

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 City of Kingsford	County Dickinson
Fiscal Year End 6/30/07	Opinion Date 10/2/07	Date Audit Report Submitted to State 11/16/07	

We affirm that:

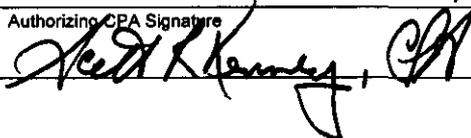
We are certified public accountants licensed to practice in Michigan.

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.)**
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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) Scott R. Kenney, CPA		Telephone Number 906-875-4393	
Street Address 1374 Commercial Avenue, Suite 1		City Crystal Falls	State Zip MI 49920
Authorizing CPA Signature 		Printed Name Scott R. Kenney	License Number 11483

CITY OF KINGSFORD
AUDITED FINANCIAL STATEMENTS
KINGSFORD, MICHIGAN

Fiscal Year Ended June 30, 2007

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SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Kingsford
Kingsford, Michigan 49802

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Kingsford, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of the Kingsford Housing Commission, a discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Kingsford Housing Commission is based on the report of the other auditors.

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

In my 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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows 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 Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Member
American Institute of Certified Public Accountants
Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingsford, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to auditing procedures applied by me and other auditors in the audit of the basic financial statements and, in my opinion, based on my audit and the report of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

October 2, 2007

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets increased 4.3% from a year ago - increasing from \$14.251 million to \$14.867 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$422,000 during the year (4.1% increase). This is primarily attributed to sale of land for slightly more than \$700,000 offset by several small road construction/maintenance projects. The business-type activities experienced a \$194,000 increase in net assets, primarily as a result of maintaining costs and having an adequate charge structure. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 3,845	\$ 3,236	\$ 1,075	\$ 960	\$ 4,920	\$ 4,196
Noncurrent Assets	<u>9,545</u>	<u>9,682</u>	<u>3,824</u>	<u>3,680</u>	<u>13,369</u>	<u>13,362</u>
Total Assets	\$ 13,390	\$ 12,918	\$ 4,899	\$ 4,640	\$ 18,289	\$ 17,558
Long-Term Debt Outstanding	\$ 2,222	\$ 2,240	\$ 282	\$ 496	\$ 2,504	\$ 2,736
Other Liabilities	<u>415</u>	<u>347</u>	<u>503</u>	<u>224</u>	<u>918</u>	<u>572</u>
Total Liabilities	<u>\$ 2,637</u>	<u>\$ 2,587</u>	<u>\$ 785</u>	<u>\$ 720</u>	<u>\$ 3,422</u>	<u>\$ 3,307</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 7,423	\$ 7,554	\$ 2,191	\$ 2,318	\$ 9,614	\$ 9,872
Restricted	<u>3,209</u>	<u>2,772</u>	<u>786</u>	<u>666</u>	<u>3,995</u>	<u>3,438</u>
Unrestricted						
Total Net Assets	\$10,753	\$10,331	\$ 4,114	\$ 3,920	\$14,867	\$14,251

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$437,000 for the governmental activities. This represents a decrease of approximately 15.8%. The current level of unrestricted net assets for our governmental activities stands at \$3.209 million, or about 77.12% of expenditures.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 96	\$ 95	\$ 684	\$ 660	\$ 780	\$ 755
Operating Grants and Contributions	489	493	0	0	489	493
Capital Grants and Contributions	18	0	0	0	18	0
General Revenues						
Property Taxes	\$ 2,187	\$ 2,132	\$ 0	\$ 0	\$ 2,187	\$ 2,132
State-Shared Revenues	612	766	0	0	612	766
Unrestricted Investment Earnings	496	498	99	59	595	557
Fines and Forfeitures	0	19	0	0	0	19
Reimbursements and Other	56	31	0	0	56	31
Sale of property	703	43	0	0	703	43
Other	38	140	0	0	37	140
Transfers	<u>(114)</u>	<u>(115)</u>	<u>0</u>	<u>0</u>	<u>(114)</u>	<u>(115)</u>
Total Revenues	\$ 4,580	\$ 4,102	\$ 783	\$ 719	\$ 5,363	\$ 4,821
Program Expenses						
General Government	\$ 523	\$ 616	\$ 0	\$ 0	\$ 523	\$ 616
Public Safety	1,452	1,393	0	0	1,452	1,393
Public Works	1,626	1,609	0	0	1,626	1,609
Insurance and Benefits	347	109	0	0	347	109
Recreation & Culture	108	101	0	0	108	101
Other	0	0	0	0	0	0
Interest on Long-Term Debt	102	104	0	0	102	104
Water & Sewer	<u>0</u>	<u>0</u>	<u>589</u>	<u>576</u>	<u>589</u>	<u>576</u>
Total Expenses	\$ 4,158	\$ 3,932	\$ 589	\$ 576	\$ 4,747	\$ 4,508
Change in Net Assets	\$ 422	\$ 170	\$ 194	\$ 143	\$ 616	\$ 313

The City's net assets continue to remain healthy. The maintaining of expenses at a low level of growth coupled with increased revenues are the primary contributors to this growth.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Governmental Activities

The City's total governmental revenues increased by approximately \$478,000. This is attributed to the sale of land during the current year offset by the receipt of the City Hall insurance proceeds in prior year. Property taxes increased by allowable rate of inflation while state shared revenues decreased slightly.

Cash expenditures increased slightly during the year with some small road projects comprising the primary area of increase. Other ordinary operating costs increased by inflationary rates during the year.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents through the Iron Mountain-Kingsford Sewage Treatment Authority. The Water Fund revenues increased slightly during the year due to a small increase in water usage. The expenses in the Water Fund remained nearly unchanged with cash expenses rising slightly but the increase was more than offset by a decrease in depreciation. This resulted in a decrease in the net operating loss of approximately \$20,000 and brings the fund to approximately breakeven for the year. The Sewer Fund revenues rose due to increased sales of water. Expenses rose dramatically with more time spent on this area by Public Works employees than in prior years. The Sewer Fund again achieved a significant operating profit but the amount designated for future capital expansion and improvements by the City has resulted in an unrestricted deficit.

The City's Funds

Analysis of the City's major funds begins on page 13, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2006-2007 include the General Fund, Major Street Fund, Local Street Fund, Small Cities Grant Loan Repayment Fund, Water Utility Fund and Sewer Utility Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and buildings, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

General Fund Budgetary Highlights

Over the course of the year, the City Council amended the budget to take into account events during the year. The most significant revenue change was in the Sale of Land which was increased by more than \$700,000. Most of the insurance funds for the City Hall fire were received in the prior fiscal year which resulted in a decrease in the "Other" revenue category. Various expenditure categories were adjusted by amounts aggregating a like amount resulting in no change to the original net budget.

Capital Asset and Debt Administration

At the end of 2006-2007, the City had nearly \$15,000,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings and water and sewer lines. In addition, the City has invested significantly in roads and buildings within the City. The cost value of the roads at the end of the 2007 fiscal year exceeded \$6.628 million. These roads are maintained by the City with the costs recorded in the major and local street funds.

During the year, the City and the United State Department of Agriculture, Rural Development Agency (Rural Development), agreed to accelerate the repayment schedule for the outstanding water bond. This was requested by Rural Development because of the positive cash position the City has been able to maintain. The bonds will be repaid in their entirety within three years according to the agreement and the financial statements have been changed to reflect this agreement.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2007-2008 calls for an increase on property tax rates to fund the Police and Firemen's Pension, a decrease in both the general operating millage and debt millage designated to repay the bonds on the Public Works Facility. The decrease in the operating millage rate can be accomplished because of the controls that are being placed on governmental fund expenditures and limiting capital expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions. The Police and Fireman's Pension expense is calculated by actuarially determined amounts and must be funded per Michigan statute.

