CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
FISCAL YEAR ENDED JUNE 30, 2006

Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	ESSEXVILLE	BAY

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
06/30/2006	10/19/2006	12/29/2006

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
QUAST, JANKE AND COMPANY CPA'S P.C.	989-892-4549

Street Address	City	State	Zip
1010 N JOHNSON	BAY CITY	MI	48708

Authorizing CPA Signature	Printed Name	License Number
Ned E Kleinke, CPA	NED E KLEINKE	16193

CITY OF ESSEXVILLE
BAY COUNTY
STATE OF MICHIGAN

FINANCIAL STATEMENTS
FISCAL YEAR ENDED June 30, 2006

CITY OFFICIALS - As of June 30, 2006

Mayor	Thomas Rehmus
Council Member	Ronald Graham
Council Member	Michael Barrow
Council Member	Dr. Richard Link
Council Member	William Hydorn
Council Member	Todd Smith
Council Member	John Connelly
Treasurer	Fran DeWyse
Clerk	Cynthia Fournier
Attorney	Gerald Pergande
Director of Public Safety	Tim Weiler
City Manager	Dale Majerczyk

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Balance Sheet of Governmental Funds to Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balances	15
Reconciliation of Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Proprietary Funds:	
Statement of Net Assets	17
Statement of Revenues, Expenses, and Changes in Net Assets	18
Statement of Cash Flows	19
Fiduciary Funds:	
Statement of Net Assets	20
Notes to Financial Statements	21 - 31
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	32
Budgetary Comparison Schedule - Major Streets Fund	33
Budgetary Comparison Schedule - Rubbish and Trash Fund	34
Budgetary Comparison Schedule - Debt Service Fund	35

TABLE OF CONTENTS

	PAGE
Other Supporting Information	
Nonmajor Governmental Funds:	
Balance Sheet	36
Statement of Revenues, Expenditures and Changes in Fund Balances	37
General Fund:	
Statement of Revenues, Expenditures and Changes in Fund Balance	38 - 43

Quast, Janke and Company, P.C.

Certified Public Accountants

1010 N. JOHNSON STREET
BAY CITY, MICHIGAN 48708
Phone: (989) 892-4549
Fax: (989) 892-4030

Timothy J. Quast, C.P.A.
Mark G. Janke, C.P.A.
Ned E. Kleinke, C.P.A.
David G. Gwizdala, C.P.A.

Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

INDEPENDENT AUDITOR'S REPORT

October 19, 2006

To the City Council
The City of Essexville
Essexville, Michigan 48732

We have audited the financial statements of the governmental activities, business-type activities, and major funds as of and for the year ended June 30, 2006 which collectively comprise the City of Essexville's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 misstatements. 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 government activities, business-type activities, and each major fund as of June 30, 2006, and the changes in financial position and cash flows, where applicable, of those activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the City's basic financial statements. The individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are 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.

QUAST, JANKE AND COMPANY

Quast, Janke and Co.
Certified Public Accountants, P.C.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

This section of the City of Essexville's annual Financial Report presents the Management Discussion and Analysis (MDA) of the City's financial activities during the fiscal year ended June 30, 2006. It is intended to be read as part of the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the City of Essexville exceeded liabilities at June 30, 2006, by $1,671,639. Of this amount all is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's net assets increased by $204,115 during the year. Of this amount the assets of our governmental activities increased $125,710 and the assets of our business-type activities increased by $78,405.

USING THIS REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

Government-wide Financial Statements consists of a statement of net assets and a statement of activities. These provide information about the activities of the City as a whole and represent an overall view of the City's finances.

Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information, other than MD&A, provides information about the required budgetary comparison information.

Other Supporting Information provides detailed information about the General Fund and Non-Major Governmental Funds.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities - the Government-wide 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 City'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.

One of the most important questions asked about the City's finances is: Is the City as a whole better or worse off as a result of the year's activities? The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is very similar to the method of accounting used by most private sector companies. The two statements report the City's net assets, which are the difference between assets and liabilities, as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Additional factors such as changes in the City's property tax base and the condition of the City's infrastructure are also important in making this decision.

In the Statement of Net Assets and the Statement of Activities, we have divided the City into two kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, such as public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

- Business-Type Activities - This activity includes the water and sanitary sewer systems. This activity is financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about individually significant funds, not the City as a whole. Some funds are required to be established by State law and by bond covenants. The City can establish other funds to control and manage money for particular purposes (such as construction or street projects) and to show that it is properly using certain revenues (such as tax increment financing revenues). The City has two kinds of funds:

Governmental Funds

The Governmental Funds account for most of the City's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund; Special Revenue Funds such as Major Street; Local Street and Downtown Development Authority. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information 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.

The financial statements required for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Proprietary Funds account for the City's enterprise funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary fund and the business-type activities included in the government-wide statement is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund includes the Water and Sewer Funds, considered to be major funds of the City. The City is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses, and changes in fund net assets and a statement of cash flows.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the City's total net assets at June 30, 2006.

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current and other assets	$ 1,645,152	$ 711,178	$ 2,356,330
Capital assets net of accumulated depreciation	2,704,511	2,269,059	4,973,570
Total Assets	4,349,663	2,980,237	7,329,900
LIABILITIES			
Current liabilities	328,640	139,954	468,594
Long-term liabilities	3,964,667	1,225,000	5,189,667
Total Liabilities	4,293,307	1,364,954	5,658,261
NET ASSETS			
Invested in capital assets net of related debt	(1,471,555)	776,783	(694,772)
Unrestricted	1,527,911	838,500	2,366,411
Total Net Assets	$ 56,356	$ 1,615,283	$ 1,671,639

The largest portion of the City's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation, or other legal requirements is approximately $2,366,411.

