

# 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 checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name <b>CITY OF NEW BUFFALO</b>	County <b>BERRIEN</b>
Fiscal Year End <b>6/30/07</b>	Opinion Date <b>10/9/07</b>	Date Audit Report Submitted to State October 29, 2007	

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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has adopted a budget for all required funds.   |
| 5.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | A public hearing on the budget was held in accordance with State statute.   |
| 6.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 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.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9.  | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 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. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The local unit is free of repeated comments from previous years.  |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The audit opinion is UNQUALIFIED.   |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 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. | <input checked="" type="checkbox"/> | <input type="checkbox"/>            | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. | <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 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 checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) Yeo & Yeo, PC, CPA's		Telephone Number 269-329-7007
Street Address 710 E. Milham	City Kalamazoo	State MI
		Zip 49002
Authorizing CPA Signature 	Printed Name Carol A. Light	License Number 1101020083

**City of New Buffalo  
New Buffalo, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**June 30, 2007**

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**City of New Buffalo**  
**List of Elected and Appointed Officials**  
**June 30, 2007**

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City Council

Robert Westergren	Mayor
William Geisler	Major Pro-Tem
James Oselka	Councilman
Gary Ramberg	Councilman
Jack Kennedy	Councilman

Other Officers and Officials

Tom Johnson	City Manager
Joan Weishaupt-Jones	City Clerk
Sue Rogers	City Treasurer

## **Independent Auditors' Report**

Members of the City Council  
City of New Buffalo  
New Buffalo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Buffalo as of and for the year ended June 30, 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'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, each major fund, and the aggregate remaining fund information of City of New Buffalo as of June 30, 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 managements' discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Yeo & Yeo, P.C.*

October 9, 2007  
Portage, Michigan

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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The management of the City of New Buffalo, Michigan ("the City") provides this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the City's financial activity. The City encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

**HIGHLIGHTS**

**Government-wide:**

The assets of the City exceeded its liabilities at the close of the fiscal year by \$8.4 million (reported as net assets), an increase of \$256,200 from the previous year.

**Fund Level:**

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$1,415,260. Of this, \$1,287,476 is reported as unreserved fund balance. The remaining fund balance is reserved for debt service (\$127,784). At the end of the fiscal year, unreserved fund balance for the General Fund was \$530,240, a decrease of \$21,750. The proprietary funds reported a decrease in net assets of \$250,682 during the year.

**Long Term Debt:**

The City's total long-term debt was \$5,084,059 at June 30, 2007, a decrease of \$208,626. More detailed information regarding these activities and funds begins on page 4-24.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is an introduction to the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City 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.



**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

The City's combined net assets increased \$256,200 over the course of this fiscal year's operations to a total of \$8,423,435. The net assets of the governmental activities increased \$5,518 and business-type activities increased \$250,682.

**Net Assets as of June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Assets</b>						
Current and other non-current assets	\$ 1,856,810	\$ 1,782,080	\$ 4,843,646	\$ 4,604,724	\$ 6,700,456	\$ 6,386,804
Capital assets	3,975,141	3,925,959	3,259,838	3,385,967	7,234,979	7,311,926
Total Assets	<u>5,831,951</u>	<u>5,708,039</u>	<u>8,103,484</u>	<u>7,990,691</u>	<u>13,935,435</u>	<u>13,698,730</u>
<b>Liabilities</b>						
Long-term liabilities	2,442,935	2,474,676	2,208,840	2,473,957	4,651,775	4,948,633
Other liabilities	<u>447,370</u>	<u>297,235</u>	<u>412,855</u>	<u>285,627</u>	<u>860,225</u>	<u>582,862</u>
Total Liabilities	<u>2,890,305</u>	<u>2,771,911</u>	<u>2,621,695</u>	<u>2,759,584</u>	<u>5,512,000</u>	<u>5,531,495</u>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	1,322,283	1,263,459	2,353,520	2,318,069	3,675,803	3,581,528
Restricted	88,508	79,505	2,095,515	1,872,569	2,184,023	1,952,074
Unrestricted	<u>1,530,855</u>	<u>1,593,164</u>	<u>1,032,754</u>	<u>1,040,469</u>	<u>2,563,609</u>	<u>2,633,633</u>
Total Net Assets	<u>\$ 2,941,646</u>	<u>\$ 2,936,128</u>	<u>\$ 5,481,789</u>	<u>\$ 5,231,107</u>	<u>\$ 8,423,435</u>	<u>\$ 8,167,235</u>

The largest component of the City's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the City's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, City Charter, State legislation or Constitutional provision.

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's net assets changed during the fiscal year.

**Change in Net Assets for the Fiscal Year Ended June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 643,384	\$ 733,481	\$ 1,673,097	\$ 1,784,032	\$ 2,316,481	\$ 2,517,513
Operating Grants	11,050	16,850	-	-	11,050	16,850
Capital Grants	13,810	16,100	-	-	13,810	16,100
General Revenues					-	-
Taxes	1,895,408	1,742,897	-	-	1,895,408	1,742,897
State shared revenue	397,444	404,126	-	-	397,444	404,126
Unrestricted investment earnings	78,114	70,543	65,601	42,963	143,715	113,506
Other	<u>97,342</u>	<u>84,467</u>	<u>35,222</u>	<u>45,144</u>	<u>132,564</u>	<u>129,611</u>
Total Revenues	3,136,552	3,068,464	1,773,920	1,872,139	4,910,472	4,940,603
<b>Expenses</b>						
General government	522,083	516,502	-	-	522,083	516,502
Public safety	980,578	998,789	-	-	980,578	998,789
Public works	870,770	686,853	-	-	870,770	686,853
Recreation and culture	358,201	331,488	-	-	358,201	331,488
Other	225,868	218,755	-	-	225,868	218,755
Interest on long-term debt	127,757	109,404	-	-	127,757	109,404
Sewer	-	-	659,933	498,594	659,933	498,594
Water	-	-	<u>909,082</u>	<u>1,050,905</u>	<u>909,082</u>	<u>1,050,905</u>
Total Expenses	3,085,257	2,861,791	1,569,015	1,549,499	4,654,272	4,411,290
Transfers in	-	-	45,777	46,628	45,777	46,628
Transfers out	(45,777)	(46,628)	-	-	(45,777)	(46,628)
Increase in net assets	5,518	160,045	250,682	369,268	256,200	529,313
Beginning net assets	<u>2,936,128</u>	<u>2,776,083</u>	<u>5,231,107</u>	<u>4,861,839</u>	<u>8,167,235</u>	<u>7,637,922</u>
Ending net assets	<u>\$ 2,941,646</u>	<u>\$ 2,936,128</u>	<u>\$ 5,481,789</u>	<u>\$ 5,231,107</u>	<u>\$ 8,423,435</u>	<u>\$ 8,167,235</u>

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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Property taxes comprise 60% of Governmental Activities revenue. The City's operating mileage during the fiscal year was 11.3091 mills. A special parks and recreation levy was .5000 mills, for a total Citywide tax levy of 11.809 mills. In accordance with Charter and State Constitutional provisions, the City may levy up to 20 mills for operation in fiscal year 2006-2007.

The City has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2006-2007 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

**Business type Activities**

Net assets of the business-type activities increased by \$250,682 during the fiscal year. The Sewer Fund net assets decreased by \$93,457. The Water Fund net assets increased by \$344,139.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed the fiscal year, its governmental funds reported fund balances of \$1,415,260. Of this total amount, \$1,287,476 constitutes unreserved fund balance, which is available for appropriation for the general purposes of the funds. The remainder of fund balance is reserved and is not available for new spending because it has been reserved for debt service and special projects.

**General Fund**

The General Fund is the chief operating fund of the City. At the end of fiscal year 2006-2007, the General Fund balance was \$559,107, of this amount, \$28,867 was reserved for debt service. The fund balance decreased by \$21,750 over the previous fiscal year.

**General Fund Budgetary Highlights**

Expenditures were more than budget, resulting in a decrease in the general fund balance.

Property tax revenue (including penalties and interest) increased \$152,511 or 8.8% in fiscal year 2006 - 2007. This is attributed to increases in general property values and significant new housing growth, primarily second/vacation homes.

State revenue sharing payments remained stagnant due to a previous statewide economic downturn from which the State of Michigan has yet to fully recover.

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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Over the course of the year, the city amended the budget to take into account events during the year. These budget amendments were minor to account for increases in the Police Department salaries, a \$25,000 transfer to local street fund to cover expenses and the early replacement of a city police car.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets: At the end of the fiscal year 2006-2007, the City had invested \$7,234,979, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$474,552.

