

### 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 Boyne City	County Charlevoix
Fiscal Year End 06/30/2007	Opinion Date 08/01/2007	Date Audit Report Submitted to State October 3, 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.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4.   The local unit has adopted a budget for all required funds.
5.   A public hearing on the budget was held in accordance with State statute.
6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8.   The local unit only holds deposits/investments that comply with statutory requirements.
9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11.   The local unit is free of repeated comments from previous years.
12.   The audit opinion is UNQUALIFIED.
13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14.   The board or council approves all invoices prior to payment as required by charter or statute.
15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789		
Street Address 134 West Harris Street		City Cadillac	State MI	Zip 49601
Authorizing CPA Signature 	Printed Name Jonathan E. Damhof, C.P.A.		License Number 1101022613	

**CITY OF BOYNE CITY, MICHIGAN**

**APRIL 30, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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# CITY OF BOYNE CITY, MICHIGAN

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# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

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August 1, 2007

### INDEPENDENT AUDITORS' REPORT

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City, Michigan, as of and for the year ended April 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 of Boyne City, Michigan's, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boyne City, Michigan, as of April 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 management's discussion and analysis and budgetary comparison information on pages iii through xii and 35-40, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting 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 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 the City of Boyne City, Michigan's, basic financial statements. The other

supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The other supplementary information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Accounting Standards*, we have also issued our report dated August 1, 2007, on our consideration of the City of Boyne City, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

## Management's Discussion and Analysis

As City Manager for the City of Boyne City, and head of the City's management team, it is my pleasure to welcome you to this review of our fiscal year ending April 30, 2007. This is the third of our annual financial audits that has incorporated the financial reporting changes called for in the GASB 34 standard. The goal of GASB 34 is to give the reviewer of this document a more balanced picture of the City's assets and liabilities. We hope that you will find that to be the case.

As management of the City of Boyne City, we offer readers of the City of Boyne City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended April 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **FINANCIAL HIGHLIGHTS**

- The assets of the City's primary government exceeded its liabilities at the close of the most recent fiscal year by \$12,897,694 (net assets). Of this amount, \$3,328,572 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$131,912.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,098,395 an increase of \$454,611 in comparison with the prior year. Approximately 97% of the ending fund balances, or \$2,041,229 is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,466,974, or 64% of the total general fund expenditures, not including transfers out.
- The City's total bonded debt not including the component units' activities increased by \$895,163 during the current fiscal year; new bonded debt of \$1,455,937 for the State Clean Water Revolving Fund was issued.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include the city council, general government, public safety, public works, health and welfare, community development, recreation and culture, and marina. The business-type activities of the City include water and sewer operations.

The government-wide financial statements include not only the City (known as the *primary government*), but also three legally separate authorities – the Downtown Development Authority, the Local Development Finance Authority and the Boyne City Housing Commission – for which the City is financially accountable. Financial information for these *component units* is reported in the supplementary information to these financial statements.

The government-wide financial statements can be found on pages 1-3 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major and Local Streets, and Fire Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets for the major funds.

The basic governmental fund financial statements can be found on pages 4-8 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because the service benefits the General, Major and Local Streets, Fire and Water and Sewer Fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer Fund, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 9-12 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 13 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-34 of this report.

**Other information.** The required supplementary information as well as the combining statements referred to earlier in connection with nonmajor governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 41-52 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,897,694 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets reflects its investment in capital assets (for example land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot themselves be used to liquidate these liabilities.

**City of Boyne City's Net Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 2,712,712	\$ 2,254,003	\$ 1,623,024	\$ 1,881,838	\$ 4,335,736	\$ 4,135,841
Capital assets	4,821,671	4,685,224	14,300,300	14,360,011	19,121,971	19,045,235
<b>Total assets</b>	<b>7,534,383</b>	<b>6,939,227</b>	<b>15,923,324</b>	<b>16,241,849</b>	<b>23,457,707</b>	<b>23,181,076</b>
Long-term liabilities						
outstanding	597,301	767,597	9,445,018	8,401,888	10,042,319	9,169,485
Other liabilities	248,499	201,464	269,195	780,521	517,694	981,985
<b>Total liabilities</b>	<b>845,800</b>	<b>969,061</b>	<b>9,714,213</b>	<b>9,182,409</b>	<b>10,560,013</b>	<b>10,151,470</b>
Net assets						
Invested in capital assets						
net of related debt	4,377,700	4,095,479	4,877,902	6,393,550	9,255,602	10,489,029
Restricted	6,990	21,504	306,530	299,114	313,520	320,618
Unrestricted	2,303,893	1,853,183	1,024,679	366,776	3,328,572	2,219,959
<b>Total net assets</b>	<b>\$ 6,688,583</b>	<b>\$ 5,970,166</b>	<b>\$ 6,209,111</b>	<b>\$ 7,059,440</b>	<b>\$12,897,694</b>	<b>\$13,029,606</b>

A portion of the City's net assets (2.43%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (26% or \$3,328,572) may be used to meet the City's ongoing obligations to citizens and creditors.

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

The City's net assets decreased by \$131,912 during the current fiscal year. This decrease came from the remaining costs on the write off of the old wastewater plant. However, this was offset by increases in other governmental activities such as property tax collection, grants and investment earnings.

**Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### City of Boyne City's Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program Revenues						
Charges for services	\$ 957,963	\$ 887,935	\$ 1,501,536	\$ 1,679,345	\$ 2,459,499	\$ 2,567,280
Operating grants and contributions	722,531	792,675	0	0	722,531	792,675
Capital Grants and Contributions	81,771	0	307,013	385,408	388,784	385,408
General revenue						
Property taxes	2,824,860	2,750,328	0	0	2,824,860	2,750,328
Grants and contributions						
not restricted to						
specific programs	350,987	354,934	0	0	350,987	354,934
Other	75,886	96,087	36,787	33,096	112,673	129,183
<b>Total revenue</b>	<b>5,013,998</b>	<b>4,881,959</b>	<b>1,845,336</b>	<b>2,097,849</b>	<b>6,859,334</b>	<b>6,979,808</b>
<b>Expenses</b>						
City commission	14,330	17,234	0	0	14,330	17,234
General government	1,328,602	1,448,588	0	0	1,328,602	1,448,588
Public safety	863,291	859,405	0	0	863,291	859,405
Public works	1,308,726	1,256,276	0	0	1,308,726	1,256,276
Health and welfare	426,117	425,576	0	0	426,117	425,576
Recreation and cultural	256,321	277,902	0	0	256,321	277,902
Other	74,244	26,165	0	0	74,244	26,165
Interest on long-						
term debt	23,950	33,790	0	0	23,950	33,790
Wastewater and water	0	0	2,695,665	1,331,515	2,695,665	1,331,515
<b>Total expenses</b>	<b>4,295,581</b>	<b>4,344,936</b>	<b>2,695,665</b>	<b>1,331,515</b>	<b>6,991,246</b>	<b>5,676,451</b>
<b>Increase/(Decrease) in</b>						
<b>net assets</b>	<b>718,417</b>	<b>537,023</b>	<b>(850,329)</b>	<b>766,334</b>	<b>(131,912)</b>	<b>1,303,357</b>
<b>Net assets -</b>						
Beginning of year	5,970,166	5,433,143	7,059,440	6,293,106	13,029,606	11,726,249
End of year	\$ 6,688,583	\$ 5,970,166	\$ 6,209,111	\$ 7,059,440	\$ 12,897,694	\$ 13,029,606

**Governmental activities:** Governmental activities increased the City's net assets by \$718,417. Key elements of this increase are as follows:

Property tax collections increased \$74,532 and expenditures decreased by \$49,355.

Interest earnings increased \$13,596 due to more preferable investment rates available to the City.

**Business-type activities:** Business-type activities decreased the City's net assets by \$850,329. Much of this decrease was due to the write off of remaining costs in the old wastewater system of \$1,086,101. This was offset by net operating increases of \$235,772 which includes capital grants for \$247,013.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,098,395, an increase of \$454,611 in comparison with the prior year. Approximately \$2,041,229 constitutes *unreserved fund balance*, which is available at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed as a reserve for specific purposes.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance in the General Fund of \$1,505,349 had a balance of \$1,466,974 that was unreserved. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures, not including transfers to other funds. Unreserved fund balance represents 64% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$349,094 during the current fiscal year.

**Proprietary fund.** The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year amounted to \$1,024,679 with capital assets net of related debt of \$4,877,902 and restricted net assets of \$306,530. The Wastewater and Water Fund had an decrease in net assets of \$850,329. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights:**

The original expenditures budgeted for fiscal year end 2007 budget were \$2,604,948. The amended expenditures were \$2,437,725. Actual expenditures were \$2,283,355, a positive variance of \$154,370 from the amended budget.

## Capital Asset and Debt Administration

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of April 30, 2007, amounted to \$19,121,971 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems improvements, machinery and equipment, park facilities and roads. The total net increase in the City's investment in capital assets for the current fiscal year was 30%.

Major capital asset events during the current fiscal year included the following:

- The beginning of a million dollar downtown enhancement project.
- Approximately \$300,000 of street reconstruction.
- The completion of \$9.6 million of wastewater system improvements.
- Various equipment purchases.

Additional information on the City's capital assets can be found Note III. C on pages 23-27 of this report.

### City of Boyne City's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 921,736	\$ 921,736	\$ 0	\$ 0	\$ 921,736	\$ 921,736
Land improvements	459,415	498,454	0	0	459,415	498,454
Infrastructure	1,236,000	996,840	0	0	1,236,000	996,840
Buildings, structures and systems	785,044	825,858	14,277,762	6,192,543	15,062,806	7,018,401
Equipment	1,387,837	1,394,014	22,538	57,486	1,410,375	1,451,500
Furniture and Fixtures	31,639	48,322	0	0	31,639	48,322
Construction in progress	0	0	0	8,109,982	0	8,109,982
<b>Total</b>	<b>\$ 4,821,671</b>	<b>\$ 4,685,224</b>	<b>\$ 14,300,300</b>	<b>\$ 14,360,011</b>	<b>\$ 19,121,971</b>	<b>\$ 19,045,235</b>

**Note Payable Long-Term Debt.** At the end of the current fiscal year, the City had total bonded debt and notes payable outstanding of \$9,866,369 which comprises debt backed by the full faith and credit of the City. The City has also pledged its full faith and credit to the Downtown Development and Local Development Finance Authority Component Units bonded debt, note, and loan payable debt agreements of \$751,167.