CITY OF ESSEXVILLE
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The following analysis provides the changes in the net assets for the City's governmental and business-type activities:

	Governmental Activities	Business-type Activities	Total
REVENUES:			
Charges for services	$ 240,133	$1,002,682	$1,242,815
GENERAL REVENUES:			
Property taxes	1,299,621	-	1,299,621
State shared revenue	659,467	-	659,467
Unrestricted investment earnings	77,044	21,973	99,017
Miscellaneous	30,725	-	30,725
Total Revenues	2,306,990	1,024,655	3,331,645
PROGRAM EXPENSES:			
Legislative	16,238	-	16,238
General government	447,733	-	447,733
Public safety	626,429	-	626,429
Public works	701,004	-	701,004
Recreational/cultural	73,995	-	73,995
Interest	198,994	-	198,994
Water & Sewer	-	946,250	946,250
Depreciation	116,887	-	116,887
Total Expenses	2,181,280	946,250	3,127,530
INCREASE (DECREASE) IN NET ASSETS	$ 125,710	$ 78,405	$ 204,115

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Essexville completed its year, its governmental funds reported a total fund balance of $1,347,220, which is less than the $1,870,037 total fund balance at June 30, 2005.

The General Fund, the operating fund for the City, ended FY05 with an $884,455 balance compared to the prior year ending fund balance of $1,012,052. The Major Street Fund Balance decreased by $64,448. The Debt Service Fund Balance increased by $4,871. The Rubbish and Trash Fund Balance decreased by $113,996.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

The Water and Sewer Fund, which accounts for the operation and maintenance of the City's water and sewer system, ended FY05 with a $1,615,283 net asset balance compared to prior year ending net asset balance of $1,536,878.

BUDGETARY HIGHLIGHTS

During the year ended June 30, 2006, the City amended the budget five (5) times. The amendments were done to cover unbudgeted expenditures. The amendments were mainly required to cover unplanned expenditures associated with projects that carried over from the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The City's investment in capital assets, including land, buildings and improvements, equipment, water systems, sewer systems, lighting systems, traffic signals and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets for governmental activities totaled $2,704,511 (net of accumulated depreciation) at June 30, 2006. Capital assets for business-type activities totaled $2,269,059 (net of accumulated depreciation) at June 30, 2006. See the notes to the financial statements for more information about the City's capital assets.

LONG-TERM DEBT

At year end the City had $5,476,066 in outstanding bonds and loans. All debt in the business-type and governmental activities is detailed below:

Sewer Fund - State Revolving Fund ("SFR") loan administered by the Michigan Department of Environmental Quality to construct mandated improvements at the City's wastewater treatment plant.

SRF Loan 1997	$ 1,990,000
Balance June 30, 2005	1,395,000
Balance June 30, 2006	1,300,000

Infrastructure Bonds - In 1999 local voters authorized the City Council to sell up to $5,000,000 of general obligation bonds restricted for improvements to the City's water, sewer and storm water infrastructure. These bonds were sold in three series: $2,000,000 (January 11, 2000), $1,500,000 (February 27, 2001) and $1,500,000 (February 28, 2002).

Infrastructure Bond – 2000 Series	$ 2,000,000
Balance June 30, 2005	1,375,000
Balance June 30, 2006	1,300,000
Infrastructure Bond - 2001 Series	1,500,000
Balance June 30, 2005	1,400,000
Balance June 30, 2006	1,350,000
Infrastructure Bond - 2002 Series	1,500,000
Balance June 30, 2005	1,475,000
Balance June 30, 2006	1,425,000
Combined Series - 2000, 2001, 2002	5,000,000
Balance June 30, 2005	4,250,000
Balance June 30, 2006	4,075,000

Brownfield Revitalization Loan - In the year 2000 the City received $112,465 from the State of Michigan Department of Environmental Quality to develop land that was a landfill. The city is obligated to repay the loan, which began July 1, 2005. The loan does not bear interest. The amount due as of June 30, 2006 is $101,066.

ECONOMIC FACTORS

Elected and appointed officials must consider many factors in the preparation and the adoption of the City's annual budget. One important factor affecting the City's budget is the State of Michigan's fiscal health, because a significant source of revenue for the City's General Fund is state shared revenue, a portion of which is subject to state legislative approval. Because of the State's recent and continuing budget problems the City has seen a major reduction in state shared revenue.

Though the State Legislature held Cities harmless with respect to loss of state shared revenues in the fiscal year, continuing pressure on the State's budget will certainly result in additional reductions in this significant revenue source to the General Fund. The consequences of this revenue reduction is and will be in the future a reduction in services funded by the General Fund with public safety services at risk in the near future without additional state or local revenue to the General Fund.

By way of comparison, the City received state shared revenues in the amount of $643,394 in the fiscal year ended June 30, 2005, and $659,467 in fiscal year ended June 30, 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to present citizens, taxpayers, customers, investors, creditors and other interested parties with a general overview of the City's finances and operating activities. If you have any questions or require additional information please contact the City of Essexville, 1104 Woodside Avenue, Essexville, MI 48732-1627.

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental Activities	Business -Type Units	Total
ASSETS:			
Cash	$ 1,561,443	$ 617,127	$ 2,178,570
Accounts receivables	61,556	94,052	155,608
Receivable from State	-	-	-
Prepaid expense	22,152	-	22,152
Capital assets:			
Land and improvements	824,710	-	824,710
Buildings and improvements	644,542	-	644,542
Infrastructure	462,187	-	
Construction in progress	161,182	-	161,182
Equipment	263,847	-	263,847
Vehicles	1,185,567	-	1,185,567
	-	2,742,487	2,742,487
Accumulated depreciation	(837,524)	(473,428)	(1,310,952)
Total Assets	4,349,663	2,980,237	7,329,900
LIABILITIES:			
Accounts payable	44,601	51,421	96,022
Accrued expenses	10,742	3,700	14,442
Customer deposits	-	3,300	3,300
Compensated absences	61,898	6,533	68,431
Notes and bonds payable			
Amount due within one year	211,399	75,000	286,399
Amount due more than one year	3,964,667	1,225,000	5,189,667
Total Liabilities	4,293,307	1,364,954	5,658,261
NET ASSETS:			
Investment in capital assets net of related debt	(1,471,555)	776,783	(694,772)
Unrestricted - designated	543,537	838,500	1,382,037
- undesignated	984,374	-	984,374
Total Net Assets	$ 56,356	$ 1,615,283	$ 1,671,639