**Capital Assets as of June 30, 2007 and 2006**  
**(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 181,467	\$ 181,467	\$ 20,500	\$ 20,500	\$ 201,967	\$ 201,967
Land Improvements	160,446	186,921	-	-	160,446	186,921
Buildings	1,945,699	2,014,014	3,125,151	3,245,407	5,070,850	5,259,421
Machinery and Equipment	1,401,265	1,419,044	114,187	120,060	1,515,452	1,539,104
Infrastructure	286,264	124,513	-	-	286,264	124,513
Total	<u>\$3,975,141</u>	<u>\$3,925,959</u>	<u>\$3,259,838</u>	<u>\$3,385,967</u>	<u>\$7,234,979</u>	<u>\$7,311,926</u>

This year's major additions included:

Street Paving	\$149,055
Police Boat	14,899
Wayfinding Signs	19,970
Beach Revenue Control System	11,105
2 Police Cars	46,244
2007 Ford F350 Truck	25,797
Plow & Hydraulic System	26,452
2 V-Box Salt Spreaders	12,151
2007 Ford Explorer	22,308

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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Long-term Debt: The City, along with the New Buffalo Building Authority (NBBA), a blended component unit of the City, are empowered by law to authorize, issue, and sell debt obligations. Limited tax and unlimited tax general obligation bonds are backed by the full faith and credit of the City. The City also can issue revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. NBBA's bonds financed the construction of the City Hall. Rents paid by the City fund the debt service requirements for related improvements, but they are also backed by a limited tax pledge. More detailed information regarding the City's long-term obligations is presented in Note 8 to the financial statements.

**Outstanding Bonded Debt as of June 30, 2007 and 2006**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
General Obligation Bonds (backed by the City)	\$1,580,000	\$ 1,510,000	\$ 940,000	\$ 1,110,000	\$2,520,000	\$ 2,620,000
Revenues Bonds and Notes (backed by specific fee revenues)	<u>280,000</u>	<u>310,000</u>	<u>-</u>	<u>-</u>	<u>280,000</u>	<u>310,000</u>
Total	<u>\$1,860,000</u>	<u>\$ 1,820,000</u>	<u>\$ 940,000</u>	<u>\$ 1,110,000</u>	<u>\$2,800,000</u>	<u>\$ 2,930,000</u>

**ECONOMIC CONDITION AND OUTLOOK**

The current economic condition of the City of New Buffalo is good. The general fund balance has steadily risen over the past five years to its current \$559,107. Expenditures have been maintained at a reasonable level while providing for all the traditional services necessary and planning for developments underway and anticipated.

The economic outlook for the City is very good. The City is experiencing a residential boom, with over 350 residential units and 20 commercial units under construction or approved by the planning commission. Several of the developments are occurring in the central business district, resulting in the redevelopment of two downtown blocks with new commercial and residential units, an underground 120 car parking garage and a new 84 car public parking lot funded by the developers, to be opened in 2008. In addition, developers have approached the City with plans for another 100 units of residential development and the redevelopment of another downtown block. These developments total over \$250,000,000.00 in market value. When completed, these developments will add approximately 125 million to the assessed valuation of the City, currently assessed at 159 million. A large portion of the increased valuation will show up in 2008, as many of the developments will be completed and fully taxable at the end of 2007.

**City of New Buffalo, Michigan**  
**Management's Discussion and Analysis**  
**June 30, 2007**

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A major casino is now operating just south of the city. This casino, the Four Winds Casino of the Pokagon Band of the Pottawatomie Indians, opened in August 2007. The City has a contract with the casino to provide water, and will receive yearly income under the compact between the Pokagons and the State of Michigan. The water contract calls for the casino to pay for a 2 million gallon enlargement of the City's water treatment plant, paying \$900,000.00 up front and guaranteeing a daily minimum usage of water for the next twenty years. Further, the casino will use only a maximum of 500 thousand gallons of water per day, leaving the city the remaining 1.5 million in capacity for future city development. In addition, the City will receive a percentage of the net revenues of the casino to counteract impacts caused by the casino, the initial yearly payment to the City's general fund is projected at \$500,000 per year.

**CONTACTING THE CITY FINANCE DEPARTMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Treasurer at (269) 469-1500.

**City of New Buffalo**  
**Statement of Net Assets**  
**June 30, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 1,424,962	\$ 1,944,736	\$ 3,369,698
Receivables			
Customers	80,563	344,144	424,707
Special assessments	211,060	-	211,060
Due from other units of government	91,569	-	91,569
Inventories	-	750	750
Prepaid items	46,838	12,357	59,195
Restricted assets			
Cash and cash equivalents	-	16,916	16,916
Bond issue discount (net)	1,818	22,747	24,565
Investment in joint venture	-	2,501,996	2,501,996
Capital assets not being depreciated	181,467	20,500	201,967
Capital assets - net of accumulated depreciation	<u>3,793,674</u>	<u>3,239,338</u>	<u>7,033,012</u>
 Total assets	 <u>5,831,951</u>	 <u>8,103,484</u>	 <u>13,935,435</u>

**City of New Buffalo**  
**Statement of Net Assets**  
**June 30, 2007**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Liabilities</b>			
Accounts payable	137,389	59,442	196,831
Accrued and other liabilities	98,240	113,600	211,840
Customer deposits	-	16,916	16,916
Due to other units of government	-	2,354	2,354
Noncurrent liabilities			
Due within one year	211,741	266,086	477,827
Due in more than one year	2,442,935	2,163,297	4,606,232
Total liabilities	<u>2,890,305</u>	<u>2,621,695</u>	<u>5,512,000</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,322,283	2,353,520	3,675,803
Restricted for:			
Joint venture	-	934,357	934,357
Expansion	-	203,782	203,782
Maintenance	-	957,376	957,376
Debt service	88,508	-	88,508
Building permits	28,867	-	28,867
Unrestricted	<u>1,501,988</u>	<u>1,032,754</u>	<u>2,534,742</u>
Total net assets	<u>\$ 2,941,646</u>	<u>\$ 5,481,789</u>	<u>\$ 8,423,435</u>



**City of New Buffalo**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>							
<b>Primary government</b>							
<b>Governmental activities</b>							
General government	\$ 522,083	\$ 241,549	\$ -	\$ -	\$ (280,534)	\$ -	\$ (280,534)
Public safety	980,578	-	-	-	(980,578)	-	(980,578)
Public works	870,770	173,643	-	-	(697,127)	-	(697,127)
Health and welfare	101,948	-	-	-	(101,948)	-	(101,948)
Community and economic development	10,272	-	-	-	(10,272)	-	(10,272)
Recreation and culture	358,201	228,192	11,050	-	(118,959)	-	(118,959)
Other functions	113,648	-	-	-	(113,648)	-	(113,648)
Interest on long-term debt	127,757	-	-	13,810	(113,947)	-	(113,947)
<b>Total governmental activities</b>	<b>3,085,257</b>	<b>643,384</b>	<b>11,050</b>	<b>13,810</b>	<b>(2,417,013)</b>	<b>-</b>	<b>(2,417,013)</b>
<b>Business-type activities</b>							
Sewer	659,933	536,790	-	-	-	(123,143)	(123,143)
Water	909,082	1,136,307	-	-	-	227,225	227,225
<b>Total business-type activities</b>	<b>1,569,015</b>	<b>1,673,097</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>104,082</b>	<b>104,082</b>
<b>Total primary government</b>	<b>4,654,272</b>	<b>2,316,481</b>	<b>11,050</b>	<b>13,810</b>	<b>(2,417,013)</b>	<b>104,082</b>	<b>(2,312,931)</b>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Statement of Activities**  
**For the Year Ended June 30, 2007**

<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>		
		<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>		
General revenues						
Property taxes				\$ 1,895,408	\$ -	\$ 1,895,408
State shared revenue				397,444	-	397,444
Unrestricted investment earnings				78,114	65,601	143,715
Income from joint venture				-	15,638	15,638
Gain on sale of capital assets				1,200	-	1,200
Miscellaneous				96,142	19,584	115,726
Transfers				<u>(45,777)</u>	<u>45,777</u>	<u>-</u>
Total general revenues and transfers				<u>2,422,531</u>	<u>146,600</u>	<u>2,569,131</u>
Change in net assets				5,518	250,682	256,200
Net assets - beginning of year				<u>2,936,128</u>	<u>5,231,107</u>	<u>8,167,235</u>
Net assets - end of year				<u>\$ 2,941,646</u>	<u>\$ 5,481,789</u>	<u>\$ 8,423,435</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2007**