CITY OF KINGSFORD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Contacting the City's Management

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

CITY OF KINGSFORD
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
CURRENT ASSETS				
Cash and equivalents	\$ 2,872,527	\$ 886,506	\$ 3,759,033	\$ 26,923
Receivables - net	553,816	188,384	742,200	2,890
Investments	0	0	0	310,733
Prepaid expenses	0	0	0	12,586
Internal balances	418,805	0	418,805	0
TOTAL CURRENT ASSETS	\$ 3,845,148	\$ 1,074,890	\$ 4,920,038	\$ 353,132
RESTRICTED ASSETS - Cash and equivalents	\$ 45,926	\$ 1,137,231	\$ 1,183,157	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ <u>9,499,415</u>	\$ <u>2,686,975</u>	\$ <u>12,186,390</u>	\$ <u>798,226</u>
TOTAL ASSETS	\$ 13,390,489	\$ 4,899,096	\$ 18,289,585	\$ 1,151,358
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 60,409	\$ 12,389	\$ 72,798	\$ 7,580
Accrued and other liabilities	73,318	101,506	174,824	42,639
Interprogram payables	235,403	175,350	410,753	0
Current part of non-current liabilities	45,000	165,334	210,334	0
TOTAL CURRENT LIABILITIES	\$ 414,130	\$ 454,579	\$ 868,709	\$ 50,219
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 926	\$ 48,064	\$ 48,990	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 145,797	\$ 0	\$ 145,797	\$ 24,275
Bonds payable	2,076,674	0	2,076,674	0
Revenue bonds payable	0	282,602	282,602	0
TOTAL NON-CURRENT LIABILITIES	\$ <u>2,222,471</u>	\$ <u>282,602</u>	\$ <u>2,505,073</u>	\$ <u>24,275</u>
TOTAL LIABILITIES	\$ 2,637,527	\$ 785,245	\$ 3,422,772	\$ 74,494
NET ASSETS				
Invested in capital assets, net of related debt	\$ 7,422,741	\$ 2,190,975	\$ 9,613,716	\$ 798,226
Restricted for				
Forfeitures	4,468	0	4,468	0
Debt service	0	48,064	48,064	0
Capital outlay	104,385	1,089,167	1,193,552	0
Other	12,073	0	12,073	0
Unrestricted	3,209,295	785,645	3,994,940	278,638
TOTAL NET ASSETS	\$ <u><u>10,752,962</u></u>	\$ <u><u>4,113,851</u></u>	\$ <u><u>14,866,813</u></u>	\$ <u><u>1,076,864</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
 GOVERNMENTAL FUNDS BALANCE SHEET
 COMBINED BALANCE SHEET
 June 30, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND	NON-MAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and equivalents	\$ 1,412,275	\$ 654,980	\$ 26,219	\$ 607,207	\$ 171,846	\$ 2,872,527
Accounts/notes receivable	24,596	0	0	257,292	0	281,888
Due from other funds	341,435	0	77,370	0	0	418,805
Due from other governmental units	198,586	52,594	20,748	0	0	271,928
Restricted assets	45,926	0	0	0	0	45,926
TOTAL ASSETS	\$ 2,022,818	\$ 707,574	\$ 124,337	\$ 864,499	\$ 171,846	\$ 3,891,074
LIABILITIES						
Accounts payable	\$ 54,338	\$ 4,249	\$ 1,822	\$ 0	\$ 0	\$ 60,409
Accrued payroll expense	36,885	2,141	685	0	0	39,711
Due to other funds	0	121,522	80,803	0	33,078	235,403
Deferred revenue	0	0	0	257,292	0	257,292
TOTAL LIABILITIES	\$ 91,223	\$ 127,912	\$ 83,310	\$ 257,292	\$ 33,078	\$ 592,815
FUND BALANCES						
Reserved for						
Forfeitures	\$ 4,468	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,468
Public safety education	1,612	0	0	0	0	1,612
Health reimbursement account	10,461	0	0	0	0	10,461
Capital outlay	29,385	0	0	75,000	0	104,385
Unreserved	1,885,669	579,662	41,027	532,207	138,768	3,177,333
TOTAL FUND EQUITY	\$ 1,931,595	\$ 579,662	\$ 41,027	\$ 607,207	\$ 138,768	\$ 3,298,259
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,022,818	\$ 707,574	\$ 124,337	\$ 864,499	\$ 171,846	\$ 3,891,074

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balance - total governmental funds	\$ 3,298,259
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	9,499,415
Long term liabilities:	
Bonds not due and payable within the current period and not reported in the funds	(2,122,600)
Accrued interest on bonds not reported	(33,608)
Accumulated employee vacation and personal pay not used in current period	(145,797)
Eliminate deferred income recognition of notes receivable	<u>257,292</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>10,752,962</u></u>

CITY OF KINGSFORD
 GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
 EXPENDITURES, AND CHANGES IN FUND BALANCE
 Year ended June 30, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	SMALL CITIES GRANT LOAN REPAYMENT FUND	NON-MAJOR GOVERNMENTAL FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Property taxes	\$ 2,039,064	\$ 0	\$ 0	\$ 0	\$ 148,089	\$ 2,187,153
Federal grants	17,642	0	0	0	0	17,642
State shared revenues and grants	611,955	359,044	130,325	0	0	1,101,324
Licenses and permits	66	0	0	0	0	66
Fines and forfeitures	17,378	0	0	0	0	17,378
Charges for services	96,234	0	0	0	0	96,234
Interest and rentals	432,482	27,664	216	28,965	7,050	496,377
Sale of property and supplies	608,000	0	0	0	100,000	708,000
Refunds and reimbursements	56,311	0	0	0	0	56,311
Insurance proceeds	10,200	0	0	0	0	10,200
Other	10,238	0	0	88,445	0	98,683
	TOTAL REVENUES	\$ 3,899,570	\$ 386,708	\$ 130,541	\$ 117,410	\$ 255,139
EXPENDITURES						
Current						
General government	\$ 471,278	\$ 0	\$ 0	\$ 1,241	\$ 4,511	\$ 477,030
Public safety	1,409,999	0	0	0	0	1,409,999
Public works	887,056	147,007	181,159	0	0	1,215,222
Recreation	108,640	0	0	0	0	108,640
Insurance and benefits	318,948	0	0	0	0	318,948
Other	401	0	0	0	0	401
Capital outlay	0	7,628	139,984	0	179,162	326,774
Debt service	0	0	0	0	147,961	147,961
	TOTAL EXPENDITURES	\$ 154,635	\$ 321,143	\$ 1,241	\$ 331,634	\$ 4,004,975
	EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ 703,248	\$ 232,073	\$ (190,602)	\$ 116,169	\$ (76,495)
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 0	\$ 0	\$ 172,370	\$ 0	\$ 158,096	\$ 330,466
Transfers (out)	(366,657)	(77,370)	0	0	0	(444,027)
	TOTAL OTHER FINANCING SOURCES (USES)	\$ (77,370)	\$ 172,370	\$ 0	\$ 158,096	\$ (113,561)
	EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ 336,591	\$ 154,703	\$ (18,232)	\$ 116,169	\$ 81,601
Fund balance - beginning	1,595,004	424,959	59,259	491,038	57,167	2,627,427
	FUND BALANCE - JUNE 30	\$ 1,931,595	\$ 579,662	\$ 41,027	\$ 607,207	\$ 138,768

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Net change in fund balance - total governmental funds	\$	670,832
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.		(177,517)
Eliminate effect of reduction of deferred revenue in governmental fund not recognized in the Statement of Activities		(88,445)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).		45,000
Decrease in accrued interest not recorded as expenditure in governmental funds but recorded in Statement of Activities		713
Decreases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities		<u>(28,845)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$		<u><u>421,737</u></u>

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets:			
Cash and equivalents	\$ 804,900	\$ 81,606	\$ 886,506
Accounts receivable	<u>69,851</u>	<u>118,533</u>	<u>188,384</u>
TOTAL CURRENT ASSETS	\$ 874,751	\$ 200,139	\$ 1,074,890
Restricted Assets	\$ 108,904	\$ 1,028,327	\$ 1,137,231
Property, plant and equipment:			
System assets	\$ 5,161,124	\$ 557,686	\$ 5,718,810
Less accumulated depreciation	<u>(2,961,527)</u>	<u>(70,308)</u>	<u>(3,031,835)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,199,597	\$ 487,378	\$ 2,686,975
TOTAL ASSETS	\$ 3,183,252	\$ 1,715,844	\$ 4,899,096
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 8,416	\$ 3,973	\$ 12,389
Accrued payroll expenses	13,054	1,420	14,474
Accrued interest	5,580	0	5,580
Due to other funds	47,866	127,484	175,350
Due to other governmental units	0	81,452	81,452
Current portion of long term debt	<u>165,334</u>	<u>0</u>	<u>165,334</u>
TOTAL CURRENT LIABILITIES	\$ 240,250	\$ 214,329	\$ 454,579
Long Term Debt - Bonds payable	\$ <u>330,666</u>	\$ <u>0</u>	\$ <u>330,666</u>
TOTAL LIABILITIES	\$ 570,916	\$ 214,329	\$ 785,245
NET ASSETS			
Invested in capital assets - net of related debt	\$ 1,703,597	\$ 487,378	\$ 2,190,975
Restricted for debt service	48,064	0	48,064
Restricted for repairs and reconstruction	60,840	1,028,327	1,089,167
Unrestricted	<u>799,835</u>	<u>(14,190)</u>	<u>785,645</u>
TOTAL NET ASSETS	\$ <u>2,612,336</u>	\$ <u>1,501,515</u>	\$ <u>4,113,851</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year ended June 30, 2007