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

CITY OF ESSEXVILLE
Essexvillle, Michigan

GOVERNMENT WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenue Charges for Services	Net (Expense) Revenue and Changes in Net Assets Governmental Activities	Business-Type Activities	Total
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
Legislative	$ 16,238	$ -	$ (16,238)	$ -	$ (16,238)
General Government	447,733	38,872	(408,861)	-	(408,861)
Public Safety	626,429	10,923	(615,506)	-	(615,506)
Public Works	701,004	190,338	(510,666)	-	(510,666)
Recreation and Cultural	73,995	-	(73,995)	-	(73,995)
Interest	198,994	-	(198,994)	-	(198,994)
Depreciation	116,887	-	(116,887)	-	(116,887)
Total governmental activities	2,181,280	240,133	(1,941,147)	-	(1,941,147)
BUSINESS-TYPE ACTIVITIES					
Water and Sewer	946,250	1,002,682	-	56,432	56,432
Total business-type activities	946,250	1,002,682	-	56,432	56,432
Total Primary Government	$ 3,127,530	$ 1,242,815	(1,941,147)	56,432	(1,884,715)
GENERAL PURPOSE REVENUES:					
Property taxes			1,299,621	-	1,299,621
State shared revenues			659,467	-	659,467
Unrestricted Investment earnings			77,044	21,973	99,017
Micellaneous			30,725	-	30,725
Total General Purpose Revenues			2,066,857	21,973	2,088,830
Change in Net Assets			125,710	78,405	204,115
Net Assets at beginning of year, as adjusted			(69,354)	1,536,878	1,467,524
Net Assets - End of Year			$ 56,356	$ 1,615,283	$ 1,671,639

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

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2006

	GENERAL	MAJOR STREETS	RUBBISH & TRASH	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
ASSETS:						
Cash	$ 885,968	$ 133,118	$ 43,686	$ 17,415	$ 228,361	$ 1,308,548
Customer receivables	-	-	18,345	-	-	18,345
Other receivables	3,418	-	-	-	-	3,418
Prepaid expenses	11,390	10,763	-	-	-	22,152
Due from other Gov't	4,265	-	-	-	-	4,265
Due from State	-	29,198	-	-	10,595	39,793
TOTAL ASSETS	$ 905,041	$ 173,079	$ 62,030	17,415	238,956	$ 1,396,521
LIABILITIES:						
Accounts payable	$ 11,927	$ 2,801	$ 15,341	-	8,856	$ 38,925
Deferred revenue	-	-	-	-	-	-
Accrued expenses	8,659	286	533	-	898	10,376
Due to other funds	-	-	-	-	-	-
TOTAL LIABILITIES	20,586	3,087	15,874	-	9,754	49,301
FUND BALANCES:						
Unreserved, reported in:						
General Fund	884,455	-	-	-	-	884,455
Special Revenue Funds	-	169,992	46,156	-	225,228	441,376
Capital Projects Fund	-	-	-	-	3,974	3,974
Debt Service Fund	-	-	-	17,415	-	17,415
Total Fund Balances	884,455	169,992	46,156	17,415	229,202	1,347,220
TOTAL LIABILITIES AND FUND BALANCES	$ 905,041	$ 173,079	$ 62,030	$ 17,415	$ 238,956	$ 1,396,521

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

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET ASSETS
June 30, 2006

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 1,347,220
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		2,134,556
Accumulated depreciation		(149,518)
Debt balances are carried in the Long-Term Debt Account Group and are not reported in the Governmental Funds balance sheet		(4,237,964)
Elimination of due from in gov't statements		(4,264)
An Internal Service fund is used by the City to charge equipment rental costs to individual funds. The assets and liabilities of the Internal Service Fund is included in governmental activities of the statement of net assets		
Cash	252,896	
Capital assets	1,407,479	
Accumulated depreciation	(688,006)	
Accounts Payable and accrued repai	(6,043)	
Net adjustment		966,326
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 56,356

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

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Year ended June 30, 2006

	GENERAL	MAJOR STREETS	RUBBISH & TRASH	DEBT SERVICE	OTHER NONMAJOR FUNDS	TOTAL
REVENUES:						
Taxes	$ 786,494	$ -	$ 62,854	$ 377,534	$ 72,738	$ 1,299,620
State shared revenue	415,123	176,830	-	-	67,514	659,467
Licenses and permits	34,531	-	-	-	-	34,531
Charges for Services	538	-	189,800	-	-	190,338
Permits	-	-	-	-	10,923	10,923
Fines and Forfeits	4,341	-	-	-	-	4,341
Interest	50,284	5,235	5,448	3,656	13,732	78,356
Other Revenue	26,240	2,775	-	-	400	29,415
	1,317,551	184,840	258,102	381,190	165,308	2,306,991
EXPENDITURES:						
Legislative	16,238	-	-	-	-	16,238
General Government	269,505	-	-	-	-	269,505
Public Safety	523,346	-	-	-	-	523,346
Public Works	51,024	91,161	249,757	-	240,484	632,426
Cultural and Recreation	73,995	-	-	-	-	73,995
Other activities	19,157	-	-	-	26,761	45,918
Insurance/retirement	266,260	22,647	-	-	25,084	313,991
Capital Outlay	200,322	134,905	-	-	109,802	445,029
Debt service	-	-	-	376,319	-	376,319
Total Expenditures	1,419,847	248,713	249,757	376,319	402,131	2,696,767
EXCESS OF REVENUES OVER EXPENDITURES	(102,296)	(63,873)	8,345	4,871	(236,823)	(389,776)
OTHER FINANCING SOURCES (USES):						
Transfer from other funds	-	-	-	-	15,691	15,691
Transfer to other funds	(25,301)	(575)	(122,341)	-	(515)	(148,732)
Total Other Financing Sources (Uses)	(25,301)	(575)	(122,341)	-	15,176	(133,041)
NET CHANGE IN FUND BALANCES	(127,597)	(64,448)	(113,996)	4,871	(221,647)	(522,817)
FUND BALANCE - July 1, 2005	1,012,052	234,440	160,152	12,544	450,849	1,870,037
FUND BALANCE - June 30, 2006	$ 884,455	$ 169,992	$ 46,156	$ 17,415	$ 229,202	$ 1,347,220