**City of Boyne City's Outstanding Debt**  
(general obligation and revenue bonds)

The City's primary government has \$9,866,369 in long-term debt. The breakdown of this debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 200,000	\$ 290,000	\$ 9,422,398	\$ 8,381,461	\$ 9,622,398	\$ 8,671,461
Fire Truck	243,971	299,745	0	0	243,971	299,745
<b>Total net debt</b>	<b>\$ 443,971</b>	<b>\$ 589,745</b>	<b>\$ 9,422,398</b>	<b>\$ 8,381,461</b>	<b>\$ 9,866,369</b>	<b>\$ 8,971,206</b>

The City and Component Units total debt increased by \$ 663,803 during the current fiscal year, with \$1,455,937 new debt issued in the Wastewater Fund.

State statute limits the amount of general obligation debt a governmental entity may issue to ten percent of the local unit's total equalized valuation. The current debt limitation for the City is \$18,932,634, which is significantly greater than the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note III.F on pages 28-31 of this report.

**Economic Factors and Next Year's Budget Considerations**

In early October 2007 when this letter was written, the general economic signs were bleaker than they have been in several years. The national economy, which has been growing over the past few years, is showing signs of weakness. Recent headlines of the Traverse City Record Eagle noted growing recession fears. Nationally, a deep housing slump coupled with expanded problems in the credit industry has joined with the August's reported cut in jobs nationally; the first in four years to all but eliminate any hope of a stronger national economy leading Michigan out the economic doldrums. That had been the promise for almost the last five years in Michigan, but it never came to fruition. To the contrary, the State of Michigan, due to its reliance on the auto industry and manufacturing, has seen its economic condition deteriorate over the same time frame. Despite a recent contract settlement between GM and the UAW, the overall outlook for the future is not encouraging.

The State budget process has been much more difficult than usual with an agreement for an extension of the previous year's budget coming together only after state services experienced a brief shutdown. The details have yet to be seen, but at least it appears an agreement has been reached in Lansing. Unfortunately, the talk is no longer that an improvement in the State's economy is just around the corner as it has been for the past few years, the talk is now that the current weak economy in Michigan, in the best possible world, will not realistically turn around for at least couple of years.

The state of the national and state budgets is continuing to cause difficulties for local government. This is seen most directly on the City in the State of Michigan's cuts in state shared revenues. Current indications from Lansing indicate that the best we can hope for is a continuation of current funding levels. Given the State's own economic situation, even this is not a foregone conclusion. Since last year the local real estate market has softened. Foreclosures are now being heard of more frequently; more properties are on the market and the prices they are commanding in many cases are reduced from a few years ago. This has potential negative implications for future local property tax collections. Increases in this major area of City revenues may be less than what we have experienced in recent years. Despite weakness in the economy, Boyne is faring much better than most communities. We are well positioned to ride out an economic storm and be among the first to feel the effects of a recovery. There is growth and new development still taking place here. The levels of growth may be lower than they have been in the past, but there is still growth. Two waterfront developments in Boyne City have been approved and are working towards moving forward. If one or both of these projects come to fruition they would provide a significant boost to the City's overall revenues. The City has entered into an agreement with the developer of the Sommerset Pointe development to allow the extension of City sewer and water services to that site in Eveline Township. The agreement should provide additional customers and revenues to help support the City's water and sanitary sewer systems at basically no cost to the City or its utility customers. New and remodeled homes continue to sprout up around the City. Business in our downtown continues to hold its own with no major losses and some with major reinvestment, such as the 220 South Lake Street restaurant. We are keeping a close eye on our industrial base as some of those companies associated with the auto industry continue to face significant challenges. So the revenue forecast for the coming year has to be characterized as more guarded than it has been in recent years.

In addition to the guarded revenue forecast, the City continues to be faced with significant expenditure increases, especially in our insurance coverage, specifically health related insurances. Although this too is a national issue, it does not minimize the impact on the City's cost of doing business. The City continues to move forward with its investments in its own long-term health by making sure the necessary infrastructure is in place to meet current and future needs. This past year again focused on major improvements to the infrastructure systems. Through the State's low interest SRF loan program, just under 8.4 million dollars worth of improvements were completed in the fiscal year that just ended. These improvements should meet the needs of Boyne City and its surrounding customers, for the next twenty years or so. In addition, the City was successful in getting two major matching Community Development Block Grants that are literally rebuilding several major streets in our downtown. The entire width of the streets, everything from building face to building is being replaced. This includes water, sanitary sewer, and storm drain lines below the streets, to the trees, streetlights, and sidewalks. We have been able to leverage local dollars by using the grants to complete projects that the community has been requesting for nearly a decade.

The City is fortunate to have built up significant unrestricted net assets of \$3,328,572. In a worst-case scenario, these funds provide the City both the time and the means to weather most unexpected challenges. It should be noted that there has been an increase in demand for improvements to most

of the City's infrastructure systems. Those demands have recently been addressed in the City's water system with significant production, storage and distribution improvements and by improvements to the City's sanitary sewer system through the construction of a new treatment plant. This project has been financed with low-rate financing from the State through their SRF program. These improvements are paid for through increased user fees (also known as rates) and grants.

Other areas needing attention include the City's road and sidewalk systems. Current funding takes care of basic maintenance but does not provide for significant amounts of long-term improvements in the overall systems. To better address these needs the City will have to dedicate additional sources of funding, which may include a dedicated millage for such improvements and increased use of special assessments.

The City is continuing to look into making improvements to its marina and boat launch facilities to both improve the long-term economic viability of its commercial district and provide the necessary mass to allow the marina to become self-sustaining. It is anticipated that this would be financed through both grant funding and user fees. After an operational financial plan is established; a decision will be made to determine the feasibility of a marina expansion.

Still further, the City has studied its own space needs and appropriate locations for its departments. That investigation has resulted in an estimated potential of over five million dollars of prospective improvements. The sources of funds to undertake these projects have not yet been determined.

While there are many challenges, the City is blessed with many assets and resources to draw on. The City's recognition by the State as one of their first four Michigan Main Street Communities has been producing dividends in making sure that our original business core remains vital in the years ahead. It is, at least in part, through our Main Street Program that we were successful in obtaining two major grants from the State. This program will help insure that Boyne's downtown has the capacities and features to attract and serve current and future businesses well for years to come. Boyne's location, both in northern Michigan and on the waterfront of Lake Charlevoix, is keeping us a much desired location and is helping to insure the long-term success of the community.

### **Requests for Information**

This discussion and analysis is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City Hall, 319 North Lake Street, Boyne City, Michigan 49712 or via email at [mcaim@boynecity.com](mailto:mcaim@boynecity.com).

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF NET ASSETS

APRIL 30, 2007

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Cash and cash equivalents	\$ 2,045,085	\$ 763,346	\$ 2,808,431	\$ 1,313,446
Receivables	572,409	494,916	1,067,325	203,949
External parties - fiduciary funds	34,536	0	34,536	0
Inventory	24,579	14,871	39,450	933
Prepaid items and other assets	36,103	0	36,103	12,592
Restricted cash and cash equivalents	0	306,530	306,530	0
Bond issuance costs	0	43,361	43,361	0
Land and construction in progress	921,736	0	921,736	1,084,687
Depreciable capital assets, net	3,899,935	14,300,300	18,200,235	3,649,309
<b>Total assets</b>	<b>7,534,383</b>	<b>15,923,324</b>	<b>23,457,707</b>	<b>6,264,916</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	247,775	252,195	499,970	201,911
Accrued interest payable	724	17,000	17,724	824
Customer deposits	0	0	0	32,288
Deferred revenue	0	0	0	7,865
Noncurrent liabilities				
Due within one year	163,755	425,000	588,755	188,192
Due in more than one year	433,546	9,020,018	9,453,564	771,691
<b>Total liabilities</b>	<b>845,800</b>	<b>9,714,213</b>	<b>10,560,013</b>	<b>1,202,771</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,377,700	4,877,902	9,255,602	3,803,780
Restricted for				
Debt service	6,990	306,530	313,520	0
Unrestricted	2,303,893	1,024,679	3,328,572	1,258,365
<b>Total net assets</b>	<b>\$ 6,688,583</b>	<b>\$ 6,209,111</b>	<b>\$ 12,897,694</b>	<b>\$ 5,062,145</b>

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

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED APRIL 30, 2007

<b>Functions / Programs</b>	<b>Program Revenues</b>				<b>Net (Expense) Revenue</b>
	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities					
City commission	\$ 14,330	\$ 0	\$ 0	\$ 0	\$ (14,330)
General government	1,328,602	149,668	276,204	0	(902,730)
Public safety	863,291	191,331	16,226	0	(655,734)
Public works	1,308,726	286,502	408,450	81,771	(532,003)
Health and welfare	426,117	330,462	18,297	0	(77,358)
Recreation and cultural	256,321	0	3,354	0	(252,967)
Other	74,244	0	0	0	(74,244)
Interest on long-term debt	23,950	0	0	0	(23,950)
<b>Total governmental activities</b>	<b>4,295,581</b>	<b>957,963</b>	<b>722,531</b>	<b>81,771</b>	<b>(2,533,316)</b>
Business-type activities					
Wastewater and water	2,695,665	1,501,536	0	307,013	(887,116)
<b>Total primary government</b>	<b>\$ 6,991,246</b>	<b>\$ 2,459,499</b>	<b>\$ 722,531</b>	<b>\$ 388,784</b>	<b>\$ (3,420,432)</b>
<b>Component units</b>					
Downtown Development Authority					
Authority	\$ 269,892	\$ 0	\$ 105,323	\$ 250,423	\$ 85,854
Local Development Finance Authority					
Authority	79,353	0	0	0	(79,353)
Boyne City Housing Commission					
Housing Commission	789,337	208,908	409,671	0	(170,758)
<b>Total component units</b>	<b>\$ 1,138,582</b>	<b>\$ 208,908</b>	<b>\$ 514,994</b>	<b>\$ 250,423</b>	<b>\$ (164,257)</b>

# CITY OF BOYNE CITY, MICHIGAN

## STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (2,533,316)	\$ (887,116)	\$ (3,420,432)	\$ (164,257)
General revenues				
Property taxes	2,824,860	0	2,824,860	508,663
Grants and contributions not restricted to specific programs	350,987	0	350,987	0
Unrestricted investment earnings	63,279	36,787	100,066	37,648
Other	12,607	0	12,607	65,622
<b>Total general revenues</b>	<b>3,251,733</b>	<b>36,787</b>	<b>3,288,520</b>	<b>611,933</b>
Changes in net assets	718,417	(850,329)	(131,912)	447,676
Net assets, beginning of year, as restated	5,970,166	7,059,440	13,029,606	4,614,469
<b>Net assets, end of year</b>	<b>\$ 6,688,583</b>	<b>\$ 6,209,111</b>	<b>\$ 12,897,694</b>	<b>\$ 5,062,145</b>