	Special Revenue Funds				Special Assess- ment	Capital Improve- ment	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Park Fund				
<b>Assets</b>								
Cash and cash equivalents	\$ 539,232	\$ 37,440	\$ 10,475	\$ 86,069	\$ 95,582	\$ 159,391	\$ 496,773	\$ 1,424,962
Receivables								
Customers	62,255	-	-	18,308	-	-	-	80,563
Special assessments	-	-	-	-	28,415	-	-	28,415
Due from other units of government	59,013	22,898	9,658	-	-	-	-	91,569
Due from other funds	39,174	-	8,298	-	-	24,000	51,132	122,604
Prepaid items	33,273	-	-	13,565	-	-	-	46,838
Special assessment receivable - deferred	-	-	-	-	182,645	-	-	182,645
Total assets	<u>\$ 732,947</u>	<u>\$ 60,338</u>	<u>\$ 28,431</u>	<u>\$ 117,942</u>	<u>\$ 306,642</u>	<u>\$ 183,391</u>	<u>\$ 547,905</u>	<u>\$ 1,977,596</u>
<b>Liabilities</b>								
Accounts payable	\$ 33,942	\$ 1,522	\$ -	\$ 16,365	\$ -	\$ -	\$ 85,560	\$ 137,389
Accrued and other liabilities	49,445	425	386	8,708	-	-	-	58,964
Due to other funds	58,134	-	-	-	-	16,998	47,472	122,604
Deferred revenue	32,319	-	-	-	211,060	-	-	243,379
Total liabilities	<u>173,840</u>	<u>1,947</u>	<u>386</u>	<u>25,073</u>	<u>211,060</u>	<u>16,998</u>	<u>133,032</u>	<u>562,336</u>
<b>Fund Balances</b>								
Reserved for:								
Debt service	-	-	-	-	95,582	-	32,202	127,784
Building permits	28,867	-	-	-	-	-	-	28,867
Unreserved, reported in:								
General fund	530,240	-	-	-	-	-	-	530,240
Special revenue funds	-	58,391	28,045	92,869	-	-	103,612	282,917
Capital project funds	-	-	-	-	-	166,393	279,059	445,452
Total fund balances	<u>559,107</u>	<u>58,391</u>	<u>28,045</u>	<u>92,869</u>	<u>95,582</u>	<u>166,393</u>	<u>414,873</u>	<u>1,415,260</u>
Total liabilities and fund balances	<u>\$ 732,947</u>	<u>\$ 60,338</u>	<u>\$ 28,431</u>	<u>\$ 117,942</u>	<u>\$ 306,642</u>	<u>\$ 183,391</u>	<u>\$ 547,905</u>	<u>\$ 1,977,596</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**June 30, 2007**

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<b>Total fund balances for governmental funds</b>	\$ 1,415,260
Total net assets for governmental activities in the statement of net assets is different because:	
Bond issue discount (net) is expensed in the funds in the year incurred.	1,818
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,975,141
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	
Deferred state share revenue	32,319
Deferred special assessments	200,066
Special assessment interest receivable	10,994
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(39,276)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	<u>(2,654,676)</u>
<b>Net assets of governmental activities</b>	<u>\$ 2,941,646</u>

**City of New Buffalo**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	Special Revenue Funds				Special Assess- ment	Capital Improve- ment	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Park Fund				
<b>Revenues</b>								
Taxes	\$ 1,815,327	\$ -	\$ -	\$ 80,081	\$ -	\$ -	\$ -	\$ 1,895,408
Licenses and permits	107,053	-	-	-	-	-	-	107,053
State revenue sharing	192,613	139,471	67,921	-	-	-	-	400,005
Charges for services	308,139	-	-	228,192	-	-	-	536,331
Fines and forfeitures	32,187	-	-	-	-	-	-	32,187
Interest income	30,763	1,378	379	1,844	23,972	5,036	14,743	78,115
Other revenue	59,216	-	-	5,138	31,330	-	10,650	106,334
Total revenues	<u>2,545,298</u>	<u>140,849</u>	<u>68,300</u>	<u>315,255</u>	<u>55,302</u>	<u>5,036</u>	<u>25,393</u>	<u>3,155,433</u>
<b>Expenditures</b>								
Current								
General government	469,459	-	-	-	-	-	5,500	474,959
Public safety	950,866	-	-	-	-	-	-	950,866
Public works	488,454	95,732	92,508	-	-	-	-	676,694
Health and Welfare	101,948	-	-	-	-	-	-	101,948
Community and economic development	10,272	-	-	-	-	-	-	10,272
Recreation and culture	18	-	-	327,701	-	-	-	327,719
Other functions	113,622	-	-	-	-	26	-	113,648
Capital outlay	-	-	-	-	-	-	350,576	350,576
Debt service								
Principal retirement	34,191	-	-	2,500	30,000	-	121,133	187,824
Interest and fiscal charges	35,964	-	-	85	17,620	-	73,829	127,498
Total expenditures	<u>2,204,794</u>	<u>95,732</u>	<u>92,508</u>	<u>330,286</u>	<u>47,620</u>	<u>26</u>	<u>551,038</u>	<u>3,322,004</u>
Excess (deficiency) of revenues over expenditures	<u>340,504</u>	<u>45,117</u>	<u>(24,208)</u>	<u>(15,031)</u>	<u>7,682</u>	<u>5,010</u>	<u>(525,645)</u>	<u>(166,571)</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2007**

	Special Revenue Funds				Special Assess- ment	Capital Improve- ment	Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Park Fund				
<b>Other financing sources (uses)</b>								
Transfers in	\$ -	\$ -	\$ 25,000	\$ 70,000	\$ -	\$ 24,000	\$ 305,476	\$ 424,476
Transfers out	(363,454)	(45,777)	-	(4,696)	-	(56,326)	-	(470,253)
Issuance of debt	-	-	-	-	-	-	180,000	180,000
Sale of fixed assets	1,200	-	-	-	-	-	-	1,200
Total other financing sources and uses	<u>(362,254)</u>	<u>(45,777)</u>	<u>25,000</u>	<u>65,304</u>	<u>-</u>	<u>(32,326)</u>	<u>485,476</u>	<u>135,423</u>
Net change in fund balance	<u>(21,750)</u>	<u>(660)</u>	<u>792</u>	<u>50,273</u>	<u>7,682</u>	<u>(27,316)</u>	<u>(40,169)</u>	<u>(31,148)</u>
Fund balance - beginning of year	<u>580,857</u>	<u>59,051</u>	<u>27,253</u>	<u>42,596</u>	<u>87,900</u>	<u>193,709</u>	<u>455,042</u>	<u>1,446,408</u>
Fund balance - end of year	<u>\$ 559,107</u>	<u>\$ 58,391</u>	<u>\$ 28,045</u>	<u>\$ 92,869</u>	<u>\$ 95,582</u>	<u>\$ 166,393</u>	<u>\$ 414,873</u>	<u>\$ 1,415,260</u>

**City of New Buffalo**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2007**

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**Net change in fund balances - Total governmental funds** \$ (31,148)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(309,221)
Capital outlay	358,403

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

State shared revenue	(2,561)
Special assessments	(16,288)
Interest revenue	(1,232)

Expenses are recorded when incurred in the statement of activities

Accrued interest	43
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Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued	(180,000)
Repayments of long-term debt	187,824
Amortization of issuance costs, premiums, discounts and similar items	(302)

**Change in net assets of governmental activities** **\$ 5,518**

**City of New Buffalo**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

	Enterprise Funds		
	Sewer	Water	Total
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 159,251	\$ 1,785,485	\$ 1,944,736
Receivables			
Customers	131,422	212,722	344,144
Inventories	-	750	750
Prepaid items	1,300	11,057	12,357
Total current assets	<u>291,973</u>	<u>2,010,014</u>	<u>2,301,987</u>
Noncurrent assets			
Restricted assets			
Cash and cash equivalents	-	16,916	16,916
Bond issue discount (net)	-	22,747	22,747
Investment in joint venture	2,501,996	-	2,501,996
Capital assets, net	792,794	2,467,044	3,259,838
Total noncurrent assets	<u>3,294,790</u>	<u>2,506,707</u>	<u>5,801,497</u>
Total assets	<u>3,586,763</u>	<u>4,516,721</u>	<u>8,103,484</u>



**City of New Buffalo**  
**Proprietary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

	Enterprise Funds		
	Sewer	Water	Total
<b>Liabilities</b>			
Current liabilities			
Accounts payable	33,034	26,408	59,442
Accrued and other liabilities	95,583	18,017	113,600
Customer deposits	-	16,916	16,916
Due to other units of government	-	2,354	2,354
Current portion of noncurrent liabilities	45,543	220,543	266,086
Total current liabilities	<u>174,160</u>	<u>284,238</u>	<u>458,398</u>
Noncurrent liabilities			
Contract payable net of current portion	1,477,522	-	1,477,522
Long-term debt net of current portion	-	685,775	685,775
Total noncurrent liabilities	<u>1,477,522</u>	<u>685,775</u>	<u>2,163,297</u>
Total liabilities	<u>1,651,682</u>	<u>970,013</u>	<u>2,621,695</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	792,794	1,560,726	2,353,520
Restricted for:			
Joint venture	934,357	-	934,357
Expansion	-	203,782	203,782
Maintenance	207,930	749,446	957,376
Unrestricted	-	1,032,754	1,032,754
Total net assets	<u>\$ 1,935,081</u>	<u>\$ 3,546,708</u>	<u>\$ 5,481,789</u>