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

CITY OF ESSEXVILLE
Essexville, Michigan

GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES,EXPENDITURES
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (522,817)
Amounts reported for governmental activities in the statement of activities are different because -		
Governmental funds report capital outlays as expenditures while in the statement of activities, these costs are allocated over their estimated lives as depreciation:		
Depreciation expense		(116,887)
Capital asset purchases capitalized		656,449
Principal payments on bonds shown as current expense		175,000
Governmental funds do not report the expenses for compensated absences		(20,196)
An Internal Service fund is used by the City to charge equipment rental costs to individual funds. The net revenue of the Internal Service fund is reported with governmental activities in the statement of activities.		
Change in Net Assets	(45,839)	
		(45,839)
TOTAL CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES		$ 125,710

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

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
ASSETS:				
Current Assets:				
Cash	$ 399,899	$ 217,228	$ 617,127	$ 252,896
Customer receivables	44,246	49,806	94,052	-
Other receivables	-	-	-	-
Prepaids	-	-	-	-
Total Current Assets	444,145	267,034	711,179	252,896
Noncurrent Assets:				
Capital Assets:				
Equipment, vehicles	-	-	-	1,407,479
Water and sewer systems	2,368,741	373,746	2,742,487	-
Accumulated depreciation	(426,231)	(47,198)	(473,428)	(688,006)
Total Noncurrent Assets	1,942,510	326,549	2,269,059	719,473
Total Assets	$ 2,386,655	$ 593,582	$ 2,980,237	$ 972,369
LIABILITIES:				
Current Liabilities				
Accounts payable	$ 12,207	$ 39,214	$ 51,421	$ 5,677
Customer deposits	1,749	1,551	3,300	-
Accrued expenses	8,922	1,311	10,233	366
Loan payable current	95,000	-	95,000	-
Total Current Liabilities	117,878	42,076	159,954	6,043
Noncurrent Liabilities				
Loan payable	1,205,000	-	1,205,000	-
Total Noncurrent Liabilities	1,205,000	-	1,205,000	-
Total Liabilities	1,322,878	42,076	1,364,954	6,043
NET ASSETS:				
Invested in capital assets net of related debt	517,777	259,006	776,783	-
Designated for operations	546,000	292,500	838,500	-
Unrestricted	-	-	-	966,326
Total Net Assets	$ 1,063,777	$ 551,506	$ 1,615,283	$ 966,326

Reconciliation of Government Wide Statement of Net Assets:

Net assets of business-type activities	$ 1,615,283

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

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
OPERATING REVENUES:				
Charges for Services	$ 547,420	$ 437,143	$ 984,563	$ 174,953
Miscellaneous	1,933	16,186	18,119	-
Total Operating Revenues	549,352	453,329	1,002,682	174,953
OPERATING EXPENSES:				
Salaries	152,182	64,300	216,482	42,848
FICA	12,264	4,868	17,132	3,307
Operating expenses	137,958	38,512	176,470	208,605
Equipment rental	20,173	22,839	43,012	-
Water purchases	-	199,718	199,718	-
Contractual services	42,703	20,131	62,834	-
Depreciation	71,015	14,025	85,040	33,696
Insurance/retirement	81,719	31,185	112,904	88,105
Total Operating Expenses	518,015	395,577	913,592	376,561
Operating Income	31,338	57,752	89,090	(201,608)
NONOPERATING REVENUES(EXPENSES)				
Interest Income	14,812	7,161	21,973	12,740
Sale of Equipment	-	-	-	21,782
Interest Expense	(30,319)	-	(30,319)	-
Total Nonoperating Expenses	(15,507)	7,161	(8,346)	34,522
Income before contributions and transfers	15,831	64,913	80,744	(167,086)
Transfers Out	(1,610)	(729)	(2,339)	121,247
Change in Net Assets	14,221	64,184	78,405	(45,839)
Net Assets Beginning of Year	1,049,556	487,322	1,536,878	1,012,165
Net Assets End of Year	$ 1,063,777	$ 551,506	$ 1,615,283	$ 966,326