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

# CITY OF BOYNE CITY, MICHIGAN

## BALANCE SHEET GOVERNMENTAL FUNDS

APRIL 30, 2007

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,410,597	\$ 0	\$ 0
Accounts receivable	80,893	0	76
Due from other funds	34,536	0	0
Due from other governmental units	95,778	72,202	14,859
Inventory	0	0	0
Prepaid items	36,103	0	0
<b>Total assets</b>	<b>\$ 1,657,907</b>	<b>\$ 72,202</b>	<b>\$ 14,935</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 115,179	\$ 62,537	\$ 4,854
Accrued expenses	25,054	3,563	3,271
Deferred revenue	12,325	0	0
<b>Total liabilities</b>	<b>152,558</b>	<b>66,100</b>	<b>8,125</b>
<b>Fund balances</b>			
Reserved for debt service	0	0	0
Reserved for inventory	0	0	0
Reserved for prepaid items	36,103	0	0
Reserved for Cemetery Improvements	0	0	0
Unreserved, designated for			
Historical society	2,272	0	0
Unreserved, undesignated reported in:			
General fund	1,466,974	0	0
Special revenue funds	0	6,102	6,810
<b>Total fund balances</b>	<b>1,505,349</b>	<b>6,102</b>	<b>6,810</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,657,907</b>	<b>\$ 72,202</b>	<b>\$ 14,935</b>

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

<b>Fire</b>	<b>Ambulance</b>	<b>Other Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 169,381	\$ 33,669	\$ 87,732	\$ 1,701,379
0	98,529	13,622	193,120
0	0	0	34,536
196,265	0	0	379,104
0	0	7,242	7,242
0	0	0	36,103
<b>\$ 365,646</b>	<b>\$ 132,198</b>	<b>\$ 108,596</b>	<b>\$ 2,351,484</b>
\$ 5,580	\$ 6,670	\$ 3,715	\$ 198,535
113	1,215	793	34,009
0	0	8,220	20,545
<b>5,693</b>	<b>7,885</b>	<b>12,728</b>	<b>253,089</b>
0	0	7,714	7,714
0	0	7,242	7,242
0	0	0	36,103
0	0	3,835	3,835
0	0	0	2,272
0	0	0	1,466,974
359,953	124,313	77,077	574,255
<b>359,953</b>	<b>124,313</b>	<b>95,868</b>	<b>2,098,395</b>
<b>\$ 365,646</b>	<b>\$ 132,198</b>	<b>\$ 108,596</b>	<b>\$ 2,351,484</b>

**CITY OF BOYNE CITY, MICHIGAN**

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR  
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
ON THE STATEMENT OF NET ASSETS**

**APRIL 30, 2007**

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<b>Fund balances - total governmental funds</b>	<b>\$ 2,098,395</b>
Amounts reported for governmental activities in the statement of net assets are different because	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add - capital assets	7,144,312
Deduct - accumulated depreciation	(2,732,890)
Other assets are not available to pay for current period expenditures and, therefore, are deferred or not reported in the funds.	
	20,545
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add - net assets of governmental activities accounted for in the internal service fund	749,733
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	(200,000)
Deduct - notes payable	(243,971)
Deduct - accrued interest on notes payable	(724)
Deduct - compensated absences and other long-term liabilities	(146,817)
<b>Net assets of governmental activities</b>	<b><u>\$ 6,688,583</u></b>

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

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>General</b>	<b>Major Street</b>	<b>Local Street</b>	<b>Fire</b>	<b>Ambulance</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>							
Taxes	\$ 2,736,301	\$ 0	\$ 0	\$ 0	\$ 0	\$ 88,559	\$ 2,824,860
Federal revenues	17,000	81,771	0	0	0	0	98,771
State revenues	359,817	264,491	122,094	7,396	0	0	753,798
Local revenues	276,204	0	0	0	15,960	0	292,164
Charges for services	179,527	0	0	186,639	330,462	259,532	956,160
Contributions	3,354	0	0	0	2,337	4,865	10,556
Sale of capital asset	4,268	0	0	0	0	0	4,268
Interest and rentals	60,548	151	27	6,608	33	4,155	71,522
Other revenues	0	20	76	0	0	0	96
<b>Total revenues</b>	<b>3,637,019</b>	<b>346,433</b>	<b>122,197</b>	<b>200,643</b>	<b>348,792</b>	<b>357,111</b>	<b>5,012,195</b>
<b>Expenditures</b>							
Current							
Legislative	14,330	0	0	0	0	0	14,330
General government	1,327,326	0	0	0	0	0	1,327,326
Public safety	615,257	0	0	166,964	0	0	782,221
Public works	31,376	612,565	576,679	0	0	290,842	1,511,462
Health and welfare	1,175	0	0	0	457,277	0	458,452
Recreation and cultural	219,647	0	0	0	0	0	219,647
Other expenditures	74,244	0	0	0	0	0	74,244
Debt service							
Principal	0	0	0	55,774	0	90,000	145,774
Interest and fiscal charges	0	0	0	10,821	0	13,307	24,128
<b>Total expenditures</b>	<b>2,283,355</b>	<b>612,565</b>	<b>576,679</b>	<b>233,559</b>	<b>457,277</b>	<b>394,149</b>	<b>4,557,584</b>
Excess (deficiency) of revenues over (under) expenditures	1,353,664	(266,132)	(454,482)	(32,916)	(108,485)	(37,038)	454,611
<b>Other financing sources (uses)</b>							
Transfers in	0	270,628	461,292	50,000	158,100	64,550	1,004,570
Transfers out	(1,004,570)	0	0	0	0	0	(1,004,570)
<b>Total other financing sources (uses)</b>	<b>(1,004,570)</b>	<b>270,628</b>	<b>461,292</b>	<b>50,000</b>	<b>158,100</b>	<b>64,550</b>	<b>0</b>
Net changes in fund balances	349,094	4,496	6,810	17,084	49,615	27,512	454,611
Fund balances, beginning of year	1,156,255	1,606	0	342,869	74,698	68,356	1,643,784
<b>Fund balances, end of year</b>	<b>\$ 1,505,349</b>	<b>\$ 6,102</b>	<b>\$ 6,810</b>	<b>\$ 359,953</b>	<b>\$ 124,313</b>	<b>\$ 95,868</b>	<b>\$ 2,098,395</b>

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

**CITY OF BOYNE CITY, MICHIGAN**

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

**FOR THE YEAR ENDED APRIL 30, 2007**

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**Net change in fund balances - total governmental funds** **\$ 454,611**

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,803

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.

Add - capital outlay 416,526  
Deduct - depreciation expense (309,962)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities 145,774

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the governmental funds is reported with governmental activities. (16,567)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds 178  
Add - decrease in the accrual for compensated absences 26,054

**Change in net assets of governmental activities** **\$ 718,417**

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

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**APRIL 30, 2007**

	<b>Business-type Activity-Enterprise Funds</b>			<b>Governmental</b>
				<b>Activity</b>
	<b>Major Funds</b>			<b>Internal</b>
	<b>Wastewater</b>	<b>Water</b>	<b>Totals</b>	<b>Service - Motor</b>
				<b>Pool</b>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 763,346	\$ 0	\$ 763,346	\$ 343,706
Accounts receivable	258,097	161,685	419,782	185
Due from other governmental units	47,227	27,907	75,134	0
Inventory	527	14,344	14,871	17,337
<b>Total current assets</b>	<b>1,069,197</b>	<b>203,936</b>	<b>1,273,133</b>	<b>361,228</b>
Restricted cash and cash equivalents				
Bond reserve	148,325	67,000	215,325	0
Bond and interest redemption	43,205	9,365	52,570	0
Replacement	0	10,000	10,000	0
Improvement	0	28,635	28,635	0
<b>Total restricted cash and cash equivalents</b>	<b>191,530</b>	<b>115,000</b>	<b>306,530</b>	<b>0</b>
Noncurrent assets				
Bond issuance costs	43,361	0	43,361	0
Property and equipment - net	11,313,882	2,986,418	14,300,300	410,249
<b>Total noncurrent assets</b>	<b>11,357,243</b>	<b>2,986,418</b>	<b>14,343,661</b>	<b>410,249</b>
<b>Total assets</b>	<b>12,617,970</b>	<b>3,305,354</b>	<b>15,923,324</b>	<b>771,477</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	173,797	58,493	232,290	13,768
Deposits payable	8,112	5,186	13,298	0
Accrued expenses	2,816	3,791	6,607	1,463
Accrued interest payable	13,900	3,100	17,000	0
Current portion of bonds payable and accrued compensated absences	350,000	75,000	425,000	0
<b>Total current liabilities</b>	<b>548,625</b>	<b>145,570</b>	<b>694,195</b>	<b>15,231</b>
Noncurrent liabilities				
Accrued compensated absences	4,801	17,819	22,620	6,513
Bonds payable, net of current portion	7,577,398	1,420,000	8,997,398	0
<b>Total Noncurrent liabilities</b>	<b>7,582,199</b>	<b>1,437,819</b>	<b>9,020,018</b>	<b>6,513</b>
<b>Total liabilities</b>	<b>8,130,824</b>	<b>1,583,389</b>	<b>9,714,213</b>	<b>21,744</b>
<b>Net assets</b>				
Investment in capital assets, net of related debt	3,386,484	1,491,418	4,877,902	410,249
Restricted for				
Bond reserve	148,325	67,000	215,325	0
Bond and interest redemption	43,205	9,365	52,570	0
Replacement	0	10,000	10,000	0
Improvement	0	28,635	28,635	0
Unrestricted	909,132	115,547	1,024,679	339,484
<b>Total net assets</b>	<b>\$ 4,487,146</b>	<b>\$ 1,721,965</b>	<b>\$ 6,209,111</b>	<b>\$ 749,733</b>

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

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Business-type Activity-Enterprise Funds</b>			<b>Governmental Activity</b>
	<b>Major Funds</b>		<b>Totals</b>	<b>Internal Service - Motor Pool</b>
	<b>Wastewater</b>	<b>Water</b>		
<b>Operating revenues</b>				
Charges for services	\$ 922,453	\$ 579,083	\$ 1,501,536	\$ 239,009
<b>Operating expenses</b>				
Personnel services	181,856	237,187	419,043	68,538
Contracted services	82,933	74,243	157,176	20,126
Supplies and materials	60,639	78,591	139,230	36,893
Repairs and maintenance	50,648	20,726	71,374	40,364
Depreciation and amortization	253,286	246,005	499,291	103,079
Utilities	103,332	26,012	129,344	19,354
<b>Total operating expenses</b>	<b>732,694</b>	<b>682,764</b>	<b>1,415,458</b>	<b>288,354</b>
Operating income (loss)	189,759	(103,681)	86,078	(49,345)
<b>Nonoperating revenues (expenses)</b>				
Interest income	19,706	17,081	36,787	11,766
Interest expense	(154,876)	(39,230)	(194,106)	0
Rent	0	0	0	19,708
Grants	180,574	66,439	247,013	0
Other revenue	60,000	0	60,000	487
Write off of abandoned wastewater system	(1,070,535)	(15,566)	(1,086,101)	0
Gain on sale of equipment	0	0	0	817
<b>Total nonoperating revenues (expenses)</b>	<b>(965,131)</b>	<b>28,724</b>	<b>(936,407)</b>	<b>32,778</b>
Change in net assets	(775,372)	(74,957)	(850,329)	(16,567)
Net assets, beginning of year	5,262,518	1,796,922	7,059,440	766,300
<b>Net assets, end of year</b>	<b>\$ 4,487,146</b>	<b>\$ 1,721,965</b>	<b>\$ 6,209,111</b>	<b>\$ 749,733</b>

