | <u>11 406 90</u> |
| Total Liabilities | <u>12 618 96</u> | <u>206 521 95</u> | <u>206 109 03</u> | <u>13 031 88</u> |

CITY OF OMER
Arenac County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2007

| | |
|---|-------------------------|
| Cash in bank – beginning of year | <u>12 618 96</u> |
| Cash receipts: | |
| Property tax | 206 121 77 |
| Interest | <u>400 18</u> |
| Total cash receipts | <u>206 521 95</u> |
| Total beginning balance and cash receipts | <u>219 140 91</u> |
| Cash disbursements: | |
| City of Omer | 86 583 52 |
| Arenac County | 59 519 48 |
| Bay – Arenac Intermediate School District | 19 696 63 |
| Arenac Eastern School District | 40 214 48 |
| Refunds | <u>94 92</u> |
| Total cash disbursements | <u>206 109 03</u> |
| Cash in Bank – End of Year | <u><u>13 031 88</u></u> |

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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

May 4, 2007

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of the City of Omer, Arenac County, Michigan as of and for the year ended March 31, 2007, and have issued our report thereon dated May 4, 2007. We conducted our audit in accordance with generally accepted auditing standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether City of Omer's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect of 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 disclose no instances of non-compliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Omer's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the 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 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 an inadequate control over cash transactions caused by an inherent lack of segregation of duties which is due to the limited number of office personnel employed involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management and other regulatory agencies. However, this report is a matter of public records and its distribution is not limited.

Campbell, Kusterer & Co., P.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

May 4, 2007

To the City Council
City of Omer
Arenac County, Michigan

Compliance

We have audited the compliance of City of Omer, Arenac County, Michigan, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended March 31, 2007. City of Omer's major federal programs are identified in the schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Omer's management. Our responsibility is to express an opinion on City of Omer's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Omer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Omer's compliance with those requirements.

In our opinion, City of Omer complies, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2007.

Internal Control Over Compliance

The management of City of Omer is responsible for establishing and maintaining effective control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Omer's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the City Council
City of Omer
Arenac County, Michigan

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. 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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CITY OF OMER
Arenac County, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended March 31, 2007

| <u>Federal Grantor / Pass-through Grantor / Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|--------------------------------|---------------------------------|
| U.S. Department of Agriculture: | | |
| Direct programs: | | |
| Rural Development Water System Improvement Grant | 10.760 | 551 952 15 |
| Rural Development Water System Improvement Loan | 10.760 | <u>42 000 00</u> |
| Total direct programs | | <u>593 952 15</u> |
| U.S. Department of Housing and Urban Development: | | |
| Pass – though program from: | | |
| Michigan Economic Development Corporation: | | |
| Community Development Block Grant | 14.228 | <u>215 000 00</u> |
| Total pass-though programs | | <u>215 000 00</u> |
| Total Expenditures of Federal Awards | | <u><u>808 952 15</u></u> |

CITY OF OMER
Arenac County, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended March 31, 2007

There were no prior year findings.

There are no current year findings.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 4, 2007

To the City Council
City of Omer
Arenac County, Michigan

We have audited the financial statements of the City of Omer for the year ended March 31, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the City of Omer in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the City Council
City of Omer
Arenac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the City's financial statements and this communication of these matters does not affect our report on the City's financial statements, dated March 31, 2007.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,


CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants