

# Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

**YES NO Check each applicable box below.** (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name)		Telephone Number
Street Address	City	State      Zip
Authorizing CPA Signature <i>Sharon L. Vargo</i>	Printed Name	License Number

# **City of Coloma, Michigan**

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**Financial Report  
with Supplemental Information  
March 31, 2007**

# City of Coloma, Michigan

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## Independent Auditor's Report

To the City Council  
City of Coloma, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Coloma, 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 the City of Coloma, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Coloma, Michigan as of March 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

*Plante & Moran, PLLC*

June 4, 2007

# City of Coloma, Michigan

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## Management's Discussion and Analysis

Our discussion and analysis of the City of Coloma, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2007:

- The City's Downtown Development Authority (DDA) completed the S. Paw Paw Street Project during fiscal 2007. The total amount of infrastructure cost capitalized from this project was approximately \$237,000.
- The City purchased a new F-450 salt truck for the public works department for approximately \$37,500, including attachments.
- There were approximately 125 new water hookups during fiscal 2006 related to the ongoing water project with Coloma Charter Township.
- The City's DDA was notified by the State of Michigan in 2006 that the amount of recaptured school taxes in previous years exceeded statutory limits. The DDA intends to repay the \$405,000 liability over several years, beginning in fiscal 2008.

### Using this Annual Report

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

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

# City of Coloma, Michigan

## Management's Discussion and Analysis (Continued)

### The City of Coloma as a Whole

The following table shows, in a condensed format, the current year net assets in comparison to prior year:

	Governmental Activities			Business-type Activities			Total Primary Government			Component Unit - Downtown Development Authority		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Assets</b>												
Current assets	\$ 581,939	\$ 421,720	\$ 350,949	\$ 130,385	\$ 165,279	\$ 169,277	\$ 712,324	\$ 586,999	\$ 520,226	\$ 222,327	\$ 524,081	\$ 478,952
Noncurrent assets	1,348,896	1,118,955	1,040,291	1,278,187	1,368,055	1,428,610	2,627,083	2,487,010	2,468,901	39,740	40,860	33,333
Total assets	1,930,835	1,540,675	1,391,240	1,408,572	1,533,334	1,597,887	3,339,407	3,074,009	2,989,127	262,067	564,941	512,285
<b>Liabilities</b>												
Current liabilities	57,187	75,115	51,075	31,092	24,843	20,131	88,279	99,958	71,206	185,613	312,930	229,776
Long-term liabilities	45,515	62,187	68,632	10,062	25,934	40,901	55,577	88,121	109,533	446,283	555,911	704,605
Total liabilities	102,702	137,302	119,707	41,154	50,777	61,032	143,856	188,079	180,739	631,896	868,841	934,381
<b>Net Assets (Deficit)</b>												
Invested in capital assets -												
Net of related debt	1,164,898	926,925	841,184	1,056,345	1,093,686	1,132,246	2,221,243	2,020,611	1,973,430	39,740	40,860	33,333
Restricted for streets	133,266	94,153	87,165	-	-	-	133,266	94,153	87,165	-	-	-
Unrestricted	529,969	382,295	343,184	311,073	388,871	404,609	841,042	771,166	747,793	(409,569)	(344,760)	(455,429)
Total net assets (deficit)	\$ 1,828,133	\$ 1,403,373	\$ 1,271,533	\$ 1,367,418	\$ 1,482,557	\$ 1,536,855	\$ 3,195,551	\$ 2,885,930	\$ 2,808,388	\$ (369,829)	\$ (303,900)	\$ (422,096)

The City's combined net assets increased 11 percent from a year ago, increasing from \$2,885,930 to \$3,195,551. As we look at the governmental activities separately from the business-type activities, we can see that governmental activity net assets increased 30 percent, from \$1,403,373 to \$1,828,133. Business-type activity net assets decreased 8 percent, from \$1,482,557 to \$1,367,418. The City's component unit, the Downtown Development Authority, experienced a decrease in net assets of \$65,929.

The current level of unrestricted net assets for our governmental activities stands at \$529,969, or about 67 percent of expenditures. This is within the targeted range set by the City during its last budget process.

# City of Coloma, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the current year changes in net assets compared to the prior year:

	Governmental Activities			Business-type Activities			Total Primary Government			Downtown Development Authority		
	2007	2006	2005	2007	2006	2005	2007	2006	2005	2007	2006	2005
<b>Revenue</b>												
Program revenue:												
Charges for services	\$ 170,522	\$ 93,034	\$ 122,987	\$ 367,409	\$ 362,895	\$ 334,385	\$ 537,931	\$ 455,929	\$ 457,372	\$ -	\$ 100	\$ -
Operating grants and contributions	126,329	127,645	127,350	-	-	-	126,329	127,645	127,350	-	-	-
Capital grants and contributions	237,288	90,150	425,000	-	-	-	237,288	90,150	425,000	-	24,900	-
General revenue:												
Property taxes	456,970	447,061	421,466	-	-	-	456,970	447,061	421,466	176,938	177,875	196,921
State-shared revenue	181,094	194,533	172,635	-	-	-	181,094	194,533	172,635	-	-	-
Unrestricted investment earnings	20,825	17,145	5,785	2,102	-	4,189	22,927	17,145	9,974	12,062	6,022	1,997
Miscellaneous	20,090	18,330	24,380	-	-	-	20,090	18,330	24,380	6,009	-	75
Special item - Loss on sale of capital assets	-	(17,714)	-	-	-	-	-	(17,714)	-	-	(2,963)	-
<b>Total revenue</b>	<b>1,213,118</b>	<b>970,184</b>	<b>1,299,603</b>	<b>369,511</b>	<b>362,895</b>	<b>338,574</b>	<b>1,582,629</b>	<b>1,333,079</b>	<b>1,638,177</b>	<b>195,009</b>	<b>205,934</b>	<b>198,993</b>
<b>Program Expenses</b>												
General government	164,510	161,924	164,100	-	-	-	164,510	161,924	164,100	-	-	-
Public safety	219,758	214,149	236,274	-	-	-	219,758	214,149	236,274	-	-	-
Public works	305,651	352,862	256,972	-	-	-	305,651	352,862	256,972	-	-	-
Recreation and culture	24,136	45,240	19,097	-	-	-	24,136	45,240	19,097	-	-	-
Cemetery	74,303	63,089	84,751	-	-	-	74,303	63,089	84,751	-	-	-
Interest on long-term debt	-	1,080	1,685	-	-	-	-	1,080	1,685	-	-	-
Water and sewer	-	-	-	484,650	417,193	283,728	484,650	417,193	283,728	-	-	-
Downtown Development Authority	-	-	-	-	-	-	-	-	-	260,938	87,738	94,916
<b>Total program expenses</b>	<b>788,358</b>	<b>838,344</b>	<b>762,879</b>	<b>484,650</b>	<b>417,193</b>	<b>283,728</b>	<b>1,273,008</b>	<b>1,255,537</b>	<b>1,046,607</b>	<b>260,938</b>	<b>87,738</b>	<b>94,916</b>
<b>Change in Net Assets</b>	<b>\$ 424,760</b>	<b>\$ 131,840</b>	<b>\$ 536,724</b>	<b>\$ (115,139)</b>	<b>\$ (54,298)</b>	<b>\$ 54,846</b>	<b>\$ 309,621</b>	<b>\$ 77,542</b>	<b>\$ 591,570</b>	<b>\$ (65,929)</b>	<b>\$ 118,196</b>	<b>\$ 104,077</b>

# **City of Coloma, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues increased by approximately \$243,000. The increase was due primarily to a one-time capital grant of \$237,000 received in fiscal 2007.

Expenses decreased by about \$50,000 during the year. The most significant decrease related to the public works department. The City decreased its contribution to the Coloma Watervliet Area Economic Development Corporation by approximately \$19,000.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. During the year ended March 31, 2007, the City's business-type activities experienced a loss. This is despite the fact that the City added approximately 75 new customers from the ongoing water project with Coloma Charter Township, which brought in an additional \$15,000 in Township water sales.

Unfortunately, increases in salary, fringe benefit, and equipment rental costs outweighed the higher revenues. Total water expenses continued to increase from \$175,680 in 2006 to \$205,737 in 2007. Sewer expenses also increased from \$172,916 in 2006 to \$180,532 in 2007. The City Commission will review utility rates in early fiscal 2008. Rates have not been adjusted since fiscal 2002.

### **Governmental Fund Budgetary Highlights**

The City did not make amendments to the budget during fiscal 2007. Budget overruns included the following:

- The public works department was overbudget by approximately \$19,000. This overrun occurred in part due to \$13,317 of capital purchases that were not budgeted.
- In addition, the building and grounds department was overbudget by approximately \$19,000. This overrun occurred in part due to \$16,730 of capital purchases that were not budgeted.
- The Major Streets Fund - The traffic services department had a budget overrun of approximately \$12,000. This related to \$12,500 of unbudgeted contracted services.

# **City of Coloma, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **Capital Asset and Debt Administration**

During the fiscal year ended March 31, 2007, the City's DDA invested approximately \$237,000 in the S. Paw Paw Street project. The City purchased a new salt-truck, new pumps, and a new furnace for the public works department totaling \$50,984.

The City's DDA was notified by the State of Michigan that the amount of recaptured school taxes in previous years exceeded statutory limits. The DDA intends to repay the \$405,000 liability over several years, beginning in fiscal 2008. The DDA reduced its bond debts by \$73,000 during the fiscal year.

The City paid off the principal balance of the governmental activities debt in 2007. The City reduced the business-type activities debt by \$15,337 to a remaining balance of only \$25,934 during 2007.