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

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Business-type Activity-Enterprise Funds</b>			<b>Governmental Activity</b>
	<b>Major Funds</b>			<b>Internal Service-Motor Pool</b>
	<b>Wastewater</b>	<b>Water</b>	<b>Totals</b>	
<b>Cash flows from operating activities</b>				
Cash received from customers	\$ 932,238	\$ 607,502	\$ 1,539,740	\$ 0
Cash received from interfund services provided	0	0	0	238,924
Cash payments to employees	(184,826)	(239,375)	(424,201)	(66,597)
Cash payments to suppliers for goods and services	(363,751)	(142,433)	(506,184)	(107,923)
<b>Net cash provided by operating activities</b>	<b>383,661</b>	<b>225,694</b>	<b>609,355</b>	<b>64,404</b>
<b>Cash flows from non-capital financing activities</b>				
Rental income	0	0	0	19,708
Miscellaneous income	60,000	0	60,000	487
<b>Net cash provided by non-capital financing activities</b>	<b>60,000</b>	<b>0</b>	<b>60,000</b>	<b>20,195</b>
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(1,352,398)	(167,057)	(1,519,455)	(132,962)
Sale of capital assets	0	0	0	817
Proceeds from capital grants	133,347	38,532	171,879	0
Proceeds from bond issuance	1,455,937	0	1,455,937	0
Restricted cash	(191,530)	(115,000)	(306,530)	0
Principal payments	(340,000)	(75,000)	(415,000)	0
Interest payments	(157,636)	(39,250)	(196,886)	0
<b>Net cash used in capital and related financing activities</b>	<b>(452,280)</b>	<b>(357,775)</b>	<b>(810,055)</b>	<b>(132,145)</b>
<b>Cash flows provided by investing activities</b>				
Interest income	19,706	17,081	36,787	11,766
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>11,087</b>	<b>(115,000)</b>	<b>(103,913)</b>	<b>(35,780)</b>
Cash and cash equivalents, beginning of year	752,259	115,000	867,259	379,486
<b>Cash and cash equivalents, end of year</b>	<b>\$ 763,346</b>	<b>\$ 0</b>	<b>\$ 763,346</b>	<b>\$ 343,706</b>

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

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Business-type Activity-Enterprise Funds</b>			<b>Internal Service-Motor Pool</b>
	<b>Major Funds</b>		<b>Totals</b>	
	<b>Wastewater</b>	<b>Water</b>		
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 189,759	\$ (103,681)	\$ 86,078	\$ (49,345)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	253,286	246,005	499,291	103,079
Changes in assets and liabilities which provided (used) cash				
Accounts receivable	10,241	28,419	38,660	(85)
Inventory	667	10,815	11,482	(1,246)
Accounts payable and accrued liabilities	(70,748)	44,136	(26,612)	12,001
Deposits payable	456	0	456	0
<b>Net cash provided by operating activities</b>	<b>\$ 383,661</b>	<b>\$ 225,694</b>	<b>\$ 609,355</b>	<b>\$ 64,404</b>

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

# CITY OF BOYNE CITY

## STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS

APRIL 30, 2007

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 335,799</u>
<b>Liabilities</b>	
Deposits payable	\$ 12,738
Due to other funds	34,536
Due to other governmental units	<u>288,525</u>
<b>Total liabilities</b>	<u>\$ 335,799</u>

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

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The *City of Boyne City* (the "City") is directed by a five member City Commission and a mayor elected by the City Commission. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, general administrative services and water and sewage disposal services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

**Blended Component Units**

The City has no blended component units.

**Discretely Presented Component Units**

**Downtown Development Authority (the "DDA")** – The City Manager with approval of the City Commission appoints the members of the governing board of the Authority. The City also has the ability to significantly influence the operations of the Downtown Development Authority. A complete financial statement of the Downtown Development Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

**Local Development Finance Authority (the "L DFA")** – The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Local Development Finance Authority. A complete financial statement of the Local Development Finance Authority can be obtained from the City Treasurer, City of Boyne City, 319 North Lake Street, Boyne City, Michigan 49712.

**Boyne City Housing Commission** - The City Manager with approval of the City Commission appoints the members of the governing board of the authority. The City also has the ability to significantly influence the operations of the Boyne City Housing Commission. A complete financial statement for the Boyne City Housing Commission can be obtained from Sheila Smith, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan 49712.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

**April 30, 2007**

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 segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general 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.

The City reports the following major governmental funds:

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

The *Major Street Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Fire Fund* accounts for the activities of the City's fire department.

The *Ambulance Fund* accounts for the activities of the City's ambulance department.

The *Water and Wastewater Funds* are the City's major proprietary funds. They account for the activities of the City's water distribution and the sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**C. 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, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are 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.

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, state-shared revenue, 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

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 charges between the government's water and sewer function, cost of building rent 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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

**April 30, 2007**

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 Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and 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 City's policy to use unrestricted resources first, then unrestricted resources as they are needed.

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

***1. Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Michigan Compiled Laws, Section 129.91 authorizes the local government unit 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 direct 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 estate of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Commissioners have designated four banks for the deposit of City funds. The investment policy adopted by the commission in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

The City's deposit and investment policy is in accordance with statutory authority

Investments are stated at fair value.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

**April 30, 2007**

**2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

The ambulance fund receivables are shown net of an allowance for uncollectible accounts. It is composed of expected Medicaid and Medicare write-offs and accounts receivable in excess of 120 days.

**3. *Inventory***

Inventory held by the general, enterprise and internal service funds are valued at cost utilizing the first-in, first-out method of accounting. The cost value of such inventories has been treated as an expenditure at the time of purchase.

**4. *Capital assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Infrastructure assets have been recorded since the adoption of the Governmental Accounting Standards Board Number 34. The City defines capital assets 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. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	20-50
Public domain infrastructure	20
System infrastructure	20-50
Vehicles	5-10
Equipment	5-20

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**5. *Compensated absences***

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick time is accumulated up to a maximum of 720 hours and upon retirement the employee will receive for sick time an amount based on the number of years of service multiplied by 1.5%. Vacation time will be paid in full. The liability for these amounts is included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

**6. *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 straight-line 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.

**7. *Fund equity***

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

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

Not later than the third week in April of each year, the City Commission shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City Commission is the functional level, which is the level at which expenditures may not legally exceed appropriations. The City Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a City Commissioners' resolution.

**B. Excess of expenditures over appropriations**

For the year ended April 30, 2007, the General Fund's assessor expenditures exceeded appropriations by \$3,790. These over expenditures were funded by greater than anticipated revenues in the funds and the use of prior year fund balances.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

*Investment rate risk.* The City will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the City's cash requirement.

*Foreign currency risk.* The City is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The City will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in Section 9 of the City's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the City will do business in accordance with Section 7 of the City's investment policy.

*Concentration of credit risk.* The City will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of April 30, 2007, \$3,298,771 of the government’s bank balance of \$3,406,462 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date \$1,271,457 of the discretely presented component unit’s bank balance of \$1,332,125 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City’s investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered, or securities held by the City or the City’s agent in the City’s name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty’s trust department or its agent in the City’s name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the City’s name. At year end, the City held no investments.

A reconciliation of cash and investments follows:

		<b>Primary Government</b>		<b>Component Units</b>
Carrying amount of Deposits	\$	3,450,760	\$	1,313,446
Government-wide Statement of Net Assets				
Cash and cash equivalents	\$	2,808,431	\$	1,313,446
Restricted cash and cash equivalents		306,530		0
Statement of Fiduciary Net Assets				
Cash and cash equivalents		335,799		0
Total	\$	3,450,760	\$	1,313,446

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<b>Accounts</b>	<b>Other Governments</b>	<b>Total</b>
<b>Primary government</b>			
General	\$ 80,893	\$ 95,778	\$ 176,671
Major streets	0	72,202	72,202
Local streets	76	14,859	14,935
Fire	0	196,265	196,265
Ambulance	98,529	0	98,529
Cemetery	8,915	0	8,915
Airport	4,707	0	4,707
Wastewater	258,097	47,227	305,324
Water	161,685	27,907	189,592
Motor pool	185	0	185
<b>Total Primary government</b>	<b>\$ 613,087</b>	<b>\$ 454,238</b>	<b>\$ 1,067,325</b>
<b>Component units</b>			
Downtown Development Authority	\$ 0	\$ 105,188	\$ 105,188
Boyne City Housing Commission	98,761	0	98,761
<b>Total Component Units</b>	<b>\$ 98,761</b>	<b>\$ 105,188</b>	<b>\$ 203,949</b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**C. Capital assets**

**Primary Government**

Capital assets activity in the governmental and business-type activities was as follows for the year ended April 30, 2007:

	<b>May 1, 2006</b>	<b>Increase</b>	<b>Decrease</b>	<b>April 30 2007</b>
<b>Governmental activities</b>				
Capital assets not being depreciated - land	\$ 921,736	\$ 0	\$ 0	\$ 921,736
Capital assets being depreciated				
Land improvements	1,262,564	26,002	0	1,288,566
Infrastructure	1,093,583	301,374	0	1,394,957
Buildings and structures	1,544,104	0	0	1,544,104
Equipment	3,335,313	222,112	(171,562)	3,385,863
Furniture and fixtures	137,545	0	0	137,545
Total capital assets being depreciated	<u>7,373,109</u>	<u>549,488</u>	<u>(171,562)</u>	<u>7,751,035</u>
Less accumulated depreciation for				
Land improvements	(764,110)	(65,041)	0	(829,151)
Infrastructure	(96,743)	(62,214)	0	(158,957)
Buildings and structures	(718,246)	(40,814)	0	(759,060)
Equipment	(1,941,299)	(228,289)	171,562	(1,998,026)
Furniture and fixtures	(89,223)	(16,683)	0	(105,906)
Total accumulated depreciation	<u>(3,609,621)</u>	<u>(413,041)</u>	<u>171,562</u>	<u>(3,851,100)</u>
Total capital assets being depreciated, net	<u>3,763,488</u>	<u>136,447</u>	<u>0</u>	<u>3,899,935</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 4,685,224</u></b>	<b><u>\$ 136,447</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,821,671</u></b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