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Charges for services:			
Metered sales and service charges	\$ 419,739	\$ 254,277	\$ 674,016
Taps, thaws and shutoffs	2,150	10	2,160
Late payment penalties	<u>3,018</u>	<u>4,909</u>	<u>7,927</u>
TOTAL OPERATING REVENUES	\$ 424,907	\$ 259,196	\$ 684,103
OPERATING EXPENSES			
Personal services	\$ 197,650	\$ 38,335	\$ 235,985
Contractual services	12,576	1,452	14,028
Utilities	50,734	1,099	51,833
Equipment rental	34,822	22,913	57,735
Supplies	24,108	1,973	26,081
Other services and charges	17,429	684	18,113
Depreciation	<u>149,201</u>	<u>13,305</u>	<u>162,506</u>
TOTAL OPERATING EXPENSES	\$ <u>486,520</u>	\$ <u>79,761</u>	\$ <u>566,281</u>
NET OPERATING INCOME (LOSS)	\$ (61,613)	\$ 179,435	\$ 117,822
NON-OPERATING GAINS/LOSSES			
Interest earned	\$ 51,809	\$ 47,070	\$ 98,879
Interest expense	<u>(22,433)</u>	<u>0</u>	<u>(22,433)</u>
CHANGE IN NET ASSETS	\$ (32,237)	\$ 226,505	\$ 194,268
Net assets - beginning	<u>2,644,573</u>	<u>1,275,010</u>	<u>3,919,583</u>
NET ASSETS - ENDING	\$ <u><u>2,612,336</u></u>	\$ <u><u>1,501,515</u></u>	\$ <u><u>4,113,851</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2007

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 416,717	\$ 234,988	\$ 651,705
Payments to suppliers	(144,142)	(24,357)	(168,499)
Payments to or on behalf of employees	(201,863)	(6,454)	(208,317)
Internal activity-payments from other funds	<u>6,677</u>	<u>41,252</u>	<u>47,929</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 77,389	\$ 245,429	\$ 322,818
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (32,546)	\$ 0	\$ (32,546)
Purchases of capital assets	0	(25,479)	(25,479)
Reduction of funding restricted accounts	<u>(4,679)</u>	<u>(276,947)</u>	<u>(281,626)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (37,225)	\$ (302,426)	\$ (339,651)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>51,809</u>	\$ <u>47,070</u>	\$ <u>98,879</u>
NET INCREASE (DECREASE) IN CASH	\$ 91,973	\$ (9,927)	\$ 82,046
Cash and equivalents - beginning	<u>712,927</u>	<u>91,533</u>	<u>804,460</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>804,900</u></u>	\$ <u><u>81,606</u></u>	\$ <u><u>886,506</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (61,613)	\$ 179,435	\$ 117,822
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	149,201	13,305	162,506
Change in Assets and Liabilities			
Receivables - net	(8,190)	(24,208)	(32,398)
Accounts payable	(4,473)	3,764	(709)
Accrued payroll expense	(4,213)	1,359	(2,854)
Due to other funds	6,677	41,252	47,929
Due to other governmental units	<u>0</u>	<u>30,522</u>	<u>30,522</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>77,389</u></u>	\$ <u><u>245,429</u></u>	\$ <u><u>322,818</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	TRUST FUND TYPE		AGENCY FUND TYPE
	Police and Firemen's Pension Trust Fund	Retiree Insurance Trust Fund	Tax Collections
ASSETS			
Cash and equivalents	\$ 26,344	\$ 17,842	\$ 8,729
Interest and dividend receivable	0	0	0
Investments	10,073,307	0	0
Due from other governmental units	0	0	0
TOTAL ASSETS	\$ 10,099,651	\$ 17,842	\$ 8,729
LIABILITIES			
Accounts payable	\$ 12,023	\$ 0	\$ 0
Due to other funds	0	7,930	121
Due to other governmental units	0	0	77
Security and performance deposits	0	0	8,531
Deferred revenue	0	1,653	0
TOTAL LIABILITIES	\$ 12,023	\$ 9,583	\$ 8,729
NET ASSETS			
Held in trust for pension benefits	\$ <u>10,087,628</u>		
Held in trust for retiree insurance benefits		\$ <u>8,259</u>	

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CHANGES IN PLAN NET ASSETS
FIDUCIARY FUNDS
Year ended June 30, 2007

	<u>Police and Firemen's Pension Trust Fund</u>	<u>Retiree Insurance Trust Fund</u>
ADDITIONS		
Contributions		
Tax collections	\$ 251,374	\$ 0
Employer	0	113,560
Plan members	<u>64,393</u>	<u>45,215</u>
Total Contributions	\$ 315,767	\$ 158,775
Investment Income		
Net appreciation (depreciation) in fair value of investments	\$ 261,906	\$ 0
Realized gains (losses)	423,355	0
Interest and dividends	217,552	49
Less investment expense	<u>(61,380)</u>	<u>0</u>
Net Investment Income	\$ <u>841,433</u>	\$ <u>49</u>
TOTAL ADDITIONS	\$ 1,157,200	\$ 158,824
DEDUCTIONS		
Benefits paid	\$ 468,631	\$ 150,565
Administrative expense	<u>4,593</u>	<u>0</u>
TOTAL DEDUCTIONS	\$ <u>473,224</u>	\$ <u>150,565</u>
NET INCREASE	\$ 683,976	\$ 8,259
NET ASSETS HELD IN TRUST FOR PENSION OR RETIREE INSURANCE BENEFITS		
Beginning	\$ <u>9,403,652</u>	\$ <u>0</u>
ENDING	\$ <u><u>10,087,628</u></u>	\$ <u><u>8,259</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF NET ASSETS
COMPONENT UNIT
June 30, 2007

		<u>KINGSFORD HOUSING COMMISSION</u>
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$	26,923
Accounts receivable		2,890
Investments		310,733
Prepaid expenses		<u>12,586</u>
TOTAL CURRENT ASSETS	\$	353,132
 NONCURRENT ASSETS		
Capital assets	\$	4,122,272
Less accumulated depreciation		<u>(3,324,046)</u>
TOTAL NON CURRENT ASSETS	\$	<u>798,226</u>
TOTAL ASSETS	\$	1,151,358
 LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$	7,580
Accrued liabilities		<u>42,639</u>
TOTAL CURRENT LIABILITIES	\$	50,219
NON-CURRENT LIABILITIES	\$	<u>24,275</u>
TOTAL LIABILITIES	\$	74,494
 NET ASSETS		
Investment in capital assets, net of related debt	\$	798,226
Unrestricted net assets		<u>278,638</u>
NET ASSETS	\$	<u><u>1,076,864</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
COMPONENT UNIT
Year ended June 30, 2007

		<u>KINGSFORD HOUSING COMMISSION</u>
OPERATING REVENUES		
Tenant revenue	\$	155,066
Program grants - subsidies		122,587
Other		<u>18,577</u>
TOTAL OPERATING REVENUES	\$	296,230
OPERATING EXPENSES		
Administration	\$	94,354
Tenant services		666
Utilities		41,720
Maintenance		131,528
General		30,648
Extraordinary maintenance		10,101
Depreciation		<u>196,481</u>
TOTAL EXPENDITURES	\$	<u>505,498</u>
OPERATING (LOSS)	\$	(209,268)
OTHER INCOME (EXPENSES)		
Interest income	\$	12,010
Capital grants		<u>77,653</u>
TOTAL OTHER INCOME (EXPENSES)	\$	<u>89,663</u>
CHANGE IN NET ASSETS	\$	(119,605)
Net assets - beginning		<u>1,196,469</u>
NET ASSETS - ENDING	\$	<u><u>1,076,864</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
STATEMENT OF CASH FLOWS
COMPONENT UNIT
Year ended June 30, 2007