**City of New Buffalo**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2007**

	Enterprise Funds		
	Sewer	Water	Total
<b>Operating revenue</b>			
Customer fees	\$ 536,790	\$ 1,136,307	\$ 1,673,097
Other revenue	9,709	9,875	19,584
Total operating revenue	<u>546,499</u>	<u>1,146,182</u>	<u>1,692,681</u>
<b>Operating expenses</b>			
Personnel services	31,743	429,250	460,993
Supplies	2,165	114,522	116,687
Contractual services	523,285	80,260	603,545
Utilities	1,134	41,531	42,665
Repairs and maintenance	927	30,405	31,332
Other expenses	2,964	31,077	34,041
Amortization	-	13,772	13,772
Depreciation	34,408	130,923	165,331
Total operating expenses	<u>596,626</u>	<u>871,740</u>	<u>1,468,366</u>
Operating income	<u>(50,127)</u>	<u>274,442</u>	<u>224,315</u>
<b>Nonoperating revenue (expenses)</b>			
Income from joint venture	15,638	-	15,638
Interest income	6,420	59,181	65,601
Interest expense	(63,307)	(37,342)	(100,649)
Total nonoperating revenues (expenses)	<u>(41,249)</u>	<u>21,839</u>	<u>(19,410)</u>
Income (loss) before transfers out	<u>(91,376)</u>	<u>296,281</u>	<u>204,905</u>
Transfers in	-	47,858	47,858
Transfers out	(2,081)	-	(2,081)
Change in net assets	<u>(93,457)</u>	<u>344,139</u>	<u>250,682</u>
Net assets - beginning of year	<u>2,028,538</u>	<u>3,202,569</u>	<u>5,231,107</u>
Net assets - end of year	<u>\$ 1,935,081</u>	<u>\$ 3,546,708</u>	<u>\$ 5,481,789</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 536,301	\$ 1,184,920	\$ 1,721,221
Payments to suppliers	(442,831)	(309,574)	(752,405)
Payments to employees	(31,743)	(429,250)	(460,993)
Net cash provided by operating activities	<u>61,727</u>	<u>446,096</u>	<u>507,823</u>
<b>Cash flows from noncapital financing activities</b>			
Transfer from other funds	-	47,858	47,858
Transfers to other funds	(2,081)	-	(2,081)
Net cash provided (used) by noncapital financing activities	<u>(2,081)</u>	<u>47,858</u>	<u>45,777</u>
<b>Cash flows from capital and related financing activities</b>			
Purchases/construction of capital assets	-	(39,202)	(39,202)
Principal and interest paid on long-term debt	(107,881)	(207,344)	(315,225)
Net cash used by capital and related financing activities	<u>(107,881)</u>	<u>(246,546)</u>	<u>(354,427)</u>
<b>Cash flows from investing activities</b>			
Interest received	<u>6,420</u>	<u>59,181</u>	<u>65,601</u>
Net increase (decrease) in cash and cash equivalents	(41,815)	306,589	264,774
Cash and cash equivalents - beginning of year	<u>201,066</u>	<u>1,495,812</u>	<u>1,696,878</u>
Cash and cash equivalents - end of year	<u>\$ 159,251</u>	<u>\$ 1,802,401</u>	<u>\$ 1,961,652</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2007**

	Business-type Activities - Enterprise Funds		
	Sewer	Water	Total
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	\$ (50,127)	\$ 274,442	\$ 224,315
Adjustments to reconcile operating income to net cash from operating activities			
Depreciation and amortization expense	34,408	144,695	179,103
Changes in assets and liabilities			
Receivables (net)	(10,198)	38,738	28,540
Prepaid items	(300)	7,900	7,600
Accounts payable	3,364	(21,789)	(18,425)
Accrued and other liabilities	84,580	6,604	91,184
Customer deposits	-	(1,642)	(1,642)
Due to other units of government	-	(2,852)	(2,852)
Net cash provided by operating activities	<u>\$ 61,727</u>	<u>\$ 446,096</u>	<u>\$ 507,823</u>

**City of New Buffalo**  
**Fiduciary Funds**  
**Statement of Net Assets**  
**June 30, 2007**

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	<u>Current Tax Fund</u>
<b>Assets</b>	
Cash and cash equivalents	\$ <u>4,284</u>
<b>Liabilities</b>	
Due to other units of government	\$ <u>4,284</u>

**City of New Buffalo**  
**Notes to Financial Statements**  
**June 30, 2007**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting entity**

City of New Buffalo is governed by an elected five-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each 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 government (see discussion below for description).

**Blended Component Unit** – A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is in substance the same as the City. It is reported as part of the City and blended into the appropriate funds.

**Building Authority** – The City of New Buffalo Building Authority is governed by a three member board appointed by the City Council. Although it is legally separate from the City, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government 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. Likewise, the *primary government* is reported separately from certain legally separate

*component units* 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 segments 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 revenues*.

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

**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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues 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.

**City of New Buffalo**  
**Notes to Financial Statements**  
**June 30, 2007**

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

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the

City. Funding is primarily through state shared gas and weight taxes.

The Park Fund accounts for the costs of maintaining a park and recreation program.

The Special Assessment Debt Service Fund is used to account for the annual payment of principal, interest and expenditures in connection with the long-term debt associated with the special assessment.

The Capital Improvements fund is used by the City to accumulate funds for future capital improvements of the City.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

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

Additionally, the government reports the following:

Special Revenue Funds account for revenue sources that are legally restricted to expenditures for specific purposes not including capital projects or permanent funds.

The Debt Service Funds account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

Capital Projects Fund account for the development of capital facilities other than those financed by the operations of an enterprise fund.

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Trust and Agency Fund and Current Tax Collection Fund accounts for property tax and other deposits collected on behalf of other units and individuals.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* 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 revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the

internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**Assets, liabilities, and net assets or equity**

Deposits and investments – Cash and cash equivalents are considered to be 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 based on quoted market price. Certificate of deposits are stated at cost which approximates 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 arrangement 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. Property taxes are levied on each July 1<sup>st</sup> and December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. If the summer tax bills (7/1) are not paid by



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the due date, October 1, a 4% penalty is charged and the entire amount is rolled into the winter bills. If the winter tax bills (12/1) are not paid by the due date, February 14, a 4% penalty is charged and the balance is turned over to the County on March 1.

The City's 2006 ad valorem tax is levied and collectible on December 1, 2006 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the government totaled \$159,868,610 on which ad valorem taxes consisted of 11.3091 mills for operating purposes and 0.5000 for parks. This resulted in \$1,807,970 for operating expenses, and \$79,934 for parks, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

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. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted assets –The Water fund contains a restricted cash account, which consists of customer deposits and is restricted to the refunding of those deposits at customer termination.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed. The City began

recording governmental infrastructure constructed July 1, 2003.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land Improvements	20 years
Buildings	20 to 40 years
Building improvements	20 to 40 years
Water and sewer lines	20 to 40 years
Infrastructure	20 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

Compensated absences – Vacation and sick pay and other employee benefits, are recognized only when credit is taken by the employee. Benefits not paid to an employee during any period, except for sick pay, are not accumulated past year-end. Benefits are not paid upon termination of employment. Benefits are earned as follows:

Sick pay – Twelve days per year with a maximum 120 days during employment. No payment for unused sick pay upon termination of employment.

Vacation – One or more weeks per year, depending on years of service, no payment or carryover, if vacation is not taken except under unusual circumstances if requested by the department supervisor and approved by the city council.

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Long-term obligations – In the government-wide financial statements, and 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 purposes. Designations of fund balance represent tentative management plans that are subject to change.

#### **Comparative data**

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

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

#### **Budgetary information**

The government is subject to the budgetary control requirements of

the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following June 30. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City Manger is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council.

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

#### **Excess of expenditures over appropriations**

During the year, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

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Function	Final Budget	Amount of Expenditure	Budget Variances
General Fund			
Public safety	\$ 900,493	\$ 950,866	\$ 50,373
Local Street			
Public works	86,325	92,508	6,183
Parks			
Recreation and culture	287,006	327,701	40,695

**Note 3 - Deposits and Investments**

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents
Governmental activities	\$ 1,424,962	\$ -
Business-type activities	1,944,736	16,916
Total primary government	3,369,698	16,916
Fiduciary funds	4,284	-
Total	\$ 3,373,982	\$ 16,916

The breakdown between deposits and investments is as follows:

	Primary Government	Fiduciary Funds
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 3,386,489	\$ 4,284
Petty cash and cash on hand	125	-
	\$ 3,386,614	\$ 4,284

*Interest rate risk* – The government does not have a formal investment policy to manage its exposure to fair value losses from

changes in interest rates.

*Credit risk* – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of 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.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial risk – deposits* – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of yearend, \$3,072,791 as exposed to custodial credit risk because it was uninsured and uncollateralized.