	<b>May 1, 2006</b>	<b>Increase</b>	<b>Decrease</b>	<b>April 30 2007</b>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Construction in progress	\$ 8,109,982	\$ 0	\$ (8,109,982)	\$ 0
Capital assets being depreciated				
Water system plant	5,558,035	167,057	(16,517)	5,708,575
Sanitary sewer disposal	5,932,233	9,462,380	(2,707,502)	12,687,111
Equipment	438,645	0	(86,007)	352,638
Total capital assets being depreciated	11,928,913	9,629,437	(2,810,026)	18,748,324
Less accumulated depreciation for				
Water system plant	(2,497,833)	(239,438)	5,230	(2,732,041)
Sanitary sewer disposal	(2,799,892)	(237,751)	1,651,760	(1,385,883)
Equipment	(381,159)	(15,876)	66,935	(330,100)
Total accumulated depreciation	(5,678,884)	(493,065)	1,723,925	(4,448,024)
Total capital assets being depreciated, net	6,250,029	9,136,372	(1,086,101)	14,300,300
<b>Business-type activities capital assets, net</b>	<b>\$ 14,360,011</b>	<b>\$ 9,136,372</b>	<b>\$ (9,196,083)</b>	<b>\$ 14,300,300</b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

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

**Governmental activities**

General government	\$ 40,423
Public safety	105,347
Public works	113,703
Health and welfare	13,815
Recreation and cultural	36,674
Capital assets held by the City's internal service fund charged to various functions based on their usage of the assets	<u>103,079</u>

**Total depreciation expense – governmental activities** \$413,041

**Business-type activities**

Wastewater	247,060
Water	<u>246,005</u>

**Total depreciation expense – business-type activities** \$493,065

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**Discretely presented component units**

Capital asset activity in the component units was as follows:

	<b>May 1, 2006</b>	<b>Increase</b>	<b>Decrease</b>	<b>April 30 2007</b>
<b>Downtown Development Authority</b>				
Capital assets being depreciated				
Infrastructure	\$ 647,742	\$ 374,831	\$ 0	\$ 1,022,573
Less accumulated depreciation for				
Infrastructure	<u>(111,537)</u>	<u>(54,321)</u>	<u>0</u>	<u>(165,858)</u>
<b>Total capital assets being depreciated, net</b>	<b><u>\$ 536,205</u></b>	<b><u>\$ 320,510</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 856,715</u></b>
<b>Local Development Finance Authority</b>				
Capital assets not being depreciated				
Land	<u>\$ 291,419</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 291,419</u>
Capital assets being depreciated				
Infrastructure	1,997,920	0	0	1,997,920
Less accumulated depreciation for				
Infrastructure	<u>(346,897)</u>	<u>(43,608)</u>	<u>0</u>	<u>(390,505)</u>
Total capital assets being depreciated, net	<u>1,651,023</u>	<u>(43,608)</u>	<u>0</u>	<u>1,607,415</u>
<b>Total capital assets, net</b>	<b><u>\$ 1,942,442</u></b>	<b><u>\$ (43,608)</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 1,898,834</u></b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

April 30, 2007

**Boyne City Housing Commission**

Capital assets not being depreciated				
Land	\$ 793,268	\$ 0	\$ 0	\$ 793,268
Capital assets being depreciated				
Buildings and structures	3,137,732	0	0	3,137,732
Furniture and fixtures and equipment	144,739	0	(1,975)	142,764
Total capital assets being depreciated	3,282,471	0	(1,975)	3,280,496
Less accumulated depreciation	(1,963,594)	(133,698)	1,975	(2,095,317)
Total capital assets being depreciated, net	1,318,877	(133,698)	0	1,185,179
<b>Total capital assets, net</b>	<b>\$ 2,112,145</b>	<b>\$ (133,698)</b>	<b>\$ 0</b>	<b>\$ 1,978,447</b>

Depreciation expense for the component units was as follows:

Downtown Development Authority	\$ 54,321
Local Development Finance Authority	43,608
Boyne City Housing Commission	133,698
<b>Total depreciation expense – component units</b>	<b>\$231,627</b>

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at April 30, 2007, were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 34,536	\$ 0
Fiduciary Fund		
Current Tax Collection Fund	0	34,536
	<u>\$ 34,536</u>	<u>\$ 34,536</u>

All remaining balances generally resulted 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. All interfund balances outstanding at April 30, 2007, are expected to be repaid within one year.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**E. Interfund transfers**

Interfund Transfers as of April 30, 2007

	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government		
General fund	\$ 0	\$ 1,004,570
Major street fund	270,628	0
Local street fund	461,292	0
Fire fund	50,000	0
Ambulance fund	158,100	0
Cemetery fund	37,150	0
Marina fund	27,400	0
	<u>\$ 1,004,570</u>	<u>\$ 1,004,570</u>

Interfund transfers are used to use unrestricted revenues collected in the General Fund and nonmajor governmental fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**F. Long-term liabilities**

**General obligation debt.** The City issues general obligation bonds and notes payable to provide funds for the acquisition and construction of major capital facilities and vehicles. General obligation bonds have been issued by the component unit on behalf of the primary government. The original amount of general obligation bonds issued in prior years for the items listed below was \$880,000. No general obligation bonds were issued during the current year.

The component units' bond, note and loan payables are also general obligations of the City except for the loans payable of the Boyne City Housing Commission. The original amount of the DDA and LDFA bond and note payable was \$565,000 and \$360,000, respectively. The loan payable had a maximum loan amount of \$1,300,350. The DDA and LDFA component units' payables were issued by the component units on behalf of the primary government. The loan payable was forgiven at a rate of 50% by the grantor, EDC, because the City met certain grant requirements. It was issued with a zero interest rate. No debt agreements were issued during the year ended April 30, 2007.

The loans payable of the Boyne City Housing Commission consists of three separate loans payable to various local banks.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

The business-type activities bonds are also a general obligation of the City. They are reimbursement bonds where the City's expenditures are reimbursed with bond proceeds through the Drinking Water Revolving Fund and State Clean Water Revolving Fund. The amount the City has drawn as of April 30, 2007 for the Drinking Water Revolving Bond was the full amount of \$1,785,000. The amount the City has drawn as of April 30, 2007 for the State Clean Water Revolving Bond was \$8,267,398 and the bond has a maximum amount of \$8,395,000.

General obligation bonds and note payables are direct obligations that pledge the full faith and credit of the City. Bonds are issued as 15 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds and note payables currently outstanding are as follows:

Purpose	Maturity Date	Interest Rates	Amount
<b>Governmental activities</b>			
General government - general obligation bond	11/1/2008	3.00-5.30%	\$ 200,000
General government - Fire truck note payable	4/30/2011	3.61%	243,971
			<u><u>\$ 443,971</u></u>
<b>Business-type activities</b>			
General obligation bond - DWRF	4/1/2023	2.50%	\$ 1,495,000
General obligation bond - SRF	4/1/2013	2.13%	7,927,398
			<u><u>\$ 9,422,398</u></u>
<b>Component Unit - Downtown Development Authority</b>			
General government - general obligation bond	10/1/2009	4.25-7.25%	<u><u>\$ 195,000</u></u>
<b>Component Unit - Local Development Finance Authority</b>			
General government - note payable	4/30/2008	0.00%	\$ 52,500
General government - loan payable	4/30/2015	0.00%	503,667
			<u><u>\$ 556,167</u></u>
<b>Component Unit - Boyne City Housing Commission</b>			
Bank loan payable	5/14/2009	6.50%	\$ 36,094
Bank loan payable	10/10/2017	5.875%	32,308
Bank loan payable	10/10/2017	5.875%	110,647
			<u><u>\$ 179,049</u></u>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

<b>April 30,</b>	<b>Governmental Activities</b>			
	<b>Bonds Payable</b>		<b>Notes Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 95,000	\$ 8,034	\$ 57,788	\$ 7,764
2009	105,000	2,781	59,874	5,640
2010	0	0	62,035	4,560
2011	0	0	64,274	2,320
<b>Total</b>	<b>\$ 200,000</b>	<b>\$ 10,815</b>	<b>\$ 243,971</b>	<b>\$ 20,284</b>

<b>April 30,</b>	<b>Business-type Activities</b>	
	<b>Bonds Payable</b>	
	<b>Principal</b>	<b>Interest</b>
2008	\$ 425,000	\$ 205,832
2009	435,000	196,520
2010	445,000	186,976
2011	455,000	177,220
2012	465,000	167,232
2013-2017	2,475,000	678,705
2018-2022	2,770,000	394,692
2023-2026	1,952,398	97,835
<b>Total</b>	<b>\$ 9,422,398</b>	<b>\$ 2,105,012</b>

<b>April 30,</b>	<b>Component Units</b>		<b>Component Units</b>	
	<b>Bonds Payable</b>		<b>Notes &amp; Loans Payable</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2008	\$ 60,000	\$ 8,385	\$ 120,878	\$ 10,745
2009	65,000	5,227	68,500	10,534
2010	70,000	1,785	98,683	10,315
2011	0	0	66,489	8,134
2012	0	0	66,489	8,046
2013-2017	0	0	314,177	38,909
<b>Total</b>	<b>\$ 195,000</b>	<b>\$ 15,397</b>	<b>\$ 735,216</b>	<b>\$ 86,683</b>

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

Annual debt service requirements to maturity for general obligation debt are as follows:

*Changes in long-term liabilities.* Long-term liability activity was as follows:

	May 1, 2006	Additions	Reductions	April 30, 2007	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
General obligation	\$ 290,000	\$ 0	\$ 90,000	\$ 200,000	\$ 95,000
Note payables	299,745	0	55,774	243,971	57,778
Compensated absences	177,852	0	24,522	153,330	10,977
	<b>\$ 767,597</b>	<b>\$ 0</b>	<b>\$ 170,296</b>	<b>\$ 597,301</b>	<b>\$ 163,755</b>
<b>Business-type activities</b>					
General obligation	\$ 8,381,461	\$ 1,455,937	\$ 415,000	\$ 9,422,398	\$ 425,000
Compensated absences	20,427	2,193	0	22,620	0
	<b>\$ 8,401,888</b>	<b>\$ 1,458,130</b>	<b>\$ 415,000</b>	<b>\$ 9,445,018</b>	<b>\$ 425,000</b>
<b>Component Units</b>					
General obligation	\$ 255,000	\$ 0	\$ 60,000	\$ 195,000	\$ 60,000
Note payables	105,000	0	52,500	52,500	52,500
Loans payable	759,165	0	76,449	682,716	68,378
Compensated absences	49,749	0	20,082	29,667	7,314
	<b>\$ 1,168,914</b>	<b>\$ 0</b>	<b>\$ 209,031</b>	<b>\$ 959,883</b>	<b>\$ 188,192</b>

**IV. OTHER INFORMATION**

**A. Risk management**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended April 30, 2007, the City carried commercial insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**B. Property taxes**

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Charlevoix County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2006 levy were assessed and equalized at \$189,326,341 representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2007 was 16.34 mills, with an additional .392 mill levied for water supply sewage disposal debt retirement and .13 mills levied for general obligation bond retirement.