	<u>KINGSFORD HOUSING COMMISSION</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 159,197
Receipts from grants and subsidies	123,464
Payments to suppliers	(133,754)
Payments to or on behalf of employees	(166,679)
Payment in lieu of taxes	(11,287)
Other receipts	<u>18,472</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ (10,587)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital grants	\$ 77,653
Acquisition of capital assets	\$ <u>(93,392)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (15,739)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	\$ (7,764)
Investment income	<u>11,418</u>
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	\$ <u>3,654</u>
NET INCREASE (DECREASE) IN CASH	\$ (22,672)
Cash and equivalents - beginning	<u>49,595</u>
CASH AND EQUIVALENTS - ENDING	\$ <u><u>26,923</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (209,268)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities	
Depreciation	196,481
Change in Assets and Liabilities	
Receivables - net	4,903
Prepaid expenses	(2,005)
Accounts payable	(2,117)
Accrued liabilities	<u>1,419</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>(10,587)</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government. The City does not have any component units that are blended.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Kingsford, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Kingsford Housing Commission

The Kingsford Housing Commission (KHC), which was established in 1972 under criteria established for low income housing programs by the United States Department of Housing and Urban Development is governed by a board of commissioners appointed by the City Council. Its purpose is to provide low cost housing to elderly and low income families in the City of Kingsford, Michigan. The separately issued audited financial statements of the Kingsford Housing Commission are available at its offices at 1025 Woodward Avenue, Kingsford, MI 49802.

JOINTLY GOVERNED ORGANIZATIONS

Joint Sewage Authority

The Iron Mountain-Kingsford Sewage Treatment Authority (Authority), was formed in 1960 under provisions established by the joint cooperation of the Cities of Iron Mountain and Kingsford, Michigan. The Authority operates under a board of commissioners consisting of the city manager of each City as well as a member appointed by the respective mayors of the Cities.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City remits a portion of its metered sewer utility collections to the Authority. The City receives a collection stipend from the Authority of \$833.33 per month. The City also retains all sewer tap fees and service charges collected.

The audited financial statements of the Joint Sewage Authority are available at the Kingsford City Offices located at 305 S. Carpenter Avenue, Kingsford, MI 49802.

Dickinson County Solid Waste Management Authority

The City of Kingsford along with other units of government in Dickinson County, Michigan jointly operate the Dickinson County Solid Waste Management Authority (DCSWMA). All of the financial operations of DCSWMA are recorded in the records of the County of Dickinson, Michigan. The City's appropriation to DCSWMA for the year was \$119,015.

The audit report for DCSWMA for the year ended June 30, 2007, is available at its offices at W-7702 US 2, Iron Mountain, MI 49801.

Government-Wide and Fund Financial Statements

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

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

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.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Taxes Receivable—Current Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are due and payable at that time. All unpaid taxes levied July 1 become delinquent on the next August 15th.

Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end. Since it is felt that certain delinquent taxes are not fully collectible, a reserve for uncollectible taxes of \$262 has been recorded in the City's General Fund.

The Taxable Value of the 2006-2007 taxable property is \$114,434,457. The City's total millage was 17.613 mills for operations, 2.210 mills for police and fire pension and 1.302 mills for debt service yielding tax levies of \$1,999,481, \$250,886, and \$147,807 respectively. The tax collection revenues as recorded in the funds vary slightly because of revenue recognition policies explained above and the adverse settlement of various property tax appeals from prior years.

The government reports the following major governmental funds:

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

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

The Small Cities Grant Loan Repayment Fund accounts for the loans to businesses and related repayment activities to enhance economic development.

The Equipment and Capital Fund is used to account for receipts (primarily transfers) and capital project and equipment expenditures on behalf of the other governmental funds.

The government reports the following major proprietary funds:

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

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

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g.,

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments– Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables– In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “due to/from other funds.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

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

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets– Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Personal and Sick Leave)– It is the City’s policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. There is a liability for unpaid accumulated sick leave since the City has a policy to pay a portion of the accumulated benefits to employees upon separation from service with the City in some circumstances. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

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

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

CITY OF KINGSFORD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative Data/Reclassifications

Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations In Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures, budgeted expenditures and related variances for the budgetary funds have been shown on an activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level.

Fund/Activity	Actual	Budget	Variance	%
General/Alleys	7,794	6,865	929	14
General/Sanitation	251,152	248,475	2,677	1
General/Insurance and Benefits	318,948	247,205	71,743	29
Major Streets/Traffic Service	6,354	0	6,354	~
Local Streets/Route Maintenance	133,193	79,720	53,473	67
Local Streets/Traffic Services	2,623	0	2,623	~

NOTE C-RESTATEMENT OF BEGINNING NET ASSETS

The City had inappropriately included the unfunded accrued actuarial pension liability as a liability for the determination of net assets in the prior fiscal year. As a result of this change, the beginning net assets of the City are restated as follows:

June 30, 2006 net assets as originally reported	\$13,771,693
Add: adjustment to unfunded accrued actuarial liability	<u>479,115</u>
Restated June 30, 2006 Net Assets	<u><u>\$14,250,808</u></u>

CITY OF KINGSFORD
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2007

NOTE D-DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental 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; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated three banks for the deposit of its funds. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash & Cash Equivalents	\$ 2,872,527	\$ 886,506	\$ 8,729	\$ 3,767,762	\$ 26,923
Restricted Assets	45,926	1,137,231	0	1,183,157	0
Total	\$ 2,918,453	\$ 2,023,737	\$ 8,729	\$ 4,950,919	\$ 26,923

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$4,950,919 of which \$500,000 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance.

INVESTMENTS

Statutes of the State of Michigan authorize the City to invest in various bank deposit accounts and certain securities. There are no apparent provisions of the statutes requiring that the balances of such investments be partially or fully collateralized with pledged securities of the investee bank, etc. The City held such investments during the year, including those of the pension trust which is authorized to invest in various instruments in accordance with the provisions of Act 345 of the State of Michigan's Public Acts of 1937 establishing a municipally administered Police and Firemen's Retirement System.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE D-DEPOSITS AND INVESTMENTS (CONTINUED)

INVESTMENTS (CONTINUED)

As of June 30, 2007, the pension trust investments consisted of obligations of the United States Treasury, some domestic corporations and common stocks of U.S. corporations. These investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

	Category		
	1	2	3
Cash and equivalent	\$ 711,457	\$ 0	\$ 0
U.S. Treasury	2,610,068	0	0
Corporate bonds	706,112	0	0
Corporate stocks	6,045,670	0	0
TOTALS	\$10,073,307	\$ 0	\$ 0

NOTE E - PENSION PLANS

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTION

On July 1, 2001, the City adopted employees' Pension Plan B-3 of the Municipal Employees' Retirement System for all eligible employees and elected participation in Benefits E and E-2 with F55 waiver. The plan is an agent multiple-employer pension plan. Normal retirement benefits are paid employees retiring at age 60 with 10 or more years of service. The F55 waiver allows a full pension to be paid to retirees less than 60 years old if they have attained the age of 55 and have 15 or more years of credited service. The provisions of the pension plan include that a maximum of 80% of Final Average Compensation is used to determine pension benefit values.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE E - PENSION PLANS (CONTINUED)

ACTUARIAL ACCRUED LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006.

GASB 25 INFORMATION

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 1,644,397
Terminated employees not yet receiving benefits	19,877
Non-vested terminated employees (refund of contribution)	485
Current employees:	
Accumulated employee contributions including	
allocated investment income	639,705
Employer financed	<u>2,394,662</u>
 TOTAL ACTUARIAL ACCRUED LIABILITY	 \$ 4,699,126
 Net Assets Available for benefits, at actuarial value	 <u>4,264,643</u>
 UNFUNDED ACTUARIAL ACCRUED LIABILITY	 \$ 434,483 =====

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2008
 Annual required contribution	 \$ 77,616

POLICE AND FIREMEN'S PENSION PLAN

PLAN DESCRIPTION

On July 1, 1960 the City adopted a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 1937, as amended. The retirement system covers all full time employees of the City's public safety department. The Police and Firemen's Pension Plan (P&FPP) is a single employer defined benefit pension plan administered by the City of Kingsford Police and Firemen Pension Board. P&FPP provides retirement, disability, and death benefits to plan members and beneficiaries. Cost of living adjustments are provided to members and beneficiaries retiring after January 1, 1997 on each January 1 at the rate of 2.5% per year. The financial reports for P&FPP are

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE E - PENSION PLANS (CONTINUED)

issued as part of the City of Kingsford's annual financial reports and include plan financial statements and required supplementary disclosures.