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

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
June 30, 2006

	Business Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	$ 547,695	$ 435,947	$ 983,643	$ 174,953
Cash received from other funds for services	-	-	-	-
Other operating cash receipts	-	-	-	-
Cash payments to suppliers for goods and services	(266,015)	(238,798)	(504,813)	(245,608)
Cash payments to employees for services	(152,182)	(64,300)	(216,482)	(43,273)
Cash payments to other funds for services	-	-	-	-
Net cash provided (used) by operating activities	129,499	132,850	262,349	(113,928)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	-	-	121,912
Transfers to other funds	(1,610)	(729)	(2,339)	(665)
Net cash provided (used) by noncapital financing activities	(1,610)	(729)	(2,339)	121,247
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(85,718)	(135,820)	(221,538)	(244,051)
Proceeds from sale of capital assets	-	-	-	21,782
Interest paid on loans	(30,319)	-	(30,319)	-
Principal payments on loans	(95,000)	-	(95,000)	-
Contributed capital	-	-	-	-
Net cash provided (used) by capital and related financing activities	(211,036)	(135,820)	(346,857)	(222,269)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	14,812	7,161	21,973	12,740
Net increase (decrease) in cash	(68,336)	3,461	(64,874)	(202,210)
Cash beginning of year	468,235	213,767	682,002	455,106
Cash end of year	$ 399,899	$ 217,228	$ 617,128	$ 252,896
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Income (loss) from operations	$ 31,338	$ 57,752	$ 89,090	$ (201,608)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:				
Depreciation	71,015	14,025	85,040	88,105
Change in assets and liabilities:				
(Increase) decrease in due from other funds	-	-	-	-
(Increase) decrease in accounts receivable	(1,498)	(17,523)	(19,021)	-
Increase (decrease) in prepaids	50,000	75,000	125,000	-
(Increase) decrease in accounts payable	(14,389)	3,465	(10,924)	188
Increase (decrease) in accrued expenses	(6,967)	130	(6,837)	(613)
Net Cash Provided (Used) in Operating Activities	$ 129,499	$ 132,849	$ 262,348	$ (113,928)

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

CITY OF ESSEXVILLE
Essexville, Michigan

STATEMENT OF NET ASSETS
TRUST AND AGENCY FUND
June 30, 2006

Cash in Bank	$	68,430
Due to General Fund		-
Fund Balance -		
Reserved for fringe benefits		68,430
	$	68,430

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A: DESCRIPTION OF REPORTING ENTITY:

The City of Essexville is located in Bay County and operates under an elected City Council (6 members) and an elected Mayor, and provides services to its residents in many areas. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B: REPORTING ENTITY:

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City hold the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit//burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Essexville has no component units.

C: BASIS OF PRESENTATION:

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the activities of the City. The effect of the inter-fund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

D: FUND FINANCIAL STATEMENTS:

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund -

General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund -

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the City.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rubbish and Trash Fund -

The Rubbish and Trash Fund is used to account for taxes and receipts from customers related to the provision of trash removal and brush and leaf disposal services.

Debt Service Fund -

This fund is used to accumulate tax revenues for purposes of making the several interest and principal payments on the bonds.

Propriety Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major propriety funds:

Water and Sewer Funds -

The Water and Sewer Funds are used to account for the provision of water and sewer services to the residents of the City. Activities of the funds include administration, operation and maintenance of the water system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Propriety 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 propriety fund's principal ongoing operations. Operating expenses for the propriety funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses.

Agency Funds -

The Fringe Benefit Fund accounts for assets held by the City for funding of future liabilities. The amounts do not involve the measurement of results of operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E: Measurement Focus/Basis of Accounting:

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for propriety funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and state shared governmental revenues. All other governmental fund revenues are recognized when received.

F: CAPITAL ASSETS:

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the entity-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than $5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

maintenance that do not add to the value or materially extend asset lives are not capitalized.

Buildings, equipment, land improvements and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	25-40 years
Infrastructure	20-40 years
Land improvements	10-20 years
Vehicles	5-10 years
Furniture and other equipment	5-10 years

G: 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.

H: COMPARATIVE DATA/RECLASSIFICATIONS:

Comparative data is not included in the City's financial statements.

I: ACCOUNTING CHANGE:

Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB No. 34). Changes to the City's financial statements as a result of GASB No. 34 are as follows: A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations has been included. Entity-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided.

J: PROPERTY TAXES:

The City's property taxes are levied and become a lien each July 1st, based on the taxable valuation of property located in the City as of the preceding December 31st. These taxes are due on August 31st or with the final collection date of March 2nd before they are added to the County's delinquent tax rolls. The City's property tax

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

revenues are recognized as revenues in the fiscal year levied to the extent they are measurable and available.

The taxable valuation of City properties totaled $80,470,181. Ad Valorem taxes levied on this valuation consisted of 9.7266 mills for City operations; .8000 mills for trash collection; 1.00 mills for the Downtown Development Authority; and 4.8215 mills for the general operating bond issues.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the City to have its budget in place by April 1st. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City had no accumulated fund balance deficits.

NOTE 3. LONG-TERM DEBT:

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Annual Ranges	Beginning Balance	Additions (Deductions)	Ending Balance	Current Portion
GOVERNMENTAL ACTIVITIES						
2000 G.O. Bond	5.25	75,000-150,000	$ 1,375,000	$ (75,000)	$ 1,300,000	$ 75,00(
2001 G.O.Bond	4.00	50,000-225,000	1,400,000	(50,000)	1,350,000	50,00(
2002 G.O.Bond	4.25	25,000-200,000	1,475,000	(25,000)	1,425,000	75,00(
Total Bonds			4,250,000	(150,000)	4,075,000	200,00(
Revitalization Loan	0.00	11,399	112,465	(11,399)	101,066	11,39(
Total Governmental Activities			$ 4,362,465	$ (161,399)	$ 4,176,066	$ 211,39(
BUSINESS TYPE ACTIVITIES						
Loan payable	2.25	90,000-120,000	$ 1,395,000	$ (95,000)	$ 1,300,000	$ 100,00(

Annual debt service principal requirements:

	G.O. Bonds	Loan Payable
2006	211,399	95,000
2007	261,399	100,000
2008	261,399	100,000
2009	286,399	100,000
2010	311,399	105,000
2011	361,399	105,000
2012	386,399	110,000
2013	461,399	110,000
2014	509,874	115,000
2015	550,000	120,000
2016	575,000	120,000
2017	-	120,000