Property taxes for the DDA and LDFA are derived from a tax increment financing agreement between the DDA and LDFA and other related taxing districts. Under this arrangement, the DDA and LDFA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA and LDFA district. Property taxes are recognized in the fiscal year in which they are levied.

**C. Defined benefit pension plan**

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy**

The City is required to contribute at an actuarially determined rate; the current rate is 1.63% to 10.96% of annual covered payroll. City employees are required to contribute 4.7% of their annual covered payroll. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**

April 30, 2007

**Annual pension cost**

For the year ended April 30, 2007, the City's annual pension cost of \$207,759 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2002, the date of the last actuarial valuation, was 30 years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
4/30/2005	\$ 138,537	100%	\$ 0
4/30/2006	215,464	100%	0
4/30/2007	207,759	100%	0

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2003	\$ 5,260,411	\$ 6,188,621	\$ 928,210	85%	\$ 1,514,066	61%
12/31/2004	5,634,556	6,639,269	1,004,713	85%	1,587,233	63%
12/31/2005	5,958,880	7,306,974	1,348,094	82%	1,576,140	86%

**D. Defined contribution pension plan**

The City provides pension benefits through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan covers all employees hired after June 2005 except for those employees within the Police department union division or the Housing commission division. All existing employees of the City had the option to participate in this plan as well. However, none elected to do so. The plan provides for an employer contribution of 8% of compensation with no required contribution by the employee. Employer contributions become 100% vested after seven years. For the year ended, April 30, 2007 the City's contribution to the plan was \$39,669.

**CITY OF BOYNE CITY, MICHIGAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**April 30, 2007**

**E. Housing Commission**

The City provides certain administrative services to the Boyne City Housing Commission (the "Commission"). The Commission was created by the City and its governing board is approved by the City, and it is reported as a component unit of the City. Services provided by the City to the Commission are billed at an amount that will approximately recover the City's full cost of providing such services. The basis of billing has been used by the City consistently over the years to determine the amount of revenues and expenditures arising from quasi-external transactions. Total billing for the period amounted to \$212,029 and is reported as revenue in the General Fund. A complete financial statement for the Boyne City Housing Commission can be obtained from Sheila Smith, Executive Director, Boyne City Housing Commission, 829 South Park Street, Boyne City, Michigan, 49712.

**F. Other post-employment benefits**

The City provides post-employment health benefits to thirteen members of the Police Officers Union and American Federation of State, County, and Municipal Employees Union at April 30, 2005 for a period of 10 years. The cost for one- person coverage is \$125.98 per month and two-person coverage is \$264.54 per month. For the year ended April 30, 2007, the City paid approximately \$38,653 for these benefits.

**CITY OF BOYNE CITY, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
GENERAL FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues</b>			
Taxes	\$ 2,749,021	\$ 2,746,590	\$ 2,736,301
Federal revenues	58,500	17,000	17,000
State revenues	333,880	359,960	359,817
Local revenues	336,673	336,673	276,204
Charges for services	176,100	174,600	179,527
Contributions	3,000	2,378	3,354
Sale of capital asset	1,000	4,268	4,268
Interest and rentals	16,700	40,200	60,548
Other revenues	50	50	0
<b>Total revenues</b>	<b>3,674,924</b>	<b>3,681,719</b>	<b>3,637,019</b>
<b>Legislative</b>			
City commission	19,418	18,368	14,330
<b>General government</b>			
Central administration	545,044	512,479	509,094
Clerk - elections	6,000	4,121	4,119
Legal and accounting	86,000	81,000	66,691
Planning	159,936	163,841	160,209
Assessor	72,720	72,987	76,777
City hall and other city property	309,880	303,340	299,254
Housing commission	283,838	283,838	211,182
Community promotion	6,000	7,000	0
<b>Total general government</b>	<b>1,469,418</b>	<b>1,428,606</b>	<b>1,327,326</b>
<b>Public safety</b>			
Police department	626,973	637,886	615,257
<b>Public works</b>			
Sidewalk Construction	55,000	50,200	31,376

**CITY OF BOYNE CITY, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
GENERAL FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Health and welfare</b>			
<b>Environmental</b>	<b>1,600</b>	<b>1,175</b>	<b>1,175</b>
<b>Recreation and cultural</b>			
Recreation administration	336,350	227,619	213,759
Museum	8,823	5,987	5,888
<b>Total recreation and cultural</b>	<b>345,173</b>	<b>233,606</b>	<b>219,647</b>
<b>Other expenditures</b>			
<b>Other</b>	<b>87,366</b>	<b>67,884</b>	<b>74,244</b>
<b>Total expenditures</b>	<b>2,604,948</b>	<b>2,437,725</b>	<b>2,283,355</b>
Excess (deficiency) of revenues over (under) expenditures	1,069,976	1,243,994	1,353,664
<b>Other financing sources (uses)</b>			
Transfers out	(1,069,976)	(1,134,660)	(1,004,570)
Net change in fund balance	0	109,334	349,094
Fund balance, beginning of year	1,156,255	1,156,255	1,156,255
<b>Fund balance, end of year</b>	<b>\$ 1,156,255</b>	<b>\$ 1,265,589</b>	<b>\$ 1,505,349</b>

**CITY OF BOYNE CITY, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
MAJOR STREET FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	Budgeted Amounts		Actual
	Original	Final	
<b>Revenues</b>			
Federal revenues	\$ 315,680	\$ 47,427	\$ 81,771
State revenues	250,000	248,998	264,491
Interest and rentals	75	75	151
Other revenues	0	20	20
<b>Total revenues</b>	<b>565,755</b>	<b>296,520</b>	<b>346,433</b>
<b>Expenditures</b>			
<b>Public works - highways and streets</b>			
Construction	548,380	345,714	250,938
Routine maintenance	166,700	156,500	151,429
Traffic service	40,200	28,200	17,994
Winter maintenance	94,800	112,815	116,314
Administration	114,590	78,824	75,890
<b>Total expenditures</b>	<b>964,670</b>	<b>722,053</b>	<b>612,565</b>
Excess (deficiency) of revenues over (under) expenditures	(398,915)	(425,533)	(266,132)
<b>Other financing sources (uses)</b>			
Transfers in	398,915	418,809	270,628
Net change in fund balance	0	(6,724)	4,496
Fund balance, beginning of year	0	0	1,606
<b>Fund balance, end of year</b>	<b>\$ 0</b>	<b>\$ (6,724)</b>	<b>\$ 6,102</b>

**CITY OF BOYNE CITY, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
LOCAL STREET FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>
	<u>Original</u>	<u>Final</u>	
<b>Revenues</b>			
State revenues	\$ 100,000	\$ 98,700	\$ 122,094
Interest and rentals	75	30	27
Other revenues	0	4,000	76
<b>Total revenues</b>	<b><u>100,075</u></b>	<b><u>102,730</u></b>	<b><u>122,197</u></b>
<b>Expenditures</b>			
<b>Public works - highways and streets</b>			
Construction	144,490	169,415	132,029
Routine maintenance	229,950	239,400	252,953
Traffic service	25,000	18,920	17,583
Winter maintenance	98,000	97,850	108,484
Administration	75,700	69,063	65,630
<b>Total expenditures</b>	<b><u>573,140</u></b>	<b><u>594,648</u></b>	<b><u>576,679</u></b>
Excess (deficiency) of revenues over (under) expenditures	(473,065)	(491,918)	(454,482)
<b>Other financing sources (uses)</b>			
Transfers in	473,065	495,918	461,292
Net change in fund balance	0	4,000	6,810
Fund balance, beginning of year	0	0	0
<b>Fund balance, end of year</b>	<b><u>\$ 0</u></b>	<b><u>\$ 4,000</u></b>	<b><u>\$ 6,810</u></b>

**CITY OF BOYNE CITY, MICHIGAN**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**MAJOR GOVERNMENTAL FUNDS**  
**FIRE FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues</b>			
State revenues	\$ 0	\$ 15,000	\$ 7,396
Charges for services	165,000	160,461	186,639
Interest and rentals	2,450	6,200	6,608
<b>Total revenues</b>	<b>167,450</b>	<b>181,661</b>	<b>200,643</b>
<b>Expenditures</b>			
Public safety	216,250	217,772	166,964
Debt Service			
Principal	55,774	53,831	55,774
Interest and fiscal charges	10,821	12,764	10,821
<b>Total expenditures</b>	<b>282,845</b>	<b>284,367</b>	<b>233,559</b>
Excess (deficiency) of revenues over (under) expenditures	(115,395)	(102,706)	(32,916)
<b>Other financing sources (uses)</b>			
Transfers in	50,000	53,494	50,000
Net change in fund balance	(65,395)	(49,212)	17,084
Fund balance, beginning of year	342,869	342,869	342,869
<b>Fund balance, end of year</b>	<b>\$ 277,474</b>	<b>\$ 293,657</b>	<b>\$ 359,953</b>

**CITY OF BOYNE CITY, MICHIGAN**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
AMBULANCE FUND**

**FOR THE YEAR ENDED APRIL 30, 2007**

	Budgeted Amounts		Actual
	Original	Final	
<b>Revenues</b>			
Local revenues	\$ 14,365	\$ 14,365	\$ 15,960
Charges for services	412,604	371,654	330,462
Contributions	10,000	2,500	2,337
Interest and rentals	1,000	50	33
<b>Total revenues</b>	<b>437,969</b>	<b>388,569</b>	<b>348,792</b>
<b>Expenditures</b>			
Health and Welfare	<b>527,197</b>	<b>502,223</b>	<b>457,277</b>
Excess (deficiency) of revenues over (under) expenditures	(89,228)	(113,654)	(108,485)
<b>Other financing sources (uses)</b>			
Transfers in	39,228	100,000	158,100
Net change in fund balance	(50,000)	(13,654)	49,615
Fund balance, beginning of year	74,698	74,698	74,698
<b>Fund balance, end of year</b>	<b>\$ 24,698</b>	<b>\$ 61,044</b>	<b>\$ 124,313</b>