### **Economic Factors and Next Year's Budgets and Rates**

The future of state revenue sharing remains uncertain and it represents a significant portion of the City's revenue. Taxable values will change very little in the near future, so it is important that the City continue to control costs and also continue cooperative efforts with other municipalities for police, fire, and public works.

The Leonard Fund transferred approximately \$56,000 to the Major Street Fund in 2006, in addition to the \$93,000 transferred in 2005, to cover the City's share of the MDOT project to rebuild St. Joseph Street. The City's General Fund anticipates reimbursing the Leonard Fund over the next two years.

The City sells water services to Coloma Charter Township. The State of Michigan is funding the expansion due to Dachtal contamination of wells in Coloma Charter Township. The net impact is expected to be positive for the City. However, the City's Enterprise Fund is currently in a loss position and the Commission will look into possibilities for raising additional revenues and controlling costs over the next year.

The City plans to continue building the fund balances in the General and Local Street Funds in order to fund the upcoming Coloma Heights neighborhood project.

### **Contacting the City's Management**

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

# City of Coloma, Michigan

## Statement of Net Assets (Deficit) March 31, 2007

	Primary Government			Component Unit - Downtown Development Authority
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 532,627	\$ 55,377	\$ 588,004	\$ 195,788
Receivables:				
Property taxes receivable	33,440	-	33,440	-
Receivables from sales to customers on account	-	64,511	64,511	-
Due from primary government	-	-	-	26,539
Inventory	15,872	8,839	24,711	-
Prepaid expenses and other assets	-	1,658	1,658	-
Investment in joint ventures	183,998	195,908	379,906	-
Capital assets:				
Assets not subject to depreciation	62,000	19,888	81,888	24,900
Assets subject to depreciation	1,102,898	1,062,391	2,165,289	14,840
Total assets	1,930,835	1,408,572	3,339,407	262,067
<b>Liabilities</b>				
Accounts payable	5,219	12,225	17,444	-
Due to component units	26,539	-	26,539	-
Accrued liabilities and other	8,757	2,995	11,752	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences	5,000	-	5,000	-
Current portion of long-term debt	-	15,872	15,872	185,613
Due in more than one year:				
Compensated absences	57,187	-	57,187	-
Long-term debt - Net of current portion	-	10,062	10,062	446,283
Total liabilities	102,702	41,154	143,856	631,896
<b>Net Assets (Deficit)</b>				
Invested in capital assets - Net of related debt	1,164,898	1,056,345	2,221,243	39,740
Restricted for streets	133,266	-	133,266	-
Unrestricted	529,969	311,073	841,042	(409,569)
Total net assets (deficit)	\$ 1,828,133	\$ 1,367,418	\$ 3,195,551	\$ (369,829)

# City of Coloma, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 164,510	\$ 97,733	\$ -	\$ -
Public safety	219,758	14,937	-	-
Public works	305,651	-	126,329	237,288
Cemetery	74,303	57,852	-	-
Recreation and culture	24,136	-	-	-
Total governmental activities	788,358	170,522	126,329	237,288
Business-type activities - Water and Sewer	484,650	367,409	-	-
Total business-type activities	484,650	367,409	-	-
Total primary government	<b>\$ 1,273,008</b>	<b>\$ 537,931</b>	<b>\$ 126,329</b>	<b>\$ 237,288</b>
Component unit	<b>\$ 260,938</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
General revenues:				
Property taxes				
State-shared revenue				
Unrestricted investment income				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets (Deficit) - Beginning of year</b>				
<b>Net Assets (Deficit) - End of year</b>				

**Statement of Activities**  
**Year Ended March 31, 2007**

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (66,777)	\$ -	\$ (66,777)	\$ -
(204,821)	-	(204,821)	-
57,966	-	57,966	-
(16,451)	-	(16,451)	-
(24,136)	-	(24,136)	-
(254,219)	-	(254,219)	-
-	(117,241)	(117,241)	-
-	(117,241)	(117,241)	-
(254,219)	(117,241)	(371,460)	-
-	-	-	(260,938)
456,970	-	456,970	176,938
181,094	-	181,094	-
20,825	2,102	22,927	12,062
20,090	-	20,090	6,009
678,979	2,102	681,081	195,009
424,760	(115,139)	309,621	(65,929)
1,403,373	1,482,557	2,885,930	(303,900)
<b>\$ 1,828,133</b>	<b>\$ 1,367,418</b>	<b>\$ 3,195,551</b>	<b>\$ (369,829)</b>