ACCRUED ACTUARIAL LIABILITY

The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of June 30, 2006.

GASB 25 INFORMATION

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 699,552
Terminated employees not yet receiving benefits	0
Current employees:	
Accumulated employee contributions including allocated investment income	757,364
Future retirement health benefits	32,574
Employer financed	<u>8,231,829</u>
TOTAL ACTUARIAL ACCRUED LIABILITY	\$ 9,721,319
Net Assets Available for benefits, at actuarial value	<u>9,478,569</u>
(OVERFUNDED) ACTUARIAL ACCRUED LIABILITY	\$ (242,750) =====

GASB 27 INFORMATION

Fiscal year beginning	July 1, 2007
Annual required contribution	\$ 293,805

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE F - DUE TO/FROM OTHER FUNDS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. Such transactions are generally reflected as transfers in the various funds' financial statements. A summary of balances of interfund receivables and payables at June 30, 2007, follows:

Receivable	Payable	Amount
General	Major Street	\$ 44,152
General	Local Street	80,803
General	Equipment and Capital	7,000
General	Water Utility	47,866
General	Sewer Utility	127,484
General	Tax Collection	120
General	Retiree Health	7,930
General	Land Sale	26,078
Local Streets	Major Streets	77,370

NOTE G - FIXED ASSETS

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

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated				
Land	\$ 753,416	\$ 0	\$ 0	\$ 753,416
Buildings	6,648,243	56,966	5,000	6,700,209
Machinery and Equipment	1,716,340	75,850	0	1,792,190
Infrastructure	6,434,299	193,958	0	6,628,257
Subtotal	\$ 15,552,298	\$ 326,774	\$ 5,000	\$ 15,874,072
Less Accumulated Depreciation for				
Buildings	\$ 2,175,908	\$ 137,229	\$ 0	\$ 2,175,908
Machinery and Equipment	1,209,876	80,097	0	1,209,876
Infrastructure	2,489,582	281,965	0	2,489,582
Subtotal	\$ 5,875,366	\$ 499,291	\$ 0	\$ 5,875,366
Governmental Activities				
Capital Assets--Net of Depreciation	\$ 9,676,932	\$ (172,517)	\$ 5,000	\$ 9,499,415

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE G - FIXED ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated				
Sewer System	\$ 532,207	\$ 25,479	\$ 0	\$ 557,686
Water System	5,161,124	0	0	5,161,124
Subtotal	\$ 5,693,331	\$ 25,479	\$ 0	\$ 5,718,810
Less Accumulated Depreciation for				
Sewer System	\$ 57,002	\$ 13,306	\$ 0	\$ 70,308
Water System	2,812,327	149,200	0	2,961,527
Subtotal	\$ 2,869,329	\$ 162,506	\$ 0	\$ 3,031,835
Business Type Activities				
Capital Assets--Net of Depreciation	\$ 2,824,002	\$ (137,027)	\$ 0	\$ 2,686,975

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

Governmental Activities	
General Government	\$ 46,731
Public Safety	41,571
Public Works	<u>410,989</u>
Total Governmental Activities	<u>\$ 499,291</u>
Business-Type Activities	
Water	\$ 149,200
Sewer	<u>13,306</u>
Total Business-Type Activities	<u>\$ 162,506</u>

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE H - FIRST SERIES BOND OF KINGSFORD WATER SUPPLY SYSTEM REVENUE BOND

On July 18, 1995, the City of Kingsford issued serial revenue bonds in the amount of \$676,000 for improvements to its water supply system. A retirement schedule and a description of the bonds is below:

Payable Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest		
2007-2008	\$ 9,733	\$ 175,334	\$ 7,215	\$	192,282
2008-2009	5,940	175,334	3,270		184,544
2009-2010	<u>2,132</u>	<u>145,332</u>	<u>0</u>		<u>147,464</u>
TOTALS	\$ 17,805	\$ 496,000	\$ 10,485	\$	524,290

In 1995, the City completed a water system upgrade and expansion. The project was financed with revenue bonds. The bond was purchased in its entirety by the Rural Development Agency of the United States Department of Agriculture. This bond will be repaid with the revenues generated by charges to water customers. Principal repayments are due annually on each October 1, through 2034. Interest is paid semi-annually on October 1 and April 1 of each year at a rate of 4.5%. During the 2006-2007, the City and Rural Development agreed to an accelerated repayment schedule which is reflected above.

NOTE I - UNLIMITED TAX GENERAL OBLIGATION BOND - PUBLIC WORKS BUILDING

The City issued an unlimited tax general obligation bond to the Rural Development Agency of the US Department of Agriculture. The proceeds were being used to construct a replacement Public Works facility for the City. The loan is due in annual installments as set forth in the Schedule of Debt and Interest on each March 1, through 2028 with interest payable at 4.75%. The cumulative debt service schedule is below:

Payable Fiscal Year	March 1		September 1		Total
	Interest	Principal	Interest		
2007-2008	\$ 50,412	\$ 45,000	\$ 50,412	\$	145,824
2008-2009	49,343	50,000	49,343		148,686
2009-2010	48,156	50,000	48,156		146,312
2010-2011	46,968	60,000	46,968		153,936
2011-2012	45,543	65,000	45,543		156,086
2013-2017	201,828	420,000	201,827		823,655
2017-2022	142,809	600,000	142,809		885,618
2022-2027	64,671	735,000	64,671		864,343
2028	<u>2,318</u>	<u>97,600</u>	<u>2,318</u>		<u>102,236</u>
TOTALS	\$ 652,047	\$ 2,122,600	\$ 652,047	\$	3,426,694

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE I - UNLIMITED TAX GENERAL OBLIGATION BOND (CONTINUED)

The bond was purchased in its entirety by the Rural Development Agency of the US Department of Agriculture. This bond will be repaid with annual tax collections that will vary in rate to insure coverage of its annual debt responsibility. Principal repayments are due annually on each March 1, through 2028. Interest is paid semi-annually on March 1 and September 1 of each year at a rate of 4.75%.

NOTE J - COMPENSATED ABSENCES

Pursuant to the requirements of the Governmental Accounting Standards Board Statement 16, the City accrues a liability for compensated absences which meet the following criteria:

1. The City's obligation related to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City has calculated a liability for sick, personal and vacation leave which has been earned but not taken by City employees.

For governmental funds, a portion of the liability for the vacation, sick and personal leave absences are recorded in applicable funds as earned and that were subsequently liquidated with "expendable and available assets". The total accrued vacation, sick and personal leave earned but not taken as of June 30, 2007, is \$70,162, \$342,902 and \$7,385 respectively. The total accrued sick leave that will be paid upon termination of employment to employees in accordance with bargaining unit contracts and City policies is \$68,249 as of June 30, 2007. For proprietary funds, the liabilities are recorded in the applicable funds as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of leave as follows:

Public Safety Department Employees:

Sick Leave - Covered employees may accumulate an unlimited amount of sick leave. Fifty percent (50%) of the first 1000 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1977 in which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE J - COMPENSATED ABSENCES (continued)

Vacation - Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 36 - 216 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days - Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All employees except department heads must use their personal time accrual during the calendar year or forfeit the benefit. Department heads are granted four personal days at the beginning of each calendar year. All time must be taken prior to February of the succeeding year or the benefit will be forfeited.

Public Works Employees:

Sick Leave - Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 100 days of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in which case they will be required to work until retirement or death in order to qualify for the payment of the accumulated benefits.

Vacation - Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days - Covered employees except department heads are entitled to three personal leave days per calendar year. Such days are charged to accumulated sick time when taken. Department heads are entitled to four personal leave days per calendar year and such days are charged to accumulated sick time when taken.

All Other City Employees:

Sick Leave - Covered employees may accumulate up to 1088 hours of sick leave. Fifty percent (50%) of the first 800 hours of such unused sick leave hours will be paid upon termination or retirement from employment, except for those persons first employed after July 1, 1984 in which case they will be required to work until retirement in order to qualify for the payment of accumulated benefits.

Vacation:

Covered employees are granted annual credit toward vacation with pay based on a longevity schedule. The credit granted will range from 40 - 200 hours. All employees except department heads must use their vacation accrual during the calendar year or forfeit the

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE J - COMPENSATED ABSENCES (continued)

benefit. Department heads are allowed to carryforward one week of vacation time to the next year but must use that benefit during the first quarter or forfeit the benefit.