**CITY OF BOYNE CITY, MICHIGAN**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS**

**APRIL 30, 2007**

**Special Revenue Funds**

	<b>Creative Playground</b>	<b>Cemetery</b>	<b>Marina</b>	<b>Airport</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 5,374	\$ 8,914	\$ 33,616	\$ 32,114
Accounts receivable	0	8,915	0	4,707
Inventory	0	0	0	7,242
<b>Total assets</b>	<b>\$ 5,374</b>	<b>\$ 17,829</b>	<b>\$ 33,616</b>	<b>\$ 44,063</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 0	\$ 914	\$ 2,748	\$ 53
Accrued expenses	0	746	47	0
Deferred revenue	0	8,220	0	0
<b>Total liabilities</b>	<b>\$ 0</b>	<b>\$ 9,880</b>	<b>\$ 2,795</b>	<b>\$ 53</b>
<b>Fund balances</b>				
Reserved for debt service	0	0	0	0
Reserved for inventory	0	0	0	7,242
Reserved for Cemetery Improvements	0	3,835	0	0
Unreserved Undesignated	5,374	4,114	30,821	36,768
<b>Total fund balances</b>	<b>5,374</b>	<b>7,949</b>	<b>30,821</b>	<b>44,010</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,374</b>	<b>\$ 17,829</b>	<b>\$ 33,616</b>	<b>\$ 44,063</b>

**Debt Service Funds**

<b>1989</b>		
<b>1989 Street Improvements</b>	<b>Water Supply Sewage Disposal System Improvements</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 2,454	\$ 5,260	\$ 87,732
0	0	13,622
0	0	7,242
<b>\$ 2,454</b>	<b>\$ 5,260</b>	<b>\$ 108,596</b>
\$ 0	\$ 0	\$ 3,715
0	0	793
0	0	8,220
<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 12,728</b>
2,454	5,260	7,714
0	0	7,242
0	0	3,835
0	0	77,077
<b>2,454</b>	<b>5,260</b>	<b>95,868</b>
<b>\$ 2,454</b>	<b>\$ 5,260</b>	<b>\$ 108,596</b>

**CITY OF BOYNE CITY, MICHIGAN**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<u>Special Revenue Funds</u>			
	<u>Creative Playground</u>	<u>Cemetery</u>	<u>Marina</u>	<u>Airport</u>
<b>Revenues</b>				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Charges for services	0	29,938	95,386	134,208
Contributions	30	3,835	1,000	0
Interest and rentals	<u>183</u>	<u>10</u>	<u>105</u>	<u>3,801</u>
<b>Total revenues</b>	<u><b>213</b></u>	<u><b>33,783</b></u>	<u><b>96,491</b></u>	<u><b>138,009</b></u>
<b>Expenditures</b>				
Public works	2,470	62,984	93,070	132,318
Debt service				
Principal	0	0	0	0
Interest and fiscal charges	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total expenditures</b>	<u><b>2,470</b></u>	<u><b>62,984</b></u>	<u><b>93,070</b></u>	<u><b>132,318</b></u>
Revenues over (under) expenditures	<u>(2,257)</u>	<u>(29,201)</u>	<u>3,421</u>	<u>5,691</u>
<b>Other financing sources and uses</b>				
<b>Transfer in</b>	<u><b>0</b></u>	<u><b>37,150</b></u>	<u><b>27,400</b></u>	<u><b>0</b></u>
Net change in fund balances	(2,257)	7,949	30,821	5,691
Fund balances, beginning of year	<u>7,631</u>	<u>0</u>	<u>0</u>	<u>38,319</u>
<b>Fund balances, end of year</b>	<u><u><b>\$ 5,374</b></u></u>	<u><u><b>\$ 7,949</b></u></u>	<u><u><b>\$ 30,821</b></u></u>	<u><u><b>\$ 44,010</b></u></u>

<b>Debt Service Funds</b>		
<b>1989</b>		
<b>1989 Street Improvements</b>	<b>Water Supply Sewage Disposal System Improvements</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 22,066	\$ 66,493	\$ 88,559
0	0	259,532
0	0	4,865
0	56	4,155
<b>22,066</b>	<b>66,549</b>	<b>357,111</b>
0	0	290,842
31,500	58,500	90,000
4,737	8,570	13,307
<b>36,237</b>	<b>67,070</b>	<b>394,149</b>
(14,171)	(521)	(37,038)
<b>0</b>	<b>0</b>	<b>64,550</b>
(14,171)	(521)	27,512
16,625	5,781	68,356
<b>\$ 2,454</b>	<b>\$ 5,260</b>	<b>\$ 95,868</b>

# CITY OF BOYNE CITY, MICHIGAN

## AGENCY FUNDS COMBINING BALANCE SHEET

APRIL 30, 2007

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	<u>Current Tax Collection</u>	<u>Environmental Escrow</u>	<u>Boyne Senior Center</u>	<u>Total Agency Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ <u>35,719</u>	\$ <u>12,738</u>	\$ <u>287,342</u>	\$ <u>335,799</u>
<b>Liabilities</b>				
Deposits payable	0	12,738	0	12,738
Due to other funds	34,536	0	0	34,536
Due to other governmental units	<u>1,183</u>	<u>0</u>	<u>287,342</u>	<u>288,525</u>
Total liabilities	\$ <u>35,719</u>	\$ <u>12,738</u>	\$ <u>287,342</u>	\$ <u>335,799</u>

# CITY OF BOYNE CITY

## AGENCY FUNDS COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FOR THE YEAR ENDED APRIL 30, 2007

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Current Tax Collection Fund</b>				
Assets				
Cash and cash equivalents	\$ 82,319	\$ 8,849,386	\$ 8,895,986	\$ 35,719
Liabilities				
Due to other funds	16,182	3,411,407	3,393,053	34,536
Due to other governmental units	66,137	5,437,979	5,502,933	1,183
Total liabilities	<u>82,319</u>	<u>8,849,386</u>	<u>8,895,986</u>	<u>35,719</u>
<b>Environmental Escrow Fund</b>				
Assets				
Cash and cash equivalents	12,706	32	0	12,738
Liabilities				
Deposits payable	12,706	32	0	12,738
<b>Boyne Senior Center Fund</b>				
Assets				
Cash and cash equivalents	289,333	294,235	296,226	287,342
Liabilities				
Due to other governmental units	289,333	303,081	305,072	287,342
<b>Total all agency funds</b>				
Assets				
Cash and cash equivalents	384,358	9,143,653	9,192,212	335,799
Liabilities				
Deposits payable	12,706	32	0	12,738
Due to other funds	16,182	3,411,407	3,393,053	34,536
Due to other governmental units	355,470	5,741,060	5,808,005	288,525
Total liabilities	\$ <u>384,358</u>	\$ <u>9,152,499</u>	\$ <u>9,201,058</u>	\$ <u>335,799</u>

**CITY OF BOYNE CITY, MICHIGAN**

**BALANCE SHEET AND STATEMENT OF NET ASSETS  
COMPONENT UNITS**

**APRIL 30, 2007**

**Governmental Type Activities**

	<b>Downtown</b>		<b>Local</b>		<b>Statement of</b>	
	<b>Development</b>	<b>Adjustments</b>	<b>Development</b>	<b>Finance</b>	<b>Authority</b>	<b>Adjustments</b>
<b>Assets</b>	<b>Authority</b>		<b>Authority</b>	<b>Authority</b>		<b>Net Assets</b>
Cash and cash equivalents	\$ 467,629	\$ 0	\$ 467,629	\$ 803,828	\$ 0	\$ 803,828
Receivables	0	0	0	0	0	0
Due from other governmental units	105,188	0	105,188	0	0	0
Inventory	0	0	0	0	0	0
Prepaid items	0	0	0	0	0	0
Land	0	0	0	0	291,419	291,419
Other capital assets, net of depreciation	0	856,715	856,715	0	1,607,415	1,607,415
<b>Total assets</b>	<b>\$ 572,817</b>	<b>\$ 856,715</b>	<b>\$ 1,429,532</b>	<b>\$ 803,828</b>	<b>\$ 1,898,834</b>	<b>\$ 2,702,662</b>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 135,174	\$ 0	\$ 135,174	\$ 0	\$ 0	\$ 0
Accrued expenses	939	0	939	0	0	0
Accrued interest payable	0	824	824	0	0	0
Customer Deposits	0	0	0	0	0	0
Deferred revenue	5,650	0	5,650	0	0	0
Noncurrent liabilities						
Due within one year	0	60,000	60,000	0	117,489	117,489
Due in more than one year	0	135,000	135,000	0	438,678	438,678
<b>Total liabilities</b>	<b>141,763</b>	<b>195,824</b>	<b>337,587</b>	<b>0</b>	<b>556,167</b>	<b>556,167</b>
<b>Fund balances</b>						
Unreserved, undesignated	431,054	(431,054)	0	803,828	(803,828)	0
<b>Total liabilities and fund balances</b>	<b>\$ 572,817</b>			<b>\$ 803,828</b>		
<b>Net Assets</b>						
Investment in capital assets, net of related debt		661,715	661,715		1,342,667	1,342,667
Unrestricted		430,230	430,230		803,828	803,828
<b>Total net assets</b>		<b>\$ 1,091,945</b>	<b>\$ 1,091,945</b>		<b>\$ 2,146,495</b>	<b>\$ 2,146,495</b>

**Business Type Activity**

Boyer City Housing Commission			Total All Component Units		
Adjustments	Statement of Net Assets	Component Units	Adjustments	Statement of Net Assets	
\$ 41,989	\$ 0	\$ 41,989	\$ 1,313,446	\$ 0	\$ 1,313,446
98,761	0	98,761	98,761	0	98,761
0	0	0	105,188	0	105,188
933	0	933	933	0	933
12,592	0	12,592	12,592	0	12,592
793,268	0	793,268	793,268	291,419	1,084,687
1,185,179	0	1,185,179	1,185,179	2,464,130	3,649,309
<b>\$ 2,132,722</b>	<b>\$ 0</b>	<b>\$ 2,132,722</b>	<b>\$ 3,509,367</b>	<b>\$ 2,755,549</b>	<b>\$ 6,264,916</b>
\$ 11,793	\$ 0	\$ 11,793	\$ 146,967	\$ 0	\$ 146,967
54,005	0	54,005	54,944	0	54,944
0	0	0	0	824	824
32,288	0	32,288	32,288	0	32,288
2,215	0	2,215	7,865	0	7,865
10,703	0	10,703	10,703	177,489	188,192
198,013	0	198,013	198,013	573,678	771,691
<b>309,017</b>	<b>0</b>	<b>309,017</b>	<b>450,780</b>	<b>751,991</b>	<b>1,202,771</b>
			1,234,882	(1,234,882)	0
1,799,398	0	1,799,398	1,799,398	2,004,382	3,803,780
24,307	0	24,307	24,307	1,234,058	1,258,365
<b>1,823,705</b>	<b>\$ 0</b>	<b>1,823,705</b>	<b>1,823,705</b>	<b>\$ 3,238,440</b>	<b>\$ 5,062,145</b>

# CITY OF BOYNE CITY, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR COMPONENT UNITS TO NET ASSETS OF COMPONENT UNITS ON THE STATEMENT OF NET ASSETS