# City of Coloma, Michigan

## Governmental Funds Balance Sheet March 31, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Leonard Fund	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 196,825	\$ 85,199	\$ 51,221	\$ 199,382	\$ 532,627
Taxes receivable	33,440	-	-	-	33,440
<b>Total assets</b>	<b>\$ 230,265</b>	<b>\$ 85,199</b>	<b>\$ 51,221</b>	<b>\$ 199,382</b>	<b>\$ 566,067</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 2,261	\$ 1,479	\$ 1,479	\$ -	\$ 5,219
Due to component units	26,539	-	-	-	26,539
Accrued liabilities and other	8,561	147	49	-	8,757
<b>Total liabilities</b>	37,361	1,626	1,528	-	40,515
<b>Fund Balances</b>					
Unreserved, reported in:					
General Fund -					
Undesignated	192,904	-	-	-	192,904
Special Revenue Funds:					
Designated for projects					
funded by private					
contribution	-	-	-	199,382	199,382
Undesignated	-	83,573	49,693	-	133,266
<b>Total fund</b>					
<b>balances</b>	192,904	83,573	49,693	199,382	525,552
<b>Total liabilities and</b>					
<b>fund balances</b>	<b>\$ 230,265</b>	<b>\$ 85,199</b>	<b>\$ 51,221</b>	<b>\$ 199,382</b>	<b>\$ 566,067</b>

# City of Coloma, Michigan

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## Governmental Funds

### Reconciliation of the Balance Sheet to the Statement of Net Assets

### Year Ended March 31, 2007

<b>Fund Balance Reported in Governmental Funds</b>	\$ 525,552
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	1,164,898
Investments in joint ventures are not financial resources and are not reported in the funds	183,998
Assets expected to be used over several years are recorded as inventory in the statement of net assets, but are expensed in the funds	15,872
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	<u>(62,187)</u>
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 1,828,133</u></u></b>

# City of Coloma, Michigan

## Governmental Funds

### Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended March 31, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Leonard Fund	Total
<b>Revenue</b>					
Property taxes	\$ 456,970	\$ -	\$ -	\$ -	\$ 456,970
Licenses and permits	25,365	-	-	-	25,365
State-shared revenue and grants	181,094	94,647	31,682	-	307,423
Other fines and forfeitures	7,459	-	-	-	7,459
Investment income	14,065	2,143	1,403	3,214	20,825
Rental income	68,907	-	-	-	68,907
Other revenue	86,881	18,339	-	2,000	107,220
Total revenue	840,741	115,129	33,085	5,214	994,169
<b>Expenditures</b>					
General government	176,612	-	-	-	176,612
Public safety	227,790	-	-	-	227,790
Public works	191,866	81,745	27,356	-	300,967
Cemetery	66,648	-	-	-	66,648
Recreation and culture	22,020	-	-	6	22,026
Total expenditures	684,936	81,745	27,356	6	794,043
<b>Excess of Revenue Over Expenditures</b>	155,805	33,384	5,729	5,208	200,126
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	50,000	50,000
Transfers out	(50,000)	-	-	-	(50,000)
Total other financing sources (uses)	(50,000)	-	-	50,000	-
<b>Net Change in Fund Balances</b>	105,805	33,384	5,729	55,208	200,126
<b>Fund Balances - Beginning of year</b>	87,099	50,189	43,964	144,174	325,426
<b>Fund Balances - End of year</b>	<u>\$ 192,904</u>	<u>\$ 83,573</u>	<u>\$ 49,693</u>	<u>\$ 199,382</u>	<u>\$ 525,552</u>

# City of Coloma, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended March 31, 2007**

**Net Change in Fund Balances - Total Governmental Funds** **\$ 200,126**

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	62,095
Depreciation expense	(69,442)
Contribution of infrastructure	237,288

Repayment of debt principal is an expenditure in the governmental funds and component unit, but not in the statement of activities (where it reduces long-term debt) 8,032

Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities does not require the use of current resources, and therefore is not reported in the fund statements until these amounts come due for payment 5,000

Governmental funds report inventories as expenditures when purchased; in the statement of activities, these costs are recorded as inventory and expensed as the asset is used (18,339)

**Change in Net Assets of Governmental Activities** **\$ 424,760**

# City of Coloma, Michigan

## Proprietary Fund Statement of Net Assets March 31, 2007

	<u>Enterprise Fund - Water and Sewer</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 55,377
Customer receivables	64,511
Inventory	8,839
Prepaid expenses and other assets	<u>1,658</u>
Total current assets	130,385
Noncurrent assets:	
Investment in joint ventures	195,908
Capital assets	<u>1,082,279</u>
Total noncurrent assets	<u>1,278,187</u>
Total assets	1,408,572
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	12,225
Accrued liabilities and other	2,995
Current portion of long-term debt	<u>15,872</u>
Total current liabilities	31,092
Noncurrent liabilities - Long-term debt - Net of current portion	<u>10,062</u>
Total liabilities	<u>41,154</u>
<b>Net Assets</b>	
Invested in capital assets - Net of related debt	1,056,345
Unrestricted	<u>311,073</u>
Total net assets	<u><b>\$ 1,367,418</b></u>