Personal Leave Days:

Covered employees except department heads are granted three personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. Such days are charged to accumulated sick time when taken.

Department heads are granted four personal leave days at the beginning of each calendar year with such days to be taken within the calendar year. All personal leave days taken are charged to the employee's accumulated sick time.

NOTE K - RETIREES HOSPITAL AND MEDICAL TRUST FUND

Pursuant to Council resolution, the City has provided hospital and medical insurance coverage for qualifying retired employees since October 15, 1981 and has accounted for such transactions within the Retirees Hospital and Medical Trust Fund.

Retired employees that are 62 years of age or greater are entitled to purchase health insurance through the City's health plan with a substantial portion of the cost being paid by the City. Retired employees that are less than 62 years of age are entitled to purchase health insurance through the City's health plan with the employee bearing a substantial portion of the cost.

During the 2006-2007 year, the City took action to amend its previous funding level of this trust fund to its cost on "pay as you go basis". The 2006-2007 contribution was \$149,089. The City has not had an actuarial determination made of the expected future liability for this benefit.

The retiree health benefits for the Public Safety Officers are paid directly through the pension plan. As such, the plan will absorb the Public Safety portion of the cost.

NOTE L - SEWAGE DISPOSAL AGREEMENT

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by an ordinance which provides for the sewer rates, minimum monthly charges and a monthly collection fee for billing services. These rates can be adjusted periodically through ordinance amendments.

CITY OF KINGSFORD
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE M - RISK MANAGEMENT

The City of Kingsford is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Kingsford maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 1,595,004	\$ 1,595,004	\$ 1,595,004	\$ 0
Resources (Inflows)				
Property taxes	2,036,065	2,037,765	2,039,064	1,299
Federal grants	2,500	13,000	17,642	4,642
State shared revenues and grants	635,200	623,200	611,955	(11,245)
Licenses and permits	0	0	66	66
Fines and forfeitures	13,000	13,000	17,378	4,378
Charges for services	82,000	82,000	96,234	14,234
Interest and rentals	450,630	450,630	432,482	(18,148)
Sale of property and supplies	605,000	608,000	608,000	0
Refunds and reimbursements	44,500	44,500	56,311	11,811
Insurance claim	0	10,200	10,200	0
Other	2,600	3,100	10,238	7,138
	<u>5,466,499</u>	<u>5,480,399</u>	<u>5,494,574</u>	<u>14,175</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 5,466,499	\$ 5,480,399	\$ 5,494,574	\$ 14,175
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 35,100	\$ 35,100	\$ 28,329	\$ 6,771
City manager	101,865	101,865	91,466	10,399
Other administration	73,425	73,425	71,274	2,151
Elections	10,400	10,400	9,744	656
Assessor/Board of review	67,190	67,190	56,579	10,611
Clerk	110,885	110,885	88,444	22,441
Treasurer	72,990	72,990	71,580	1,410
City hall, property and grounds	60,465	60,465	53,862	6,603
Public Safety	1,422,335	1,422,335	1,409,999	12,336
Public Works				
Planning	5,640	5,640	678	4,962
Maintenance	373,870	373,870	335,194	38,676
Alleys	6,865	6,865	7,794	(929)
Sidewalks	19,495	19,495	10,521	8,974
Christmas decorations	4,675	4,675	2,651	2,024
Motor vehicle pool	111,125	111,125	105,933	5,192
Street supplies	69,630	69,630	49,687	19,943
Street lighting	50,670	50,670	48,218	2,452
Sanitation	248,475	248,475	251,152	(2,677)
Rubbish	100,260	100,260	75,228	25,032
Parks and Recreation	115,120	115,120	108,640	6,480
Insurance and Benefits	247,205	247,205	318,948	(71,743)
Leases and Rentals	500	500	401	99
Transfers to other funds	1,254,040	1,254,040	366,657	887,383
	<u>4,562,225</u>	<u>4,562,225</u>	<u>3,562,979</u>	<u>999,246</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ 4,562,225	\$ 4,562,225	\$ 3,562,979	\$ 999,246
BUDGETARY FUND BALANCE--ENDING	<u>\$ 904,274</u>	<u>\$ 918,174</u>	<u>\$ 1,931,595</u>	<u>\$ 1,013,421</u>

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 MAJOR STREET FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 424,959	\$ 424,959	\$ 424,959	\$ 0
Resources (Inflows)				
State shared revenues	358,820	358,820	359,044	224
Interest earned	3,500	3,500	27,664	24,164
Other	0	0	0	0
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 787,279	\$ 787,279	\$ 811,667	\$ 24,388
Charges to Appropriations (Outflows)				
Construction	\$ 172,545	\$ 172,545	\$ 7,628	\$ 164,917
Route maintenance	109,850	109,850	53,838	56,012
Traffic services	0	0	6,354	(6,354)
Signs and signals	16,745	16,745	2,681	14,064
Winter maintenance	113,355	113,355	66,620	46,735
Administration	30,810	30,810	17,514	13,296
Transfers to other funds	<u>83,205</u>	<u>83,205</u>	<u>77,370</u>	<u>5,835</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>526,510</u>	\$ <u>526,510</u>	\$ <u>232,005</u>	\$ <u>294,505</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>260,769</u></u>	\$ <u><u>260,769</u></u>	\$ <u><u>579,662</u></u>	\$ <u><u>318,893</u></u>

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 LOCAL STREET FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u>		<u>AMENDED</u>		<u>ACTUAL</u>		<u>VARIANCE WITH</u>
	<u>BUDGET</u>		<u>BUDGET</u>				<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 59,259	\$	59,259	\$	59,259	\$	0
Resources (Inflows)							
State shared revenues	123,200		123,200		130,325		7,125
Interest earned	100		100		216		116
Other	0		0		0		0
Transfers from other funds	<u>178,205</u>		<u>178,205</u>		<u>172,370</u>		<u>(5,835)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 360,764	\$	360,764	\$	362,170	\$	1,406
Charges to Appropriations (Outflows)							
Construction	\$ 145,240	\$	145,240	\$	139,984	\$	5,256
Route maintenance	79,720		79,720		133,193		(53,473)
Traffic services	0		0		2,623		(2,623)
Winter maintenance	67,225		67,225		45,343		21,882
Administration	<u>5,800</u>		<u>5,800</u>		<u>0</u>		<u>5,800</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>297,985</u>	\$	<u>297,985</u>	\$	<u>321,143</u>	\$	<u>(23,158)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>62,779</u></u>	\$	<u><u>62,779</u></u>	\$	<u><u>41,027</u></u>	\$	<u><u>(21,752)</u></u>

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 SMALL CITIES GRANT LOAN REPAYMENT FUND
 Year ended June 30, 2007

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning Fund Balance			\$ 491,038	\$ 491,038
Resources (Inflows)				
Principal repaid			88,445	88,445
Interest earned			<u>28,965</u>	<u>28,965</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	BUDGET NOT PREPARED	BUDGET NOT PREPARED	\$ 608,448	\$ 608,448
Charges to Appropriations (Outflows)				
General government			\$ <u>1,241</u>	\$ <u>(1,241)</u>
TOTAL CHARGES TO APPROPRIATIONS			\$ <u>1,241</u>	\$ <u>(1,241)</u>
BUDGETARY FUND BALANCE--ENDING			\$ <u><u>607,207</u></u>	\$ <u><u>607,207</u></u>

CITY OF KINGSFORD
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2007

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-04	3,797,453	4,286,323	(488,870)	89%	877,801	-56%
31-Dec-05	3,991,726	4,470,841	(479,115)	89%	830,263	-58%
31-Dec-06	4,264,643	4,699,126	(434,483)	91%	838,246	-52%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-04	57,642	100%
31-Dec-05	59,954	100%
31-Dec-06	72,296	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	25 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 10 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.9%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 8.4%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

CITY OF KINGSFORD
 POLICE AND FIREMEN'S PENSION FUNDING AND STATISTICS
 JUNE 30, 2007

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>(UNFUNDED) OVERFUNDED ACTUARIAL LIABILITY</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
30-Jun-04	9,525,699	8,883,495	642,204	107%	925,062	-
30-Jun-05	9,399,300	9,333,042	66,258	101%	958,936	-
30-Jun-06	9,478,569	9,721,319	(242,750)	98%	1,068,067	23%