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**Note 4 - Receivables and Deferred Revenue**

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
<b>Primary government</b>		
Special assessments	<u>\$ 182,645</u>	Debt Service - special assessment

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
<b>Primary government</b>	
State shared revenue	\$ 32,319
Special assessments	<u>200,066</u>
	<u>\$ 243,379</u>

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**Note 5 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance		Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>					<b>Business-type activities</b>				
Capital assets not being depreciated					Capital assets not being depreciated				
Land	\$ 181,467	\$ -	\$ -	\$ 181,467	Land	\$ 20,500	\$ -	\$ -	\$ 20,500
Capital assets being depreciated					Capital assets being depreciated				
Land improvements	529,500	-	-	529,500	Buildings and improvements	6,444,320	28,702	-	6,473,022
Infrastructure	140,428	169,025	-	309,453	Machinery and equipment	495,679	10,500	-	506,179
Buildings and improvements	2,689,400	-	-	2,689,400	Total capital assets being depreciated	6,939,999	39,202	-	6,979,201
Machinery and equipment	3,090,579	189,378	-	3,279,957	Less accumulated depreciation for				
Total capital assets being depreciated	6,449,907	358,403	-	6,808,310	Buildings and improvements	3,198,913	148,958	-	3,347,871
Less accumulated depreciation for					Machinery and equipment	375,619	16,373	-	391,992
Land improvements	342,579	26,475	-	369,054	Total accumulated depreciation	3,574,532	165,331	-	3,739,863
Infrastructure	15,915	7,274	-	23,189	Net capital assets being depreciated	3,365,467	(126,129)	-	3,239,338
Buildings and improvements	675,386	68,315	-	743,701	Business-type capital assets, net	\$ 3,385,967	\$ (126,129)	\$ -	\$ 3,259,838
Machinery and equipment	1,671,535	207,157	-	1,878,692					
Total accumulated depreciation	2,705,415	309,221	-	3,014,636					
Net capital assets being depreciated	3,744,492	49,182	-	3,793,674					
Governmental activities capital assets, net	<u>\$ 3,925,959</u>	<u>\$ 49,182</u>	<u>\$ -</u>	<u>\$ 3,975,141</u>					

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

**Governmental activities**

General government	\$ 77,578
Public safety	126,224
Public works	63,832
Recreation and culture	<u>41,587</u>
Total governmental activities	<u>309,221</u>

**Business-type activities**

Sewer	34,408
Water	<u>130,923</u>
Total business-type activities	<u>165,331</u>
Total primary government	<u>\$ 474,552</u>

**Note 6 - Interfund Receivables, Payables, Transfers**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due from/to other funds</b>		
General Fund	GO Bond Debt	\$ 34,175
Local Street	Transportation Imp	8,298
Building Authority	General Fund	27,993
MI Transportation Bond	Capital Improvements	16,998
Capital Improvements	General Fund	24,000
Transportation Imp.	General Fund	6,141
General Fund	Transportation Imp	<u>4,999</u>
		<u>\$ 122,604</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
General	Park	\$ 70,000
General	Equipment Purchase	120,000
General	Building Authority	124,454
General	Capital Improvement	24,000
General	Local Street	25,000
Major Street	Water	45,777
Park	Dredge	4,696
Capital Improvement	2003 St Paving	18,545
Capital Improvement	2005 St Paving	37,781
Sewer	Water	<u>2,081</u>
		<u>\$ 472,334</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

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**Note 7 - Leases**

**Capital leases**

The City has a capital lease for a fire truck. The future minimum lease payments are as follows:

<u>Year ending June 30,</u>		
2008	\$	16,571
2009		16,132
2010		15,694
2011		15,255
2012		14,816
2013-2014		<u>28,317</u>
Total minimum lease payments		106,785
Less amount representing interest		<u>12,285</u>
Present value of minimum lease payments		<u>\$ 94,500</u>

The asset acquired through a capital lease is as follows:

Asset		
Machinery and equipment	\$	135,000
Less accumulated depreciation		<u>(51,750)</u>
Total	<u>\$</u>	<u>83,250</u>

**Note 8 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the City) are received. Installment purchase agreements are also general obligations of the government.

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Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Bonds and notes payable									
Special assessment obligations									
Obligations 2000	\$ 495,000	2019	5.35 - 6.00%	10,000-35,000	\$ 310,000	\$ -	\$ 30,000	\$ 280,000	\$ 35,000
Building authority bonds 1996	1,515,000	2061	4.875 - 5.4%	75,000-130,000	1,070,000		70,000	1,000,000	75,000
Installment purchase agreements									
Installment purchase - skate park	10,000	2006	3.30%	2,500	2,500	-	2,500	-	-
Installment purchase - case backhoe	60,000	2010	3.75%	11,551-12,899	60,000	-	11,133	48,867	11,551
Installment purchase - emergency tanker	672,000	2021	4.83%	21,690-271,238	672,000	-	20,691	651,309	21,690
Transportation fund bonds									
2003 Michigan	155,000	2013	2.2 - 3.7%	15,000-20,000	125,000	-	15,000	110,000	15,000
2005 Michigan	315,000	2015	3.60 - 4.65%	30,000-35,000	315,000	-	25,000	290,000	30,000
2006 Michigan	180,000	2016	4.0 - 4.3%	10,000-25,000	-	180,000	-	180,000	10,000
Lease purchase - fire truck	135,000	2013	3.25%	13,500	108,000	-	13,500	94,500	13,500
Less deferred amounts									
For issuance discounts					(2,120)	-	(302)	(1,818)	-
Total governmental activities					<u>\$ 2,660,380</u>	<u>\$ 180,000</u>	<u>\$ 187,522</u>	<u>\$ 2,652,858</u>	<u>\$ 211,741</u>
<b>Business-type activities</b>									
Bonds and notes payable									
General obligation bonds									
2003 Limited tax	\$ 1,520,000	2012	2.75-4.3%	85,000-105,000	\$ 1,110,000	\$ -	\$ 170,000	\$ 940,000	\$ 175,000
Less deferred amounts									
For issuance discounts					(28,099)	-	(5,352)	(22,747)	-
On refunding					(42,102)	-	(8,420)	(33,682)	-
Contract payable - GRSD	\$ 1,567,639	2028	3.0-4.7%	45,543-103,480	1,567,639	-	44,574	1,523,065	45,543
Total business-type activities					<u>\$ 2,607,438</u>	<u>\$ -</u>	<u>\$ 200,802</u>	<u>\$ 2,406,636</u>	<u>\$ 220,543</u>



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

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 211,741	\$ 126,727	\$ 175,000	\$ 33,549
2009	218,222	115,931	180,000	28,060
2010	224,769	105,849	185,000	21,895
2011	231,386	94,988	195,000	14,691
2012	234,694	83,378	205,000	6,590
2013-2017	1,128,218	248,799	-	-
2018-2021	405,646	65,238	-	-
	<u>\$ 2,654,676</u>	<u>\$ 840,910</u>	<u>\$ 940,000</u>	<u>\$ 104,785</u>

**Contract payable**

On September 24, 2003, the Galien River Sanitary District (GRSD) issued an \$8.1 million General Obligation Limited Tax Bond. As the bonds were issued by the GRSD, the City has recorded a contract payable of \$1,567,639 for their pro-rata portion of these bonds. Annual debt service requirements to maturity for the contract payable are as follows:

Year Ending June 30,	Principal	Interest
2008	\$ 45,543	\$ 62,326
2009	47,481	60,901
2010	48,450	59,402
2011	50,388	57,795
2012	52,326	55,996
2013-2017	290,700	248,683
2018-2022	349,809	185,969
2023-2027	435,081	100,076
2028-2029	203,287	9,655
	<u>\$ 1,523,065</u>	<u>\$ 840,803</u>

Accrued interest as of June 30, 2007 was \$10,502

**Note 9 - Defeased Debt**

On September 30, 2003, the City defeased a bond issued by creating a separate irrevocable trust fund. New debt has been issued and the net proceeds of the refunding were placed in a separate special escrow account and invested in securities of the U.S. Government and its agencies. The investment and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements.

As of June 30, 2007, the amount of defeased debt outstanding but removed from the City's financial statements amounted to \$1,000,000 for the refinancing of the Water Supply System Revenue Bonds of 1995.

**Note 10 - Restricted Net Assets**

In 1996, the City Council restricted one third of all water tap-in fees per year to be escrowed for future system expansion and studies. The restricted balance at June 30, 2007 and 2006 was \$203,782 and \$198,282, respectively.

**Note 11 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for workers' compensation, death, and disability, hospitalization and life claims and participates in the Michigan Municipal League risk pool for claims

**City of New Buffalo**  
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relating to liability, fire, fleet and bonds. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**Note 12 - Employee Retirement And Benefit Systems**

**Defined contribution pension plan**

Plan description – The City provides pension benefits to all of its full-time employees except the city manager through a self-directed defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate when they have completed at least one year of service and are at least twenty-one years of age. As established by the Plan, the City contributes 7 percent of employees' gross earnings. The City's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of service. This plan was effective through January 31, 2007.

The City's total payroll during the current year was \$1,333,940. The current year contribution under the defined contribution plan was calculated based on covered base salaries of \$482,957, resulting in an employer contribution of \$33,807. The City used \$7,586 in forfeitures to offset a portion of the employer contribution.

**Defined benefit pension plan**

Effective February 1, 2007, the government participates in the

Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS 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 MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees requires a contribution from the employees of 3.6% of gross wages for General, and Police and Fire employees. The City's contribution for these employees is 7.0%.

Annual pension costs – For year ended June 30, 2007, the government's annual pension cost of \$28,478 and the employee contribution of \$14,647 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an initial actuarial valuation at January 1, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% percent per year; and 3) no cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll contributions over a period of years. The remaining amortization period is 30 years.

Three year trend information is not available due to the recent adoption date of the plan.

One employee is covered by a separate deferred compensation pension plan in which they have the option of making matching contributions to the plan. The contributions are fully vested. Employer contributions are based on 7 percent of gross earnings and are fully

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vested after 10 years of service. On October 1, 2002 the City adopted an amendment to this plan. Under the amendment, the employee is not required to make contributions to the plan. The City is required to contribute 7 percent of the employee's gross earnings and these contributions are fully vested. The total employer contributions were \$4,232 based on a covered based salary of \$60,456.