# City of Coloma, Michigan

## Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended March 31, 2007

	Enterprise Fund - Water and Sewer
<b>Operating Revenue</b>	
Sale of water	\$ 140,846
Sewage disposal charges	219,423
Other charges for services	7,140
Total operating revenue	<u>367,409</u>
<b>Operating Expenses</b>	
Cost of water	205,737
Cost of sewage treatment	180,532
Depreciation	59,904
Total operating expenses	<u>446,173</u>
<b>Operating Loss</b>	(78,764)
<b>Nonoperating Revenue (Expenses)</b>	
Investment income	2,102
Interest expense	(1,287)
Decreases in investment in joint venture	(37,190)
<b>Change in Net Assets</b>	<u>(115,139)</u>
<b>Net Assets - Beginning of year</b>	<u>1,482,557</u>
<b>Net Assets - End of year</b>	<u><u>\$ 1,367,418</u></u>

# City of Coloma, Michigan

## Proprietary Fund Statement of Cash Flows Year Ended March 31, 2007

	Enterprise Fund - Water and Sewer
<b>Cash Flow from Operating Activities</b>	
Receipts from customers	\$ 385,253
Payments to suppliers	(224,912)
Payments to employees	(155,643)
	<u>4,698</u>
Net cash provided by operating activities	4,698
<b>Cash Flows from Capital and Related Financing Activities</b>	
Purchase of capital assets	(7,226)
Principal and interest paid on capital debt	(16,624)
	<u>(23,850)</u>
Net cash used in capital and related financing activities	(23,850)
<b>Cash Flows from Investment Activities</b> - Interest received on investments	<u>2,102</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(17,050)
<b>Cash and Cash Equivalents</b> - Beginning of year	<u>72,427</u>
<b>Cash and Cash Equivalents</b> - End of year	<u><u>\$ 55,377</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (78,764)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	59,904
Changes in assets and liabilities:	
Receivables	17,844
Accounts payable	5,755
Accrued and other liabilities	(41)
	<u>4,698</u>
Net cash provided by operating activities	<u><u>\$ 4,698</u></u>

**Noncash Investing, Capital, and Financing Activities** - During the year ended March 31, 2007, there were no noncash investing, capital, and financing activities.

### **Note I - Nature of Business and Significant Accounting Policies**

The accounting policies of the City of Coloma, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Coloma, Michigan:

#### **Reporting Entity**

The City of Coloma, Michigan is governed by an elected six-member commission. The accompanying financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

**Discretely Presented Component Unit** - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to encourage growth within the downtown district. The DDA's governing body, which consists of nine individuals, is selected by the City Commission. In addition, the DDA's budget is subject to approval by the City Commission.

On July 26, 1999, the City created a Brownfield Redevelopment Authority to revitalize selected environmentally distressed areas within the City limits. This authority had no assets as of March 31, 2007 and no activity for the period then ended.

**Jointly Governed Organizations** - The City, along with Coloma Charter Township and Hagar Township, is a member of the Coloma - Hagar Joint Fire Board (the "Fire Board"). The Fire Board is governed by an administrative board of six members, appointed by the City and the townships. The City's equity interest in the Fire Board of \$175,215 is recorded in governmental activities in the government-wide financial statements. Complete financial statements for the Fire Board can be obtained from the City of Coloma mayor's office.

The City is a participant with Coloma Charter Township in a joint venture to provide for the administration and operations of the cemetery. Upon dissolution of the cemetery board, the net assets will be shared on a pro rata basis as follows: 40 percent to City of Coloma and 60 percent to Coloma Charter Township. The cemetery board is governed by an administrative board of five members consisting of two members from the City of Coloma and three from Coloma Charter Township. The City's share of fixed assets and the equity interest of \$8,783 are recorded in governmental activities on the government-wide financial statements. Complete financial statements for the cemetery board can be obtained from the City of Coloma mayor's office.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The City is also a participant with Coloma Charter Township, Watervliet Township, and the City of Watervliet in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of these communities. The Paw Paw Lake Regional Joint Sewage Disposal Board was created for this purpose. Upon dissolution of the board, the net assets of the Paw Paw Lake Regional Joint Sewage Disposal Board will be shared equally among the four municipalities. The City's equity interest is recorded in business-type activities on the government-wide financial statements and on the proprietary fund statement of net assets in the fund statements. Complete financial statements for the board can be obtained from the City of Coloma mayor's office.

The City does not anticipate any additional financial benefits or burdens related to its investments in these entities.

#### **Government-wide and Fund Financial Statements**

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

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

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

**Leonard Fund** - The Leonard Fund accounts for funds provided by a private donor and designated by the City Commission for future projects.

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

The City reports the following major proprietary fund:

**Water and Sewer Fund** - The Water and Sewer Fund accounts for the activities of the water distribution and sanitary sewer systems.

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

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

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2006 tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended March 31, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

### **Note I - Nature of Business and Significant Accounting Policies (Continued)**

The 2006 taxable valuation of the City totaled \$33.4 million (a portion of which is captured by the DDA), on which taxes levied consisted of 16.6147 mills for operating purposes. This resulted in approximately \$545,000 for operating purposes, of which approximately \$458,000 is recognized in the General Fund and approximately \$87,000 is recognized by the component unit. The additional property tax revenue amounts recognized in the component unit relate to amounts collected from other governmental units.