NOTE - LIABILITY INCLUDES POST-RETIREMENT HEALTH CARE INSURANCE COSTS

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
30-Jun-04	184,360	100%
30-Jun-05	222,526	100%
30-Jun-06	293,805	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	INDIVIDUAL ENTRY AGE
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	7.00%
PROJECTED SALARY INCREASES*	4.7% - 8.5%
*INCLUDES MERIT/LONGEVITY INCREASES	0.2% - 4.0%
INFLATION	3%
COST OF LIVING ADJUSTMENT	2.50%
OTHER	2000 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF KINGSFORD
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENT FUNDS
 June 30, 2007

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	EQUIPMENT AND CAPITAL IMPROVEMENT	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Assets				
Cash and equivalents	\$ <u>100,959</u>	\$ <u>49,806</u>	<u>21,081</u>	\$ <u>171,846</u>
TOTAL ASSETS	\$ <u><u>100,959</u></u>	\$ <u><u>49,806</u></u>	<u><u>21,081</u></u>	\$ <u><u>171,846</u></u>
Liabilities and Fund Equity				
Liabilities				
Due to other funds	\$ <u>26,078</u>	\$ <u>0</u>	<u>7,000</u>	\$ <u>33,078</u>
TOTAL LIABILITIES	\$ <u>26,078</u>	\$ <u>0</u>	<u>7,000</u>	\$ <u>33,078</u>
Fund Balance				
Unreserved, undesignated	\$ <u>74,881</u>	\$ <u>49,806</u>	<u>14,081</u>	\$ <u>138,768</u>
TOTAL FUND EQUITY	\$ <u><u>74,881</u></u>	\$ <u><u>49,806</u></u>	<u><u>14,081</u></u>	\$ <u><u>138,768</u></u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>100,959</u></u>	\$ <u><u>49,806</u></u>	<u><u>21,081</u></u>	\$ <u><u>171,846</u></u>

CITY OF KINGSFORD
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 Year ended June 30, 2007

	<u>SPECIAL REVENUE</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	
	LAND SALES, PURCHASES AND DEVELOPMENT	1998 PUBLIC WORKS DEBT SERVICE	EQUIPMENT AND CAPITAL IMPROVEMENT	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
Revenues				
Property taxes	\$ 0	\$ 148,089	\$ 0	148,089
Land sales	100,000	0	0	100,000
Interest earned	<u>913</u>	<u>5,141</u>	<u>996</u>	<u>7,050</u>
TOTAL REVENUES \$	100,913 \$	153,230 \$	996 \$	255,139
Expenditures				
General government	\$ 4,511	\$ 0	\$ 0	4,511
Capital outlay	21,538	0	157,624	179,162
Debt service	<u>0</u>	<u>147,961</u>	<u>0</u>	<u>147,961</u>
TOTAL EXPENDITURES \$	<u>26,049</u> \$	<u>147,961</u> \$	<u>157,624</u> \$	<u>331,634</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES \$	74,864 \$	5,269 \$	(156,628) \$	(76,495)
Other Financing Sources (Uses)				
Transfer from other funds	\$ 0	\$ 0	158,096	158,096
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OTHER FINANCING SOURCES (USES) \$	<u>0</u> \$	<u>0</u> \$	<u>158,096</u> \$	<u>158,096</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES \$	74,864 \$	5,269 \$	1,468 \$	81,601
Fund Balances - beginning	<u>17</u>	<u>44,537</u>	<u>12,613</u>	<u>57,167</u>
FUND BALANCE - ENDING \$	<u><u>74,881</u></u> \$	<u><u>49,806</u></u> \$	<u><u>14,081</u></u> \$	<u><u>138,768</u></u>

CITY OF KINGSFORD
WATER UTILITY FUND
BALANCE SHEET
June 30, 2007 and 2006

	2007	2006
ASSETS		
Current Assets:		
Cash and equivalents	\$ 804,900	\$ 712,927
Accounts receivable	69,851	61,661
TOTAL CURRENT ASSETS	\$ 874,751	\$ 774,588
Restricted Assets:		
Repair and reconstruction fund	\$ 60,840	\$ 58,194
Bond reserve account	48,064	46,031
TOTAL RESTRICTED ASSETS	\$ 108,904	\$ 104,225
Property, plant and equipment:		
Water system	\$ 5,161,124	\$ 5,161,124
Less accumulated depreciation	(2,961,527)	(2,812,326)
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 2,199,597	\$ 2,348,798
TOTAL ASSETS	\$ 3,183,252	\$ 3,227,611
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 8,416	\$ 12,889
Accrued payroll expenses	13,054	17,267
Accrued interest	5,580	5,693
Due to other funds	47,866	41,189
Current portion of long term debt	165,334	10,000
TOTAL CURRENT LIABILITIES	\$ 240,250	\$ 87,038
LONG TERM DEBT - Bonds payable	\$ 330,666	\$ 496,000
TOTAL LIABILITIES	\$ 570,916	\$ 583,038
FUND EQUITY		
Contributed capital:		
Federal government - capital grant	\$ 356,975	\$ 388,300
Municipality	1,615,392	1,615,392
Retained earnings:		
Reserved	108,904	104,225
Designated	0	80,000
Unreserved, undesignated	531,065	456,656
TOTAL FUND EQUITY	\$ 2,612,336	\$ 2,644,573
TOTAL LIABILITIES AND FUND EQUITY	\$ 3,183,252	\$ 3,227,611

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
ACTUAL, BUDGET AND PRIOR YEAR
Years ended June 30, 2007 and 2006

	2006-07			2005-06
	ACTUAL	AMENDED BUDGET	VARIANCE	ACTUAL
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 419,739	\$ 398,920	\$ 20,819	\$ 401,729
Taps, thaws and shutoffs	2,150	1,500	650	4,467
Late payment penalties	3,018	0	3,018	2,588
TOTAL OPERATING REVENUES	\$ 424,907	\$ 400,420	\$ 24,487	\$ 408,784
OPERATING EXPENSES				
Source of supply	\$ 113,584	\$ 162,180	\$ 48,596	\$ 105,376
Distribution	182,116	203,065	20,949	193,633
Clerical and administrative	41,619	42,825	1,206	32,039
Depreciation	149,201	0	(149,201)	159,624
TOTAL OPERATING EXPENSES	\$ 486,520	\$ 408,070	\$ (78,450)	\$ 490,672
NET OPERATING INCOME (LOSS)	\$ (61,613)	\$ (7,650)	\$ (53,963)	\$ (81,888)
NON-OPERATING GAINS/LOSSES				
Interest earned	\$ 51,809	\$ 12,000	\$ 39,809	\$ 32,602
Interest expense	(22,433)	(343,969)	321,536	(22,883)
NET INCOME (LOSS)	\$ (32,237)	\$ (339,619)	\$ 307,382	\$ (72,169)
Add depreciation of fixed assets acquired by capital grants	31,325	0	31,325	31,325
INCREASE (DECREASE) IN RETAINED EARNINGS	\$ (912)	\$ (339,619)	\$ 338,707	\$ (40,844)
Retained earnings - beginning	640,881			681,725
RETAINED EARNINGS - ENDING	\$ 639,969			\$ 640,881

CITY OF KINGSFORD
WATER UTILITY FUND
STATEMENT OF CASH FLOWS
Years ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 416,717	\$ 395,570
Payments to suppliers	(144,142)	(138,703)
Payments to or on behalf of employees	(201,863)	(190,893)
Internal activity-payments from other funds	6,677	14,699
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 77,389	\$ 80,673
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal and interest paid on capital debt	\$ (32,546)	\$ (32,995)
Purchases of capital assets	0	(487,350)
Funding of restricted accounts	(4,679)	(4,114)
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (37,225)	\$ (524,459)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned	\$ 51,809	\$ 32,602
NET INCREASE (DECREASE) IN CASH	\$ 91,973	\$ (411,184)
Cash and equivalents - beginning	712,927	1,124,111
CASH AND EQUIVALENTS - ENDING	\$ 804,900	\$ 712,927
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (61,613)	\$ (81,888)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	149,201	159,624
Change in Assets and Liabilities		
Receivables - net	(8,190)	(13,213)
Accounts payable	(4,473)	184
Accrued payroll expense	(4,213)	1,267
Due to other funds	6,677	14,699
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 77,389	\$ 80,673