**Note 13 - Joint Ventures**

The City is a participant in related organizations as follows:

The City is a member of the Pine Grove Cemetery, which provides services to residents of New Buffalo and the New Buffalo Township. The participating communities provide annual funding for the operations of the cemetery. During the current year, the City contributed \$24,000 for its operation.

The City is a participant with Chikaming Township, Lake Township, New Buffalo Township, and the City of Bridgman, in a joint venture to provide sanitary sewage treatment and collection facilities for the residents of those communities. The Galien River Sanitary District pro-rata percentage of ownership is as follows:

City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
Lake Charter Township	16.6%
City of Bridgman	16.6%

The Galien River Sanitary District (GRSD) is governed by a six-member Board of Trustees, one member selected by the governing body of each constituent municipality (for a total of five members), and one member is selected by the other five members. The term of office is six years. The at-large member serves as Chairperson of the Board. The contracting parties provide annual funding to meet debt service requirements on bonds issued to pay for plant construction.

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On September 23, 2003, the GRSD issued an \$8.1 million General Obligation Limited Tax Bond for the design, acquisition, construction and equipping improvements for expansion of the plant. As the bonds were issued by the GRSD, the City has recorded a contract payable in the amount of \$1,567,639 for their pro-rata portion of these bonds. The GRSD bills the City for their portion of principal and interest on the bonds as those payments become due. The contract payable balance as of June 30, 2007 was \$1,523,065. See note 8 for details.

On February 1, 2007, the GRSD issued a \$1.8 million General Obligation Limited Tax Bond for plant improvements. The GRSD will pay the principal of and interest on such bonds from revenue of the GRSD. If these revenues are insufficient or unavailable for such payment, then each local unit shall pay 20% of each payment.

The City's share of the operating results of the District are reported in the City's Sewer Fund (an Enterprise Fund). The City's equity interest in the District was \$918,719 at December 31, 2005 (the District's year-end) and \$934,357 at December 31, 2006. Completed financial statements for the Galien River Sanitary District can be obtained from the New Buffalo City Clerk's office.

**Note 14 - Building Permit Fees**

The City charges a fee for generating building permits for commercial and residential construction projects. An outside contractor, who receives 80% of the building permit fees generated, performs the work. The City keeps an administrative fee of 20%.

A breakdown of the revenues and related expenditures for the year ended June 30, 2007 is as follows:

Carryover excess from prior year	\$ 43,495
Total building permit revenues	107,048
Total building permit expenditures	<u>(121,676)</u>
Excess of revenues over expenditures	\$ <u>28,867</u>

A reservation of fund balance in the General Fund is required because of the excess.

**Note 15 - Contingent Liability**

The City is a participant in a joint venture (see note 13) with the GRSD. The GRSD issued a \$1.8 million General Obligation Limited Tax Bond on February 1, 2007. The GRSD will pay the principal and interest payments of this bond with revenues generated by the GRSD. However, if such revenue is insufficient or unavailable for such payment, each local unit in the joint venture is responsible to pay an equal share, or 20% of each payment. As of June 30, 2007, there is no indication that the GRSD will be unable to service this debt and therefore, no liability has been recognized by the City. The outstanding balance of these bonds as of June 30, 2007 was \$1,800,000.

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes				
Property taxes	\$ 1,809,920	\$ 1,810,020	\$ 1,808,628	\$ (1,392)
Penalties and interest	13,000	12,000	6,699	(5,301)
Licenses and permits	145,100	106,100	107,053	953
State revenue sharing	202,900	196,900	192,613	(4,287)
Charges for services	272,725	297,055	308,139	11,084
Fines and forfeitures	27,000	28,022	32,187	4,165
Interest income	20,100	27,100	30,763	3,663
Other revenue	72,979	65,892	59,216	(6,676)
Sale of fixed assets	200	200	1,200	1,000
Total revenues	<u>2,563,924</u>	<u>2,543,289</u>	<u>2,546,498</u>	<u>3,209</u>
<b>Expenditures</b>				
General government				
Legislative	54,650	44,950	44,443	(507)
Executive	111,967	104,673	106,813	2,140
Clerk	116,897	114,197	110,516	(3,681)
Board of review	1,300	1,350	1,350	-
Treasurer	132,836	129,936	129,520	(416)
Assessor	54,535	57,535	43,226	(14,309)
Elections	12,911	9,011	9,591	580
Cemetery	24,000	24,000	24,000	-
Total general government	<u>509,096</u>	<u>485,652</u>	<u>469,459</u>	<u>(16,193)</u>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under)
				Final Budget
Public safety				
Police	\$ 623,355	\$ 713,000	\$ 755,862	\$ 42,862
Fire department	89,251	67,589	73,328	5,739
Building inspection department	155,004	119,904	121,676	1,772
Total public safety	<u>867,610</u>	<u>900,493</u>	<u>950,866</u>	<u>50,373</u>
Public works				
Highways, streets and bridges	286,903	284,803	282,470	(2,333)
Street lighting	34,000	34,000	32,773	(1,227)
Sanitation department	181,400	181,400	173,211	(8,189)
Total public works	<u>502,303</u>	<u>500,203</u>	<u>488,454</u>	<u>(11,749)</u>
Health and welfare				
Ambulance	142,619	101,948	101,948	-
Community and economic development				
Planning	13,281	8,731	6,427	(2,304)
Zoning	5,292	4,992	3,845	(1,147)
Total community and economic development	<u>18,573</u>	<u>13,723</u>	<u>10,272</u>	<u>(3,451)</u>
Recreation and culture				
Parks and recreation	2,100	-	18	18

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Other functions				
Insurance and bonds	\$ 30,097	\$ 32,860	\$ 27,026	\$ (5,834)
Miscellaneous projects	69,400	83,300	86,596	3,296
Tax tribunal refunds	1,000	1,000	-	(1,000)
Total other functions	<u>100,497</u>	<u>117,160</u>	<u>113,622</u>	<u>(3,538)</u>
Principal retirement	70,159	70,159	34,191	(35,968)
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>35,964</u>	<u>35,964</u>
Total debt service	<u>70,159</u>	<u>70,159</u>	<u>70,155</u>	<u>(4)</u>
Transfers out	<u>338,279</u>	<u>363,279</u>	<u>363,454</u>	<u>175</u>
Total expenditures	<u>2,551,236</u>	<u>2,552,617</u>	<u>2,568,248</u>	<u>15,631</u>
Excess (deficiency) of revenues over expenditures	12,688	(9,328)	(21,750)	(12,422)
Fund balance - beginning of year	<u>580,857</u>	<u>580,857</u>	<u>580,857</u>	<u>-</u>
Fund balance - end of year	<u>\$ 593,545</u>	<u>\$ 571,529</u>	<u>\$ 559,107</u>	<u>\$ (12,422)</u>

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
State revenue sharing	\$ 140,000	\$ 140,000	\$ 139,471	\$ (529)
Interest income	600	1,000	1,378	378
Total revenues	<u>140,600</u>	<u>141,000</u>	<u>140,849</u>	<u>(151)</u>
<b>Expenditures</b>				
Current				
Public works	100,273	100,673	95,732	(4,941)
Transfers out	<u>45,777</u>	<u>45,777</u>	<u>45,777</u>	<u>-</u>
Total expenditures	<u>146,050</u>	<u>146,450</u>	<u>141,509</u>	<u>(4,941)</u>
Excess of revenues (deficiency) over expenditures	(5,450)	(5,450)	(660)	4,790
Fund balance - beginning of year	<u>59,051</u>	<u>59,051</u>	<u>59,051</u>	<u>-</u>
Fund balance - end of year	<u>\$ 53,601</u>	<u>\$ 53,601</u>	<u>\$ 58,391</u>	<u>\$ 4,790</u>



**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
State revenue sharing	\$ 67,971	\$ 67,971	\$ 67,921	\$ (50)
Interest income	500	500	379	(121)
Transfers in	-	25,000	25,000	-
Total revenues	<u>68,471</u>	<u>93,471</u>	<u>93,300</u>	<u>(171)</u>
<b>Expenditures</b>				
Current				
Public works	<u>74,125</u>	<u>86,325</u>	<u>92,508</u>	<u>6,183</u>
Total expenditures	<u>74,125</u>	<u>86,325</u>	<u>92,508</u>	<u>6,183</u>
Excess of revenues (deficiency) over expenditures	(5,654)	7,146	792	(6,354)
Fund balance - beginning of year	<u>27,253</u>	<u>27,253</u>	<u>27,253</u>	<u>-</u>
Fund balance - end of year	<u>\$ 21,599</u>	<u>\$ 34,399</u>	<u>\$ 28,045</u>	<u>\$ (6,354)</u>