#### **Assets, Liabilities, and Net Assets or Equity**

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

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Land improvements	15 to 25 years
Infrastructure	20 years
Buildings and building improvements	25 to 50 years
Equipment	5 to 15 years
Vehicles	3 to 12 years
Cemetery equipment	5 to 40 years
Utility system	10 to 40 years

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

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

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

### Note 2 - Stewardship, Compliance, and Accountability

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

Shortfall at April 1, 2006	\$ (19,840)
Current year construction permit revenue	14,937
Related expenses - Direct costs	<u>(15,057)</u>
Cumulative shortfall at March 31, 2007	<u>\$ (19,960)</u>

**Unbudgeted Fund** - The City Commission did not approve a budget for the Leonard Fund, a special revenue fund, for the year ended March 31, 2007.

**Net Assets Deficit** - The City's component unit shows a net asset deficit at the government-wide level at March 31, 2007. However, on the modified accrual basis, the component unit would not have a deficit fund balance. The deficit net asset position is due to the requirement under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to record the component unit's long-term debt at the government-wide level. This long-term debt has no corresponding asset to offset the negative impact to net assets. Therefore, the component unit is not required to file a deficit recovery plan with the State of Michigan.

### Note 3 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments accordance with statutory authority as listed above. The City's deposit and investment policies are in accordance with statutory authority.

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2007

### Note 3 - Deposits (Continued)

The City's cash and equivalents are subject to risk, which is examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$613,540 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Capital Assets

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

	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 62,000	\$ -	\$ -	\$ 62,000
Capital assets being depreciated:				
Land improvements	51,983	18,338	-	70,321
Infrastructure	602,908	237,288	-	602,908
Buildings	159,079	6,089	-	165,168
Equipment	151,938	-	-	151,938
Vehicles	225,344	37,668	(500)	262,512
Cemetery equipment	77,818	-	-	77,818
Subtotal	1,269,070	299,383	(500)	1,330,665
Accumulated depreciation:				
Land improvements	18,816	3,013	-	21,829
Infrastructure	-	30,145	-	30,145
Buildings	82,034	4,350	-	86,384
Equipment	129,000	5,321	-	134,321
Vehicles	140,887	18,958	(500)	159,345
Cemetery equipment	25,376	7,655	-	33,031
Subtotal	396,113	69,442	(500)	465,055
Net capital assets being depreciated	872,957	229,941	-	1,102,898
Net capital assets	\$ 934,957	\$ 229,941	\$ -	\$ 1,164,898

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2007

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance April 1, 2006	Additions	Balance March 31, 2007
Capital assets not being depreciated - Sites and easements	\$ 19,888	\$ -	\$ 19,888
Capital assets being depreciated:			
Utility system	1,212,547	-	1,212,547
Buildings and improvements	990,477	-	990,477
Equipment	176,522	7,226	183,748
Vehicles	8,000	-	8,000
Subtotal	2,387,546	7,226	2,394,772
Accumulated depreciation:			
Utility system	592,919	24,200	617,119
Buildings and improvements	599,265	22,497	621,762
Equipment	72,293	13,207	85,500
Vehicles	8,000	-	8,000
Subtotal	1,272,477	59,904	1,332,381
Net capital assets being depreciated	1,115,069	(52,678)	1,062,391
Net capital assets	<u>\$ 1,134,957</u>	<u>\$ (52,678)</u>	<u>\$ 1,082,279</u>

Capital asset activity for the March 31, 2007's component unit for the year was as follows:

<b>Component Unit Activities</b>	Balance April 1, 2006	Additions	Balance March 31, 2007
Capital assets not being depreciated - Land	\$ 24,900	\$ -	\$ 24,900
Capital assets being depreciated:			
Land improvements	16,800	-	16,800
Vehicles	19,583	-	19,583
Subtotal	36,383	-	36,383
Accumulated depreciation	20,423	1,120	21,543
Net capital assets being depreciated	15,960	(1,120)	14,840
Net capital assets	<u>\$ 40,860</u>	<u>\$ (1,120)</u>	<u>\$ 39,740</u>

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2007

### Note 4 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	6,236
Public works		53,442
Recreation and culture		2,109
Cemetery		7,655

Total governmental activities \$ 69,442

Business-type activities - Water \$ 59,904

### Note 5 - Interfund Activity

The City's primary government's General Fund has a payable recorded to the City's component unit, the Downtown Development Authority, in the amount of \$26,539. This balance resulted from a time lag between when the accounting system recorded the transaction and when the payment of funds actually occurred.

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

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Leonard Fund	\$ 50,000

The transfer from the General Fund to the Leonard Fund was to repay the Leonard Fund for the funding of a street project, which occurred several years ago.

### Note 6 - Long-term Debt

The City of Coloma (and its component unit) issue bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the City.