NOTE 4. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1	Additions/ Retirements/ Completions	Adjustments	Balance June 30
Governmental activities:				
Capital assets not being depreciated				
Land	$ 490,333	$ 334,377	$ -	$ 824,710
Capital assets being depreciated				
Buildings and improvements	644,542	-	-	644,542
Construction in progress	139,514	21,668	-	161,182
Infrastructure	88,557	373,630	-	462,187
Vehicles	1,163,428	22,139	-	1,185,567
Furniture and equipment	115,161	148,686	-	263,847
Subtotal	2,641,535	900,500	-	3,542,035
Less accumulated depreciation	720,637	116,887	-	837,524
Net capital assets	$ 1,920,898	$ 783,618	$ -	$ 2,704,511
Business -type activities:				
Capital assets being depreciated				
Buildings and improvements	1,880,619	-	-	1,880,619
Water and sewer distribution systems	507,962	223,127	(1,589)	729,500
Furniture and equipment	132,368	-	-	132,368
Subtotal	2,520,949	223,127	(1,589)	2,742,487
Less accumulated depreciation	388,389	85,039	-	473,428
Total net capital assets	$ 2,132,560	$ 136,498	$ (1,589)	$ 2,269,059

NOTE 5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS:

A: LEGAL COMPLIANCE:

Act 217, PA 1982, authorizes the City to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loans associations; bonds and other direct obligations of the United States, or an 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 three highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund; and mutual funds

composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

NOTE 5. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS (continued):

Michigan law prohibits security in the form of collateral, surety bond, or other forms for the deposit of public money. An Attorney General's opinion states that public funds may not be deposited in financial institutions located in states other than Michigan.

All City deposits were in compliance with state statutes.

B: DEPOSITS:

Deposits are carried at cost. Deposits of the City are maintained at Independent Bank, Wolverine Bank and Standard Federal Bank, federally insured banks.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the City's cash deposit at June 30, 2006 are as follows:

Deposit	Carrying Amount
Insured (FDIC)	$ 300,000
Uninsured and Uncollateralized	1,947,000
Total	$ 2,247,000

NOTE 6. DEFINED BENEFIT PENSION PLAN:

Plan Description

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

Funding Policy

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

NOTE 6. DEFINED BENEFIT PENSION PLAN (continued):

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using an entry age normal funding method. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, (c) additional projected salary increases ranging from 0 percent to 4.2 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase annually 2.5 percent per year, after retirement. At December 31, 2005, the unfunded actuarial accrued liability was $794,476 determined as follows:

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	$ 3,247,391
Terminated employees not yet receiving benefits	55,413
Current employees -	
Accumulated employee contributions	
Including allocated investment income	538,736
Employer financed	1,712,113
Total Actuarial Accrued Liability	5,553,653
Net Assets Available for Benefits at Actuarial Value	4,686,841
Unfunded Actuarial Accrued Liability	$ 866,812

For the fiscal year beginning July 1st, 2007 the annual required contribution based on valuation payroll will be $ 101,316 based on an amortization factor of .053632.

NOTE 7. RISK MANAGEMENT :

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal League's public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to the Michigan Municipal League for its insurance coverage. The Michigan Municipal

League 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 of its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any or the past three fiscal years.

The City manages its workers' compensation by participating in Michigan Municipal League, a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal League for its insurance coverage. The Michigan Municipal League is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based coverage for each incident to its members by internally assuring certain risks and reinsuring risks thorough commercial companies. Various deductibles are maintained to place the 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.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 774,485	$ 774,485	$ 786,494	$ 12,009
State revenue sharing	388,807	388,807	415,123	26,316
Licenses and permits	31,125	31,125	34,531	3,406
Charges for services	50	50	538	488
Interest	21,023	21,023	50,284	29,261
Fines and forfeits	2,400	2,400	4,341	1,941
Other Revenue	16,568	16,568	26,240	9,672
Total Revenues	1,234,458	1,234,458	1,317,551	83,093
EXPENDITURES:				
Legislative	17,959	17,959	16,238	1,721
General Government				
City Manager	77,663	77,663	77,887	(224)
Elections	8,450	3,450	3,392	58
Mayor	4,499	4,499	4,205	294
Assessor	20,522	21,522	20,073	1,449
Attorney	25,000	27,000	23,919	3,081
Board of Review	1,207	1,207	807	400
Treasurer	41,907	40,952	37,441	3,511
Clerk	72,492	68,292	63,833	4,459
City Hall	36,569	34,569	34,247	322
Accounting and audit	3,700	3,700	3,700	-
Public Safety				
Fire	40,119	38,119	33,244	4,875
Police	490,866	506,316	490,102	16,214
Public Works				
Sidewalk repair	26,452	27,152	23,965	3,187
Department of Public works	18,450	30,450	27,059	3,391
Cultural and Recreation				
Parks and recreation	20,450	23,150	23,156	(6)
Community relations	56,000	56,000	50,839	5,161
Other activities	54,794	24,294	19,157	5,137
Insurance/retirement	256,762	275,762	266,260	9,502
Capital outlay	149,000	200,000	200,322	(322)
Total Expenditures	1,422,861	1,482,056	1,419,847	62,209
OTHER FINANCING SOURCES (USES):				
Transfer to other funds	(25,301)	(26,801)	(25,301)	(1,500)
NET CHANGE IN FUND BALANCE	(213,704)	(274,399)	(127,597)	22,383
FUND BALANCE - BEGINNING OF YEAR	1,012,052	1,012,052	1,012,052	-
FUND BALANCE - END OF YEAR	$ 798,348	$ 737,653	$ 884,455	$ 146,802