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Park Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ 80,081	\$ 80,081
Charges for services	210,000	198,000	228,192	30,192
Interest income	500	500	1,844	1,344
Other revenue	11,600	4,000	5,138	1,138
Transfers in	70,000	70,000	70,000	-
Total revenues	<u>292,100</u>	<u>272,500</u>	<u>385,255</u>	<u>112,755</u>
<b>Expenditures</b>				
Current				
Recreation and culture	480,706	287,006	327,701	40,695
Capital outlay	10,000	10,000	-	(10,000)
Debt service				
Principal retirement	2,500	2,500	2,500	-
Interest and fiscal charges	68	68	85	17
Transfers out	5,000	5,000	4,696	(304)
Total expenditures	<u>498,274</u>	<u>304,574</u>	<u>334,982</u>	<u>30,408</u>
Excess of revenues (deficiency) over expenditures	(206,174)	(32,074)	50,273	82,347
<b>Other financing sources</b>				
Bond/note proceeds	200,000	-	-	-
Total other financing sources	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(6,174)	(32,074)	50,273	82,347
Fund balance - beginning of year	<u>42,596</u>	<u>42,596</u>	<u>42,596</u>	<u>-</u>
Fund balance - end of year	<u>\$ 36,422</u>	<u>\$ 10,522</u>	<u>\$ 92,869</u>	<u>\$ 82,347</u>

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Special Assessment Debt Service Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Interest income	\$ 1,000	\$ 1,500	\$ 23,972	\$ 22,472
Other revenue	47,345	47,345	31,330	(16,015)
Total revenues	48,345	48,845	55,302	6,457
<b>Expenditures</b>				
Debt service				
Principal retirement	30,000	30,000	30,000	-
Interest and fiscal charges	18,045	18,045	17,620	(425)
Total expenditures	48,045	48,045	47,620	(425)
Excess of revenues over expenditures	300	800	7,682	6,882
Fund balance - beginning of year	87,900	87,900	87,900	-
Fund balance - end of year	\$ 88,200	\$ 88,700	\$ 95,582	\$ 6,882

**City of New Buffalo**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Capital Improvements Fund**  
**For the Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Interest income	\$ 2,000	\$ 3,000	\$ 5,036	\$ 2,036
Transfers in	24,000	24,000	24,000	-
Total revenues	<u>26,000</u>	<u>27,000</u>	<u>29,036</u>	<u>2,036</u>
<b>Expenditures</b>				
Current				
Other functions	-	-	26	26
Transfers out	56,101	56,101	56,326	225
Total expenditures	<u>56,101</u>	<u>56,101</u>	<u>56,352</u>	<u>-</u> <u>251</u>
Excess of revenues (deficiency) over expenditures	(30,101)	(29,101)	(27,316)	1,785
Fund balance - beginning of year	<u>193,709</u>	<u>193,709</u>	<u>193,709</u>	<u>-</u>
Fund balance - end of year	<u>\$ 163,608</u>	<u>\$ 164,608</u>	<u>\$ 166,393</u>	<u>\$ 1,785</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2007**

	Special	Debt Service			Capital Project Funds			Total Nonmajor Govern- mental Funds
	Revenue Fund	Michigan	GO	Park	Equip-	Building	Trans-	
	Harbor	Transport-	Bond	Beautifi-	ment	Authority	portation	
	Dredging	ation	Debt	cation	Purchase		Improve-	
							ment	
<b>Assets</b>								
Cash and cash equivalents	\$ 103,612	\$ 13,129	\$ 36,250	\$ 301	\$ 157,823	\$ 75,872	\$ 109,786	\$ 496,773
Due from other funds	-	16,998	-	-	-	27,993	6,141	51,132
<b>Total assets</b>	<b>\$ 103,612</b>	<b>\$ 30,127</b>	<b>\$ 36,250</b>	<b>\$ 301</b>	<b>\$ 157,823</b>	<b>\$ 103,865</b>	<b>\$ 115,927</b>	<b>\$ 547,905</b>
<b>Liabilities</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 2,585	\$ -	\$ 82,975	\$ 85,560
Accrued and other								
Due to other funds	-	-	34,175	-	-	-	13,297	47,472
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>34,175</b>	<b>-</b>	<b>2,585</b>	<b>-</b>	<b>96,272</b>	<b>133,032</b>
<b>Fund Balances</b>								
Reserved for:								
Debt service	-	30,127	2,075	-	-	-	-	32,202
Unreserved								
Undesignated	103,612	-	-	301	155,238	103,865	19,655	382,671
<b>Total fund balances</b>	<b>103,612</b>	<b>30,127</b>	<b>2,075</b>	<b>301</b>	<b>155,238</b>	<b>103,865</b>	<b>19,655</b>	<b>414,873</b>
<b>Total liabilities and fund balances</b>	<b>\$ 103,612</b>	<b>\$ 30,127</b>	<b>\$ 36,250</b>	<b>\$ 301</b>	<b>\$ 157,823</b>	<b>\$ 103,865</b>	<b>\$ 115,927</b>	<b>\$ 547,905</b>

See Accompanying Notes to Financial Statements

**City of New Buffalo**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	Special	Debt		Capital Project Fund			Total	
	Revenue Funds	Service						Nonmajor
	Harbor	Michigan	GO	Park	Equip-	Building	Transportation	Governmental
	Dredging	Transportation	Bond Debt	Beautification	ment Purchase	Authority	Improvement	Funds
<b>Revenues</b>								
Interest income	\$ 4,277	\$ 416	\$ 1,112	\$ 1	\$ 6,989	\$ 1,805	\$ 143	\$ 14,743
Other revenue	10,650	-	-	-	-	-	-	10,650
Total revenues	<u>14,927</u>	<u>416</u>	<u>1,112</u>	<u>1</u>	<u>6,989</u>	<u>1,805</u>	<u>143</u>	<u>25,393</u>
<b>Expenditures</b>								
Current								
General government	-	-	-	-	-	-	5,500	5,500
Capital outlay	-	-	-	-	191,445	-	159,131	350,576
Debt service								
Principal retirement	-	40,000	-	-	11,133	70,000	-	121,133
Interest and fiscal charges	-	16,576	-	-	2,249	55,004	-	73,829
Total expenditures	<u>-</u>	<u>56,576</u>	<u>-</u>	<u>-</u>	<u>204,827</u>	<u>125,004</u>	<u>164,631</u>	<u>551,038</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2007**

	Special Revenue Funds	Debt Service		Capital Project Fund			Trans- portation Improve- ment	Total Nonmajor Govern- mental Funds
	Harbor Dredging	Michigan Transport- ation	GO Bond Debt	Park Beautifi- cation	Equip- ment Purchase	Building Authority		
Excess (deficiency) of revenues over expenditures	\$ 14,927	\$(56,160)	\$ 1,112	\$ 1	\$ (197,838)	\$ (123,199)	\$(164,488)	\$(525,645)
<b>Other financing sources</b>								
Transfers in	4,696	56,326	-	-	120,000	124,454	-	305,476
Bond/note proceeds	-	-	-	-	-	-	180,000	180,000
Total other financing sources	<u>4,696</u>	<u>56,326</u>	<u>-</u>	<u>-</u>	<u>120,000</u>	<u>124,454</u>	<u>180,000</u>	<u>485,476</u>
Net change in fund balance	19,623	166	1,112	1	(77,838)	1,255	15,512	(40,169)
Fund balance - beginning of year	<u>83,989</u>	<u>29,961</u>	<u>963</u>	<u>300</u>	<u>233,076</u>	<u>102,610</u>	<u>4,143</u>	<u>455,042</u>
Fund balance - end of year	<u>\$ 103,612</u>	<u>\$ 30,127</u>	<u>\$ 2,075</u>	<u>\$ 301</u>	<u>\$ 155,238</u>	<u>\$ 103,865</u>	<u>\$ 19,655</u>	<u>\$ 414,873</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
<b>Governmental Activities</b>				
Michigan Transportation Fund Bonds, Series 2006	4.00%	10/1/2007	\$ 10,000	\$ 10,000
Date of agreement: 10/1/07	4.00%	10/1/2008	15,000	15,000
Amount of agreement: \$180,000	4.05%	10/1/2009	15,000	15,000
	4.10%	10/1/2010	15,000	15,000
	4.15%	10/1/2011	20,000	20,000
	4.20%	10/1/2012	20,000	20,000
	4.20%	10/1/2013	20,000	20,000
	4.25%	10/1/2014	20,000	20,000
	4.25%	10/1/2015	20,000	20,000
	4.30%	10/1/2016	25,000	25,000
				<u>180,000</u>
2000 Special Assessment Bonds	5.35%	06/01/08	35,000	35,000
Date of issue: 4-1-00	5.40%	06/01/09	30,000	30,000
Amount of issue: \$495,000	5.50%	06/01/10	30,000	30,000
	5.55%	06/01/11	30,000	30,000
	5.60%	06/01/12	35,000	35,000
	5.65%	06/01/13	30,000	30,000
	5.75%	06/01/14	30,000	30,000
	5.85%	06/01/15	15,000	15,000
	5.90%	06/01/16	10,000	10,000
	6.00%	06/01/17	10,000	10,000
	6.00%	06/01/18	15,000	15,000
	6.00%	06/01/19	10,000	10,000
				<u>280,000</u>