APRIL 30, 2007

	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>
Fund balances - component units	\$ 431,054	\$ 803,828
<p>Amounts reported for component units in the statement of net assets are different because</p> <p>Capital assets and note payable discount of the component units are not financial resources and therefore are not reported in the funds.</p>		
Add - capital assets	1,022,573	2,289,339
Deduct - accumulated depreciation	(165,858)	(390,505)
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>		
Deduct - bonds, notes and loans payable	(195,000)	(556,167)
Deduct - accrued interest on bonds payable	(824)	0
<b>Net assets of component units</b>	<b><u>\$ 1,091,945</u></b>	<b><u>\$ 2,146,495</u></b>

**CITY OF BOYNE CITY, MICHIGAN**

**STATEMENT OF ACTIVITIES AND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
COMPONENT UNITS**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b>Downtown Development Authority</b>	<b>Adjustments</b>	<b>Statement of Activities</b>	<b>Local Development Finance Authority</b>	<b>Adjustments</b>
<b>Expenditures/expenses</b>					
Economic development	\$ 0	\$ 0	\$ 0	\$ 35,745	\$ 0
Health and welfare	0	0	0	0	0
Other	579,267	(374,831)	204,436	0	0
Depreciation expense	0	54,321	54,321	0	43,608
Debt service					
Principal	60,000	(60,000)	0	117,489	(117,489)
Interest	11,385	(250)	11,135	0	0
<b>Total expenditures/expenses</b>	<b>650,652</b>	<b>(380,760)</b>	<b>269,892</b>	<b>153,234</b>	<b>(73,881)</b>
<b>Program revenues</b>					
Charges for services	0	0	0	0	0
Operating grants and contributions	105,323	0	105,323	0	0
<b>Total program revenues</b>	<b>105,323</b>	<b>0</b>	<b>105,323</b>	<b>0</b>	<b>0</b>
Net program (expense) revenue	(545,329)	380,760	(164,569)	(153,234)	73,881
<b>General revenues</b>					
Property taxes	295,277	0	295,277	213,386	0
Unrestricted investment earnings	13,613		13,613	22,420	0
Other	0	0	0	0	0
<b>Total general revenues</b>	<b>308,890</b>	<b>0</b>	<b>308,890</b>	<b>235,806</b>	<b>0</b>
Net program expense	0	0	144,321	0	0
Capital grants and contributions	250,423	0	250,423	0	0
Net change in fund balances	13,984	(138,445)	(124,461)	82,572	(82,572)
Change in net assets	0	394,744	394,744	0	156,453
Fund balances/net assets					
Beginning of year	417,070	280,131	697,201	721,256	1,268,786
<b>End of year</b>	<b>\$ 431,054</b>	<b>\$ 536,430</b>	<b>\$ 1,091,945</b>	<b>\$ 803,828</b>	<b>\$ 1,342,667</b>

Statement of Activities	Boyer City		Statement of Activities	Total All Component Units		Statement of Activities
	Housing Commission	Adjustments		Component Units	Adjustments	
\$ 35,745	\$ 0	\$ 0	\$ 0	\$ 35,745	\$ 0	\$ 35,745
0	655,639	0	655,639	655,639	0	655,639
0	0	0	0	579,267	(374,831)	204,436
43,608	133,698	0	133,698	133,698	97,929	231,627
0	0	0	0	177,489	(177,489)	0
0	0	0	0	11,385	(250)	11,135
<b>79,353</b>	<b>789,337</b>	<b>0</b>	<b>789,337</b>	<b>1,593,223</b>	<b>(454,641)</b>	<b>1,138,582</b>
0	208,908	0	208,908	208,908	0	208,908
0	409,671	0	409,671	514,994	0	514,994
<b>0</b>	<b>618,579</b>	<b>0</b>	<b>618,579</b>	<b>723,902</b>	<b>0</b>	<b>723,902</b>
(79,353)	(170,758)	0	(170,758)	(869,321)	454,641	(414,680)
213,386	0	0	0	508,663	0	508,663
22,420	1,615	0	1,615	37,648	0	37,648
0	65,622	0	65,622	65,622	0	65,622
<b>235,806</b>	<b>67,237</b>	<b>0</b>	<b>67,237</b>	<b>611,933</b>	<b>0</b>	<b>611,933</b>
156,453	(103,521)	0	(103,521)	(103,521)	0	(103,521)
0	0	0	0	250,423	0	250,423
0	0	0	0	96,556	(221,017)	(124,461)
156,453	(103,521)	0	(103,521)	(103,521)	551,197	447,676
1,990,042	1,927,226	0	1,927,226	3,065,552	1,548,917	4,614,469
<b>\$ 2,146,495</b>	<b>\$ 1,823,705</b>	<b>\$ 0</b>	<b>\$ 1,823,705</b>	<b>\$ 3,058,587</b>	<b>\$ 1,879,097</b>	<b>\$ 5,062,145</b>

**CITY OF BOYNE CITY, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCES OF COMPONENT UNITS TO THE  
STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED APRIL 30, 2007**

	<b><u>Downtown Development Authority</u></b>	<b><u>Local Development Finance Authority</u></b>
Net change in fund balances - total component units	\$ 13,984	\$ 82,572
<p>Amounts reported for component units in the statement of activities are different because</p> <p>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.</p>		
Add - capital outlay	374,831	0
Deduct - depreciation expense	(54,321)	(43,608)
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Forgiveness of loan is not shown in the governmental funds, but reduces long-term liabilities in the statement of net assets.</p>		
Add - principal payments on long-term liabilities	60,000	117,489
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Add - decrease in accrued interest payable on bonds	<u>250</u>	<u>0</u>
<b>Change in net assets of component units</b>	<b><u><u>\$ 394,744</u></u></b>	<b><u><u>\$ 156,453</u></u></b>

**CITY OF BOYNE CITY , MICHIGAN**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED APRIL 30, 2007**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES FOR THE YEAR ENDED APRIL 30, 2007
<b><u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u></b>			
<b>Passed through Michigan Department of Environmental Quality</b>			
Capitalization Grants for Clean Water State Revolving Fund	66.458	8,395,000	\$ 1,455,937
Costal Zone Management Program			
Waterfront Master Plan - Project #05D-10.1	11.419	17,000	17,000
<b>Passed through Michigan Economic Development Corporation</b>			
Community Development Block Grants			
CDBG MSC 204032-PW	14.228	566,877	68,139
CDBG MSC 205036-ICE	14.228	1,000,000	<u>511,068</u>
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE</b>			<b><u>\$ 2,052,144</u></b>
Reconciliation to financial statements			
Amount recorded as bonds payable within the Wastewater Enterprise Fund			\$ 1,455,937
Amount recorded as grant revenue within the Wastewater Enterprise Fund			180,574
Amount recorded as grant revenue within the Water Enterprise Fund			66,439
Amount recorded as grant revenue within the General Fund			17,000
Amount recorded as grant revenue within the Major Street Fund			81,771
Amount recorded as grant revenue within the Downtown Development Authority Fund			<u>250,423</u>
<b>Total federal expenditures</b>			<b><u>\$ 2,052,144</u></b>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of the City of Boyne City and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

# *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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August 1, 2007

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City as of and for the year ended April 30, 2007, which collectively comprise the City of Boyne City basic financial statements and have issued our report thereon dated August 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered The City of Boyne City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Boyne City, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Boyne City, Michigan's internal control over financial reporting.

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 City'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.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Boyne City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the City of Boyne City in a separate letter dated August 1, 2007.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

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**CERTIFIED PUBLIC ACCOUNTANTS**

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August 1, 2007

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

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

**COMPLIANCE**

We have audited the compliance of City of Boyne City with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2007. The City of Boyne City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Boyne City's management. Our responsibility is to express an opinion on the City of Boyne City's compliance based on our audit.

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

In our opinion, the City of Boyne City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2007.

## INTERNAL CONTROL OVER COMPLIANCE

The management of the City of Boyne City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Boyne City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was limited for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund and the aggregate remaining fund information of the City of Boyne City as of and for the year ended April 30, 2007 and have issued our report thereon dated August 1, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Boyne City basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

This report is intended solely for the information and use of the audit committee, management, members of the City Commission and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

**CITY OF BOYNE CITY , MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**

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**SECTION 1 - SUMMARY OF AUDITORS RESULTS:**

**Financial Statements**

Type of Auditor's report issued: Unqualified

**Internal control over financial reporting:**

Significant deficiencies identified: No

Significant deficiencies identified that are not considered to be material weaknesses? None reported

Non-compliance material to financial statements noted: No

**Federal Awards**

Internal control over major programs:

Significant deficiencies identified: No

Significant deficiencies identified that are not considered to be material weaknesses? None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Program</u>
66.458	Capitalization Grants for Clean Water State Revolving Fund
14.228	Community Development Block Grants

**CITY OF BOYNE CITY , MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED APRIL 30, 2007**

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Dollar threshold to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as a low risk auditee?	Yes
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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No financial statement findings are reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No federal award findings or questioned costs are reported.

*Baird, Cotter and Bishop, P.C.*

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August 1, 2007

To the Mayor and Members of the City Commission  
City of Boyne City  
Charlevoix County, Michigan

During the course of our examination of the financial statements and records of the City of Boyne City, Michigan for the year ended April 30, 2007, we noted the following items which we would like to bring to your attention:

Bond Reserve Requirements

Many of the bond obligations of the City contain a variety of reserve requirements that require the restriction of assets. While the City has accounted these reserve requirements properly, the bonding documentation suggests these assets also be segregated into their own accounts.

We recommend the City periodically review the details of the bonding documents to ensure that all compliance requirements are being followed. At a minimum, the City may wish to consider segregating the assets that are required to be restricted per the bonding documents such as the bond reserve and bond interest and redemption and continue to account for the remaining restricted assets for replacement and improvement.

Wastewater and Water Fund Separation

The City successfully completed the process of separating the Wastewater and the Water Fund into two separate funds during the year. We commend you for your efforts in accomplishing this rather time consuming task. The City will now be able to more account for the resources and expenses and more easily assess the results of these funds.

Condition of Accounting Records

We found the accounting records to be in excellent shape. The accounting data was very organized and well documented and we commend the management for their diligent efforts and the attention to detail.

Regulatory and compliance accounting standards continue to place more emphasis and pressures on the accounting staff. However, we believe that the City continues to deal with these standards as efficiently and effectively as reasonably possible and we will continue to assist you with the correct interpretation and implementation of those standards.

We also found that the City has a pretty good system of internal control as well. Even with limited staff, there has been a noticeable effort to segregate duties as much as possible.

We do recommend that the City periodically review the system of internal control to ensure that it is operating as intended and as efficiently as possible.

We wish to express our appreciation for the cooperation and courtesy extended to our staff by the City employees during the course of our examination. In addition, we would like to thank the City Commission for giving us this opportunity to serve you. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*