# City of Coloma, Michigan

## Notes to Financial Statements March 31, 2007

### Note 6 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>						
Installment purchase agreement: Amount of issue - \$47,000 Maturing through 2007	4.39%	\$ 8,032	\$ -	\$ (8,032)	\$ -	\$ -
Accrued compensated absences	-	\$ 67,187	\$ 30,000	\$ (35,000)	\$ 62,187	\$ 5,000
<b>Business-type Activities</b>						
Installment purchase agreement: Amount of issue - \$77155 Maturing through 2009	3.39%	\$ 41,271	\$ -	\$ (15,337)	\$ 25,934	\$ 15,872
<b>Component Unit Activities</b>						
1994 Series Downtown Development Bonds: Amount of issue - \$500,000 Maturing through 2009	5.90%	\$ 149,888	\$ -	\$ (43,014)	\$ 106,874	\$ 45,613
1995 Downtown Development Bonds: Amount of issue - \$400,000 Maturing through 2011	7.00%	150,000	-	(30,000)	120,000	30,000
Tax repayments to State of Michigan: Amount of issue - \$467,003 Maturing through 2012	0.00%	405,022	-	-	405,022	110,000
Total component unit		\$ 704,910	\$ -	\$ (73,014)	\$ 631,896	\$ 185,613

Annual debt service requirements to maturity for the above bonds and installment purchase obligations are as follows:

	Business-type Activities			Component Unit Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 15,872	\$ 753	\$ 16,625	\$ 185,613	\$ 12,205	\$ 197,818
2009	10,062	169	10,231	152,171	7,303	159,474
2010	-	-	-	116,602	1,176	117,778
2011	-	-	-	103,756	525	104,281
2012	-	-	-	73,754	-	73,754
Total	\$ 25,934	\$ 922	\$ 26,856	\$ 631,896	\$ 21,209	\$ 653,105

### **Note 7 - Risk Management**

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

## **Required Supplemental Information**

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# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended March 31, 2007

	Original and Final Budget	Actual	Variance
<b>Revenue</b>			
Property taxes	\$ 425,000	\$ 456,970	\$ 31,970
Licenses and permits	21,050	25,365	4,315
State-shared revenue and grants	184,292	181,094	(3,198)
Other fines and forfeitures	6,000	7,459	1,459
Investment income	5,000	14,065	9,065
Rental income	77,550	68,907	(8,643)
Other revenue	71,550	86,881	15,331
Total revenue	790,442	840,741	50,299
<b>Expenditures</b>			
General government:			
Legislative	68,069	66,928	1,141
Treasurer	17,780	14,147	3,633
Assessing	10,450	10,062	388
Board of Review	1,177	854	323
Clerk	54,865	51,765	3,100
Elections	4,875	3,936	939
Buildings and grounds	10,200	28,920	(18,720)
Public safety:			
Police	184,075	157,367	26,708
Fire	43,000	47,866	(4,866)
Ambulance	7,500	7,500	-
Inspections	12,350	15,057	(2,707)
Public works	172,775	191,866	(19,091)
Cemetery	73,572	66,648	6,924
Recreation and culture:			
Parks and recreation	10,950	9,012	1,938
Public relations	12,050	13,008	(958)
Total expenditures	683,688	684,936	(1,248)
<b>Excess of Revenue Over Expenditures</b>	106,754	155,805	49,051
<b>Other Financing Uses</b> - Transfers out	(70,000)	(50,000)	20,000
<b>Net Change in Fund Balance</b>	36,754	105,805	69,051
<b>Fund Balance</b> - Beginning of year	87,099	87,099	-
<b>Fund Balance</b> - End of year	\$ 123,853	\$ 192,904	\$ 69,051

# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended March 31, 2007

	Original and Final Budget	Actual	Variance
<b>Revenue</b>			
State-shared revenue and grants	\$ 91,000	\$ 94,647	\$ 3,647
Investment income	-	2,143	2,143
Other revenue	-	18,339	18,339
Total revenue	91,000	115,129	24,129
<b>Expenditures</b>			
Public works:			
Street construction	24,062	4,445	19,617
Routine maintenance	35,256	27,056	8,200
Winter maintenance	13,920	6,211	7,709
Traffic services	6,149	17,992	(11,843)
Sweeping	12,379	6,721	5,658
Ditches and drains	2,467	2,918	(451)
Trees and shrubs	18,026	16,402	1,624
Total expenditures	112,259	81,745	30,514
<b>Excess of Revenue Over (Under) Expenditures</b>	(21,259)	33,384	54,643
<b>Other Financing Sources</b> - Transfers in	25,000	-	(25,000)
<b>Net Change in Fund Balance</b>	3,741	33,384	29,643
<b>Fund Balance</b> - Beginning of year	50,189	50,189	-
<b>Fund Balance</b> - End of year	<u>\$ 53,930</u>	<u>\$ 83,573</u>	<u>\$ 29,643</u>