**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
1996 Building Authority Bonds	4.875%	09/01/07	\$ 75,000	\$ 75,000
Date of issue: 1-1-97	4.90%	09/01/08	80,000	80,000
Amount of issue: \$1,515,000	5.00%	09/01/09	85,000	85,000
	5.10%	09/01/10	90,000	90,000
	5.20%	09/01/11	95,000	95,000
	5.25%	09/01/12	100,000	100,000
	5.30%	09/01/13	110,000	110,000
	5.35%	09/01/14	115,000	115,000
	5.40%	09/01/15	120,000	120,000
	5.40%	09/01/16	130,000	130,000
				<u>1,000,000</u>
Michigan Transportation Fund Bonds, Series 2003	2.20%	12/01/07	15,000	15,000
Date of issue: 7-15-03	2.50%	12/01/08	15,000	15,000
Amount of issue: \$155,000	2.80%	12/01/09	15,000	15,000
	3.20%	12/01/10	15,000	15,000
	3.40%	12/01/11	15,000	15,000
	3.60%	12/01/12	15,000	15,000
	3.70%	12/01/13	20,000	20,000
				<u>110,000</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Equipment Lease Purchase Agreement	3.25%	09/10/07	\$ 13,500	\$ 13,500
Date of agreement: 9-10-03	3.25%	09/10/08	13,500	13,500
Amount of agreement: \$135,000	3.25%	09/10/09	13,500	13,500
	3.25%	09/10/10	13,500	13,500
	3.25%	09/10/11	13,500	13,500
	3.25%	09/10/12	13,500	13,500
	3.25%	09/10/13	13,500	13,500
				13,500
				94,500
Michigan Transportation Fund Bonds, Series 2005	3.60%	10/01/07	30,000	30,000
Date of agreement: 11/1/05	3.75%	10/01/08	30,000	30,000
Amount of agreement: \$315,000	3.90%	10/01/09	30,000	30,000
	4.10%	10/01/10	30,000	30,000
	4.20%	10/01/11	30,000	30,000
	4.30%	10/01/12	35,000	35,000
	4.40%	10/01/13	35,000	35,000
	4.50%	10/01/14	35,000	35,000
	4.65%	10/01/15	35,000	35,000
				35,000
				290,000
Installment Purchase Agreement	3.75%	07/15/07	11,551	11,551
Date of agreement: 7/15/05	3.75%	07/15/08	11,984	11,984
Amount of agreement: \$60,000	3.75%	07/15/09	12,433	12,433
	3.75%	07/15/10	12,899	12,899
				12,899
				48,867

**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Installment Purchase Agreement	4.83%	03/10/08	\$ 21,690	\$ 21,690
Date of agreement: 3/10/06	4.83%	03/10/09	22,738	22,738
Amount of agreement: \$672,000	4.83%	03/10/10	23,836	23,836
	4.83%	03/10/11	24,987	24,987
	4.83%	03/10/12	26,194	26,194
	4.83%	03/10/13	27,460	27,460
	4.83%	03/10/14	28,786	28,786
	4.83%	03/10/15	30,176	30,176
	4.83%	03/10/16	31,634	31,634
	4.83%	03/10/17	33,162	33,162
	4.83%	03/10/18	34,763	34,763
	4.83%	03/10/19	36,442	36,442
	4.83%	03/10/20	38,203	38,203
	4.83%	03/10/21	271,238	271,238
				<u>651,309</u>
Less deferred amounts				<u>(1,818)</u>
Total governmental activities				<u>2,652,858</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
<b>Business-type Activities</b>				
Limited Tax General Obligation Bonds, Series 2003				
Date of issue: 9-30-03	2.75%	11/01/07	\$ 85,000	\$ 85,000
Amount of issue: \$1,520,000	3.20%	05/01/08	90,000	90,000
	3.20%	11/01/08	90,000	90,000
	3.50%	05/01/09	90,000	90,000
	3.50%	11/01/09	90,000	90,000
	3.95%	05/01/10	95,000	95,000
	3.95%	11/01/10	95,000	95,000
	4.15%	05/01/11	100,000	100,000
	4.15%	11/01/11	100,000	100,000
	4.30%	05/01/12	105,000	<u>105,000</u>
				940,000
Less deferred amounts				<u>(56,429)</u>

**City of New Buffalo**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**June 30, 2007**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Total
Contract Payable - GRSD	3.000%	11/01/07	45,543	45,543
Date of contract: 12-10-03	3.125%	11/01/08	47,481	47,481
Amount of contract: \$1,567,639	3.125%	11/01/09	48,450	48,450
	3.375%	11/01/10	50,388	50,388
	6.625%	11/01/11	52,326	52,326
	3.750%	11/01/12	54,264	54,264
	3.875%	11/01/13	56,202	56,202
	3.600%	11/01/14	58,140	58,140
	3.700%	11/01/15	60,078	60,078
	3.900%	11/01/16	62,016	62,016
	3.950%	11/01/17	64,923	64,923
	4.050%	11/01/18	66,861	66,861
	4.150%	11/01/19	69,768	69,768
	4.250%	11/01/20	72,675	72,675
	4.350%	11/01/21	75,582	75,582
	4.450%	11/01/22	79,458	79,458
	4.550%	11/01/23	83,334	83,334
	4.625%	11/01/24	86,241	86,241
	4.625%	11/01/25	91,086	91,086
	4.700%	11/01/26	94,962	94,962
	4.700%	11/01/27	99,807	99,807
	4.700%	11/01/28	103,480	103,480
				1,523,065
Total business-type activities				2,406,636
Total indebtedness				\$ 5,059,494



October 9, 2007

Members of the City Council of  
City of New Buffalo, Michigan

In planning and performing our audit of the financial statements of City of New Buffalo as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered City of New Buffalo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an 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 weakness. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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:

### **Financial Statement Preparation Controls**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of City financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. The preparation of financial statements and disclosures, even from information provided by Management, meets this definition and is, therefore, a control deficiency. We recommend that Management and those charged with governance evaluate and document their informed decision on the costs and benefits of contracting for this service with our firm.

### **Documentation of Internal Controls**

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the City. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the City completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

### **Segregation of Duties**

We are sensitive to the fact that the City is a small organization; however we are required to tell you under auditing standards that the City has a control deficiency related to the segregation of duties. Even within very small organizations there is the ability to gain some amount of segregation of duties. We recommend that a certain minimum segregation of duties be implemented to increase the effectiveness of internal controls within the City. These procedures will help prevent human errors as well as being a deterrent to fraud. We recommend that the disbursement cycle be segregated to ensure the person writing the checks and reconciling the bank statement is not the person signing the checks. We recommend that the receipts cycle be segregated to ensure the person recording the deposits, recording pledges, and reconciling the bank statement is not the person making the deposits. We further recommend a person who has not reconciled the bank account review the bank reconciliation. If you would like further information on how to segregate duties as they specifically relate to the City's situation, we would be happy to provide you with additional information and consultation.

### **Control Environment**

In the course of our audit, we have the opportunity to make many inquiries and observations related to the control environment. Through these inquiries and observations we have observed that Management is very diligent in trying to promote the efficient and effective use of resources. Employees have also noted this diligence. On occasion Management's diligence has the inadvertent effect of appearing to minimize the importance of internal controls. Although this is only an appearance and we believe it is truly inadvertent, it has potential negative effects on the overall environment in which employees work. We recommend that Management visibly promote the City's internal controls while continuing to diligently promote the efficient and effective use of resources. This may include activities such as posting a Council member's telephone number for employees to use to report internal control breakdowns, emphasizing what monitoring or control procedures are already being done by Management, or creating a drop box for anonymous internal control improvement ideas to be discussed by the Council. All

of these activities are likely to incur little cost, including time, to implement but strengthen the overall control environment dramatically. Employee perception of the control environment is as important as the actual procedures implemented for internal control.

### **Information Technology**

During the course of our audit, we obtained an understanding of internal controls over the information technology (IT) system. We noted certain control deficiencies that could prevent the creation of complete and accurate financial reporting. We recommend that all computers require a user specific login and password. We further recommend that passwords not be written down in an obvious location such as on top of the desk. If passwords do need to be written down, we recommend that the location be inconspicuous and known only by the appropriate user. We also recommend that each user of an application be given a unique login and password for that application. These unique user names and passwords will prevent unauthorized employees from accidentally inputting information into the system. User names and passwords will also allow information inputted to be traced to a specific employee rather than to a general pool of employees. The implementation of a password policy which requires periodic changing of passwords is also beneficial.

### **Reconciliations**

As part of the internal control process, accounts should be reconciled on a timely basis. We noted that certain reconciliations were not performed on a timely basis. We recommend that monthly reconciliations of pertinent accounts be completed prior to the end of the following month. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation. The reconciliation process helps to detect any errors or frauds that may have occurred within an account. For example, timely bank reconciliations may detect bank charges which have not been posted to the general ledger; timely accounts receivable reconciliations between the subsidiary ledgers and the general ledger may detect mispostings of transactions to the wrong general ledger account. If the time commitment necessary to reconcile all pertinent accounts on a monthly basis is greater than the City can afford to expend, we would recommend reevaluating the number of accounts in the general ledger and the reasons for separate accounts. Many times over the evolution of a City, certain accounts which were once vital are no longer vital but continue to remain due to habit, in which case you could discontinue use of those accounts.

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

Sincerely

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan  
October 9, 2007