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 EQUIPMENT AND CAPITAL IMPROVEMENT FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 12,613	\$ 12,613	\$ 12,613	\$ 0
Resources (Inflows)				
Interest earned	600	600	996	396
Transfers from other funds	<u>711,000</u>	<u>711,000</u>	<u>158,096</u>	<u>(552,904)</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 724,213	 \$ 724,213	 \$ 171,705	 \$ (552,508)
Charges to Appropriations (Outflows)				
Capital outlay				
Administration	\$ 21,000	\$ 21,000	\$ 0	\$ 21,000
Hall and grounds	88,000	94,600	35,428	59,172
Public safety	59,500	69,880	61,306	8,574
Parks and recreation	87,000	87,000	0	87,000
Public works - other	<u>447,500</u>	<u>74,600</u>	<u>60,890</u>	<u>13,710</u>
 TOTAL CHARGES TO APPROPRIATIONS	 \$ <u>703,000</u>	 \$ <u>347,080</u>	 \$ <u>157,624</u>	 \$ <u>189,456</u>
 BUDGETARY FUND BALANCE--ENDING	 \$ <u><u>21,213</u></u>	 \$ <u><u>377,133</u></u>	 \$ <u><u>14,081</u></u>	 \$ <u><u>(363,052)</u></u>

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 LAND SALES, PURCHASE AND DEVELOPMENT FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 17	\$ 17	\$ 17	\$ 0
Resources (Inflows)				
Land sales	0	0	100,000	100,000
Interest earned	500	500	913	413
Transfers from other funds	<u>100,000</u>	<u>100,000</u>	<u>0</u>	<u>(100,000)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 100,517	\$ 100,517	\$ 100,930	\$ 413
Charges to Appropriations (Outflows)				
Professional fees	\$ 40,000	\$ 40,000	\$ 4,468	\$ 35,532
Land improvements	60,000	60,000	21,538	38,462
Other	<u>0</u>	<u>0</u>	<u>43</u>	<u>(43)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>100,000</u>	\$ <u>100,000</u>	\$ <u>26,049</u>	\$ <u>73,951</u>
	\$ <u><u>517</u></u>	\$ <u><u>517</u></u>	\$ <u><u>74,881</u></u>	\$ <u><u>74,364</u></u>

CITY OF KINGSFORD
 BUDGETARY COMPARISON SCHEDULE
 1998 PUBLIC WORKS DEBT SERVICE FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 44,537	\$ 44,537	\$ 44,537	\$ 0
Resources (Inflows)				
Property taxes	148,072	148,072	148,089	17
Interest earned	<u>0</u>	<u>0</u>	<u>5,141</u>	<u>5,141</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 192,609	\$ 192,609	\$ 197,767	\$ 5,158
Charges to Appropriations (Outflows)				
Debt service	\$ <u>147,962</u>	\$ <u>147,962</u>	\$ <u>147,961</u>	<u>1</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>147,962</u>	\$ <u>147,962</u>	\$ <u>147,961</u>	<u>1</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>44,647</u></u>	\$ <u><u>44,647</u></u>	\$ <u><u>49,806</u></u>	<u><u>5,159</u></u>

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

The Honorable Mayor and Council
City of Kingsford
Kingsford, MI 49802

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingsford, Michigan (City) as of and for the year ended June 30, 2007, which collectively comprise the City of Kingsford, Michigan's basic financial statements and have issued my report thereon dated October 2, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

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that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated October 2, 2007.

This report is intended solely for the information and use of the audit committee, management, City Council and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.


Certified Public Accountant

October 2, 2007

SCOTT R. KENNEY

Certified Public Accountant

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Crystal Falls, Michigan 49920
(906) 875-4393 Fax: (906) 875-3879

Honorable Mayor and City Council
City of Kingsford
305 South Carpenter Avenue
Kingsford, MI 49802

In conjunction with the audit of the general purpose financial statements of the City of Kingsford (City) as of and for the year ended June 30, 2007, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 112 (SAS 112) requires that I inform the City of all control deficiencies and those control deficiencies be split into one of two types. The two types of control deficiencies are "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The first comment is repeated from the prior year's letter of comments and recommendations.

SIGNIFICANT DEFICIENCIES

1. **OBSERVATION** - Per City Council action from several years ago, the City maintains a capital project fund labeled Equipment and Capital Fund. The purpose of the fund is to fund and record expenditures for equipment and other capital projects for the City's governmental funds. Some of the City's expenditures have been recorded in the other governmental funds.

RECOMMENDATION - I recommend that all capital expenditures from the City's governmental funds be recorded in the Equipment and Capital Fund.

2. **OBSERVATION** - Several checks have been appropriately issued from the meter deposit bank account that are more than one year old and are being carried as outstanding. These checks are "stale dated" after six months.

RECOMMENDATION - I recommend that these checks be removed from the outstanding listing and recorded as income.

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3. **OBSERVATION** - The present accounts payable procedure calls for the accounts payable clerk to prepare checks from the invoices that have been submitted for payment. The checks are prepared, presented for signature(s) and returned to the accounts payable clerk for mailing.

RECOMMENDATION - I recommend that the accounts payable procedure be modified to eliminate the returning of the signed checks and reports to the accounts payable clerk prior to mailing. This task should be assigned to one of the other office staff. This recommendation is intended to strengthen internal control.

4. **OBSERVATION** - Some but not all of the administrative employees have their time allocated to various departments to properly record the costs associated with operating that department.

RECOMMENDATION - I recommend that all administrative employees either conduct a study of their time or analyze their time so that the payroll and benefit costs associated with each employee can be properly assigned during the budget process and in preparing interim and year end financial reports.

5. **OBSERVATION** - During the testing of payroll, the following items were discovered
- A. One employee is using compensatory time and the compensatory time is not authorized by the Council and is not being formally tracked by the City.
 - B. Two employees were paid a substantially larger longevity payment than other employees. This has been done in prior years but has not been formally approved by the Council.
 - C. Support for various payroll deductions were not maintained.

RECOMMENDATION - I recommend the following:

- A. That compensatory time be authorized by the Council and that the compensatory time be tracked by the City as part of the payroll process.
 - B. That the Council approve the payment of longevity for each employee or a comprehensive longevity system that determines the longevity pay for each employee.
 - C. That all payroll deductions be implemented as required by law (taxes) with appropriate paper work to determine amounts withheld and that all other deductions be implemented and terminated only after signed authorization is received from the employee.
6. **OBSERVATION** - The City adopted a Health Reimbursement Account (HRA) plan during the fiscal year. The third party administrator has provided to the City a listing of medical providers (doctors, hospitals, etc) that are to receive payments from the City. This listing does not contain the name of the employee receiving the service which could result in a payment for an unauthorized person.

6. **RECOMMENDATION** - I recommend that the City receive the aforementioned medical provider listing but that the listing be modified to reflect the name of the person receiving the services.

It is my understanding that this recommendation was implemented after the end of the fiscal year by the City.

7. **OBSERVATION** - The HRA plan referred to above has various deductible and co-payment provisions that cease once a certain threshold is achieved. These thresholds were not adequately tracked by the insurer resulting in payments by both the City and its employees in excess of what the plan requires.

RECOMMENDATION - I recommend that the City require either the insurer or the third party administrator to properly track the deductibles and co-payments so that the City and its employees are not required to expend funds that should be covered by the insurer.

It is my understanding that this recommendation was implemented after the end of the fiscal year by the City.

8. **OBSERVATION** - The ordinance for billing for utility services segregates customers into various customers types (residential, commercial, industrial) and a related resolution sets the rates applicable to each service and customers type. Under the present resolution the rates differ by usage and customer type. While testing the utility billing system, it was discovered that numerous commercial customers were assigned residential status and billed as such.

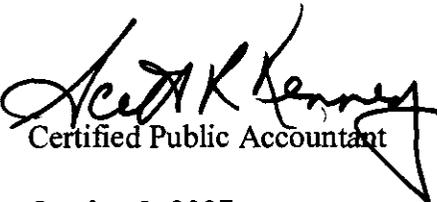
RECOMMENDATION - I recommend that the City develop definitions for each customer type. All of the customers should be defined so that they can be properly placed in a the appropriate billing category and correctly billed.

Further, it is my understanding that the City is reviewing its rates and related revenues and that I recommend that the definitions be developed prior to reviewing projected revenues so that any proposed changes will be properly estimated.

MATERIAL WEAKNESSES - None.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank the City's staff for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations, I am willing to help in any way that I can.


Certified Public Accountant

October 2, 2007