# City of Coloma, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended March 31, 2007

	Original and Final Budget	Actual	Variance
<b>Revenue</b>			
State-shared revenue and grants	\$ 32,000	\$ 31,682	\$ (318)
Investment income	-	1,403	1,403
Total revenue	32,000	33,085	1,085
<b>Expenditures - Public works:</b>			
Street construction	16,500	1,479	15,021
Routine maintenance	14,546	8,943	5,603
Winter maintenance	6,717	8,611	(1,894)
Traffic services	894	2,490	(1,596)
Sweeping	1,796	277	1,519
Ditches and drains	1,773	512	1,261
Trees and shrubs	13,981	5,044	8,937
Total expenditures	56,207	27,356	28,851
<b>Excess of Revenue Over (Under) Expenditures</b>	(24,207)	5,729	29,936
<b>Other Financing Sources - Transfers in</b>	25,000	-	(25,000)
<b>Net Change in Fund Balance</b>	793	5,729	4,936
<b>Fund Balance - Beginning of year</b>	43,964	43,964	-
<b>Fund Balance - End of year</b>	<u>\$ 44,757</u>	<u>\$ 49,693</u>	<u>\$ 4,936</u>

# City of Coloma, Michigan

## Note to Required Supplemental Information Year Ended March 31, 2007

### Note - Budgetary Information

**Budgetary Information** - The budgets are prepared by the mayor and adopted by the City Commission prior to the start of the fiscal year. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except for the Leonard Fund. The budgets were not amended during the fiscal year ended March 31, 2007. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Coloma, Michigan incurred expenditures that were significantly in excess of the amounts budgeted, as follows:

	Budget	Actual
<b>General Fund</b>		
Building and grounds	\$ 10,200	\$ 28,920
Public works	172,775	191,866
<b>Major Streets Fund</b> - Traffic services	6,149	17,992

June 4, 2007

To the City Commission  
City of Coloma, Michigan  
119 N. Paw Paw Street  
Coloma, Michigan 49038

Dear Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the City of Coloma as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### **Segregation of Duties**

The City lacks segregation of duties in the area of tax collections and disbursements. The same individual receives tax collections, has access to blank checks, is authorized to sign checks, and prepares the general ledger entries for posting by the deputy clerk. Implementing a process to independently review monthly bank statements would add one additional level of control in this area. Additionally, a different member of the Commission or finance committee could review cancelled checks periodically. This would add some segregation without adding a heavy burden to management or requiring additional spending.

### **Compensatory Time Tracking**

The City awards compensatory time (“comp time”) to certain employees for unpaid overtime. These hours are paid to the employee upon request at one and one-half times the employee’s current pay rate, regardless of when the hours were earned. However, the City currently has no system in place to track this liability and additional amounts earned and used throughout the year. Therefore, the City is subject to the accuracy of the employee’s recordkeeping of his or her own comp time. It is our understanding that City’s personnel has implemented a system to independently track these hours going forward, which requires the employee to sign off on the comp time along with the weekly timesheet. This control will be very important in the case of any future legal action against the City by a current or former employee. The City will be able to produce independent records of the comp time balances, including the employee’s own signature. This should help to limit the City’s possible liability if this situation were to occur.

### **Significant Audit Entries**

A significant adjustment was identified by Plante & Moran, PLLC during the audit as follows: the amount due from Coloma Charter Township recorded at March 31, 2006 was not reversed on the City general ledger during fiscal 2007, although payment was collected in full.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control. We believe that the following deficiencies constitute material weaknesses:

### **Material Audit Entries**

Material adjustments were identified by Plante & Moran, PLLC during the audit as follows: the investment in the Paw Paw Lake Joint Wastewater Treatment Plant joint venture was not adjusted for current year activity and the amount receivable from the County for taxes at year end was not recorded.

### **Other Matters**

We offer the following recommendations, which we do not believe to be significant deficiencies.

The City’s management has done a lot to cut costs without cutting services over the past several years. While it continues to be necessary to reduce expenditures wherever possible, it is also probable that the City will need to increase revenue, as well. The Water and Sewer Fund is one area in which the City Commission will need to look for some additional revenue.

The water and sewer rates have not been increased since 2002. The City Commission has discussed the possibility of raising rates to ensure that the current revenues will cover not only operations, but also necessary future capital improvements and repairs. We recommend that the City perform a water and sewer rate study to assist the Commission in setting these new rates.

The fiscal year ended with a loss of approximately \$80,000 in the Water and Sewer Fund. While the fund balance ended at approximately \$1.4 million at year end, the City Commission knows well that any major capital project required in the future could use up much of that balance. We commend the Commission members on their forward thinking and desire to provide for the needs of the City residents for future years.

We would like to compliment the City staff and management on their preparation for this year's audit. We appreciate the courtesy and cooperation extended to us by you and members of your City during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

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

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in cursive script that reads "Sharon L. Vargo".

Sharon L. Vargo, CPA