CITY OF ESSEXVILLE
Essexville, Michigan

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Public Act 51	$ 175,552	$ 175,552	$ 176,830	$ 1,278
Interest and Rentals	5,228	5,228	8,010	2,782
Total Revenues	180,780	180,780	184,840	4,060
EXPENDITURES:				
Storm drainage	18,144	18,144	15,427	2,717
Maintenance	29,936	29,936	25,711	4,225
Traffic services	12,209	12,209	10,519	(1,690)
Winter maintenance	33,192	33,192	22,284	(10,908)
Adminiatration	17,543	18,543	17,219	1,324
Capital outlay	120,000	220,000	134,905	85,095
Insurance/retirement	23,028	23,028	22,647	(381)
Total Expenditures	254,052	355,052	248,713	80,383
EXCESS REVENUES OVER EXPENDITURES	(73,272)	(174,272)	(63,873)	110,399
OTHER FINANCING SOURCES (USES)				
Transfer to other fund	(575)	(3,075)	(575)	2,500
Excess (deficiency) of revenues over expenditures and other uses	(73,847)	(177,347)	(64,448)	107,899
FUND BALANCE - BEGINNING OF YEAR	234,440	234,440	234,440	-
FUND BALANCE - END OF YEAR	$ 160,593	$ 57,093	$ 169,992	$ 107,899

CITY OF ESSEXVILLE
Essexville, Michigan

RUBBISH AND TRASH FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 62,690	$ 62,690	$ 62,854	$ 164
Charges for services	188,320	188,320	189,800	1,480
Interest	3,132	3,132	5,448	2,316
Other	100	100	-	(100)
Total Revenues	254,242	254,242	258,102	3,860
EXPENDITURES:				
Administrative	4,526	5,026	4,749	(277)
Rubbish collection	190,640	194,390	193,328	(1,062)
Brush and leaves	40,209	34,712	26,394	(8,318)
Capital Outlay	-	-	-	-
Insurance/retirement	24,842	25,592	25,285	(307)
Total Expenditures	260,217	259,720	249,756	(9,964)
EXCESS REVENUES OVER EXPENDITURES	(5,975)	(5,478)	8,345	13,823
OTHER FINANCING SOURCES (USES)				
Transfer to other funds	(429)	(123,579)	(122,341)	1,238
Excess (deficiency) of revenues over expenditures and other uses	(6,404)	(129,057)	(113,996)	15,061
FUND BALANCE - BEGINNING OF YEAR	160,152	160,152	160,152	-
FUND BALANCE - END OF YEAR	$ 153,748	$ 31,095	$ 46,156	$ 15,061

CITY OF ESSEXVILLE
Essexville, Michigan

BOND DEBT SERVICE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL
Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES:				
Taxes	$ 377,226	$ 377,226	$ 377,534	$ 308
Interest	588	238	2,345	2,107
Total Revenues	377,814	377,464	379,879	2,415
EXPENDITURES:				
Principal	175,000	175,000	175,000	-
Interest	201,226	201,226	198,994	(2,232)
Contractual	1,000	1,000	2,325	1,325
Total Expenditures	377,226	377,226	376,319	(907)
EXCESS REVENUES OVER EXPENDITURES	588	238	3,560	3,322
FUND BALANCE - BEGINNING OF YEAR	12,544	12,544	12,544	-
FUND BALANCE - END OF YEAR	$ 13,132	$ 12,782	$ 16,104	$ 3,322

OTHER SUPPORTING INFORMATION

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
June 30, 2006

	SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUND	
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street Repairs & Construction	TOTAL
ASSETS							
Cash	$ 66,552	$ 151,331	$ 6,037	$ 466	$ 224,387	$ 3,974	$ 228,361
Due from State	10,595	-	-	-	10,595	-	10,595
Prepaid Expenses	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-
Due from Dbt Fund	-	-	-	-	-	-	-
Total Assets	$ 77,148	$ 151,331	$ 6,037	$ 466	$ 234,982	$ 3,974	$ 238,956
LIABILITIES AND FUND BALANCE							
Due to General Fund	$ -	$ -	$ -	$ -	$ -	$ -	-
Accounts payable	1,205	7,651	-	-	8,856	-	8,856
Accrued payroll	284	224	-	390	898	-	$ 898
	1,489	7,875	-	390	9,754	-	9,754
Fund balance	75,659	143,456	6,037	76	225,228	3,974	229,202
	$ 77,148	$ 151,331	$ 6,037	$ 466	$ 234,982	$ 3,974	$ 238,956

CITY OF ESSEXVILLE
Essexville, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON MAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2006

	SPECIAL REVENUE FUNDS					CAPITAL PROJECTS FUND	
	Local Street Fund	D.D.A. Fund	Justice Training	Inspection	Total Special Revenue Funds	Street repairs & Construction	TOTAL
REVENUES:							
State Shared Revenue	$ 64,167	$ -	$ 3,347	$ -	$ 67,514	$ -	$ 67,514
Property Taxes	-	72,739	-	-	72,739	-	72,739
Permits	-	-	-	10,923	10,923	-	10,923
Interest	6,062	6,824	211	-	13,097	635	13,732
Other Revenues	-	400	-	-	400	-	400
	70,229	79,963	3,558	10,923	164,673	635	165,308
EXPENDITURES:							
Public Works	152,559	87,925	-	-	240,484	-	240,484
Insurance/Retirement	21,862	-	-	3,222	25,084	-	25,084
Other Activities	-	-	2,315	23,946	26,261	500	26,761
Capital Outlay	-	-	-	-	-	109,802	109,802
Total Expenditures	174,421	87,925	2,315	27,168	291,829	110,302	402,131
EXCESS OF REVENUES OVER EXPENDITURES	(104,192)	(7,962)	1,243	(16,245)	(127,156)	(109,667)	(236,823)
OTHER FINANCING SOURCES:							
Transfers from (to) other funds	(515)	-	-	15,691	15,176	-	15,176
NET CHANGES IN FUND BALANCE	(104,707)	(7,962)	1,243	(554)	(111,980)	(109,667)	(221,647)
FUND BALANCE - July 1, 2005	180,365	151,419	4,794	630	337,208	113,641	450,849
FUND BALANCE - June 30, 2006	$ 75,658	$ 143,457	$ 6,037	$ 76	$ 225,228	$ 3,974	$ 229,202

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended June 30, 2006

REVENUES:		
Advalorem taxes -		
Current taxes	$	761,623
Interest, penalties and fees		24,871
Total Advalorem Taxes		786,494
Licenses and Permits -		
Cable television		33,484
Cat/dog/liquor licenses		197
Miscellaneous		850
Total Licenses and Permits		34,531
State Revenues -		
Sales taxes		392,217
Total State Revenues		392,217
Charges for Services -		
Service fees		538
Total Charges for Services		538
Fines and Forfeits -		
Ordinance fines		3,296
Parking fines		1,045
Total Fines and Forfeits		4,341
Miscellaneous -		
Investment		50,284
Metro Act		22,906
Lease		12,703
Miscellaneous		13,538
Total Miscellaneous		99,430
Total Revenues	$	1,317,551

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2006

	ACTUAL
EXPENDITURES:	
Legislative -	
City Council	
Salaries	$ 6,000
FICA	459
Other expenses	9,779
Total City Council	16,238
General Government -	
Mayor	
Salaries	1,300
FICA	99
Other expenses	2,806
Total Mayor	4,205
City Manager	
Salaries	65,224
FICA	5,043
Other expenses	7,621
Total City Manager	77,887
Elections	
Salaries	857
Other expenses	2,535
Total Elections	3,392
Assessor	
Salaries	14,865
FICA	1,137
Other expenses	4,071
Total Assessor	20,073
City Attorney	
Supplies and Fees	23,919
City Clerk	
Salaries	45,794
FICA	3,572
Other expenses	14,467
Total City Clerk	63,833

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2006

		ACTUAL
EXPENDITURES:		
General Government (cont.)		
Accounting and Audit		
Audit	$	3,700
Total Accounting and Audit		3,700
Board of Review		
Salaries		750
FICA		57
Education and Training		-
Other expenses		-
Total Board of Review		807
Treasurer		
Salaries		28,509
FICA		2,209
Other expenses		6,724
Total Treasurer		37,441
City Hall		
Salaries		5,827
FICA		443
Other expenses		27,977
Total City Hall		34,247
Total General Government		269,505

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2006

		ACTUAL
EXPENDITURES:		
Public Safety -		
Fire Department		
Salaries	$	16,823
FICA		1,885
Other expenses		14,437
Equipment		99
Total Fire Department		33,244
Police Department		
Salaries		384,847
FICA		30,427
D.A.R.E. expenses		549
Other expenses		74,279
Total Police Department		490,102
Total Public Safety		523,346

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2006

	ACTUAL
EXPENDITURES:	
Public Works -	
Department of Public Works	
Salaries	$ -
FICA	-
Other expenses	7,088
Total Department of Public Works	7,088
Sidewalk Repair and Construction	
Salaries	9,144
FICA	742
Other expenses	14,079
Total Sidewalk Repair and Construction	23,965
Public Rights of Way	
Salaries	-
FICA	-
Other expenses	19,971
Total Public Rights of Way	19,971
Total Public Works	51,024

CITY OF ESSEXVILLE
Essexville, Michigan

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE (continued)
For the Year Ended June 30, 2006

		ACTUAL
EXPENDITURES:		
Culture and recreation -		
Parks and Recreation		
Salaries	$	6,303
FICA		516
Other expenses		16,337
Total Parks and Recreation		23,156
Community Relations		
Civic Betterment		5,392
Community Schools		2,500
Street Lights		42,947
Total Community Relations		50,839
Total culture and recreation		73,995
Other activities -		
Forestry		
Salaries		5,531
FICA		416
Other expenses		12,052
Total Forestry		17,999
Planning and Board of Appeals		
Salaries		-
FICA		-
Other expenses		1,158
Total Planning and Board of Appeals		1,158
Total Other Activities		19,157
Insurance/retirement		266,260
Capital projects		200,322
OTHER FINANCING SOURCES AND (USES):		
Transfer to other funds		(25,301)
TOTAL EXPENDITURES		1,445,148
EXCESS OF REVENUES OVER EXPENDITURES		(127,597)
FUND BALANCE - July 1, 2005		1,012,052
FUND BALANCE - June 30, 2006		884,455

Quast, Janke and Company, P.C.

Certified Public Accountants

1010 N. JOHNSON STREET
BAY CITY, MICHIGAN 48708
Phone: (517) 892-4549
Fax: (517) 892-4030

Timothy J. Quast, C.P.A.
Mark G. Janke, C.P.A.
Ned E. Kleinke, C.P.A.
David G. Gwizdala, C.P.A.

Members:
American Institute of C.P.A.'s
Michigan Association of C.P.A.'s

October 19th, 2006

Mr. Dale Majerczyk, City Manager
City of Essexville
1107 Woodside Avenue
Essexville, MI 48732

Dear Mr. Majerczyk,

In planning and performing our audit of the financial statements of the City of Essexville for the year ended June 30, 2006, we considered the internal control structure to determine our auditing procedures necessary to express an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter by nature is critical, that is, only deficiencies are noted, and it does not include our observations on the many strong features of the organization's internal control. This letter addresses those items that we are required to bring to your attention. Accordingly, this letter does not recite the significant changes that have been made to the accounting system in correcting prior deficiencies nor does it reflect on the many sound controls and level of proficiency and knowledge of the accounting system and its personnel.

In reviewing your budget for the year ended June 30th, 2006, we noticed an area of the budget not in compliance with Public Act 621 of 1978 (The Uniform Budget and Accounting Act). Section 18(3) of that Act prohibits the City from incurring expenditures in excess of the amount appropriated. The following variance was noted :

	Budgeted	Expended	Variance
Sewer Fund -			
Treatment Plant	309,403	349,986	40,583

We suggest that the budget be reviewed periodically so amendments can be made prior to the expenditure of any funds that exceed the budgeted amount. This letter has been prepared for your information and may be distributed at your discretion.

QUAST, JANKE AND COMPANY
Certified Public Accountants, P.C.