

NOTE 19: **LONG-TERM LEASE**

The Building Authority is a party to a long-term lease agreement for rental of the public safety building to the City of Eaton Rapids, Michigan. The lease stipulates that fixed annual rentals will be paid to the Authority by the City of Eaton Rapids, Michigan and such rentals are pledged exclusively for payment of principal and interest on the Building Authority bonds. In addition, the City pledges its unlimited tax, full faith, and credit as security under the lease. Fixed annual rentals will cease after all bonds have been retired and advance rentals repaid on March 1, 2022. The lease agreement provides, further, that after all bonds are retired and advance rentals repaid, title to the land and buildings will vest to the City of Eaton Rapids.

The long-term lease has been accounted for as a capital lease in the debt service fund. The net leasehold receivable represents the present value of future minimum lease payments due from the City. Revenue represented by the non-current portion of the receivable is deferred until it becomes a current receivable. Future minimum lease payments scheduled to be received by the Authority from the City (including unearned finance income of \$1,358,301 are as follows:

YEAR	AMOUNT
2008	\$ 297,100
2009	291,100
2010	284,800
2011	278,275
2012	296,600
2013	288,725
2014	280,588
Thereafter	<u>2,366,113</u>
	<u>\$ 4,383,301</u>

NOTE 20: **DUE TO THE STATE-LOCAL FINANCE DEVELOPMENT AUTHORITY (LDFA)**

As of June 30, 2007, the City has recorded a liability due to the State of Michigan for excess capture of LDFA property taxes 1995 to 2006 over the obligated debt for this district. The actual amount is not known as of the date of this report. The estimated amount due at June 30, 2007 is \$2,875,057. The actual amount is not expected to increase over the estimated amount accrued.

NOTE 21: **ADVANCE TO/ADVANCE FROM**

In 2007, the LDFA board approved a loan to the motor vehicle fund to help with the purchase of a new fire truck in the amount of \$230,000. The loan will be paid in annual installments plus interest at the current bank prime rate. The loan is due in 2012.

The annual payment schedule is as follows:

YEAR	AMOUNT
2008	\$ 42,464
2009	44,163
2010	45,929
2011	47,766
2012	<u>49,678</u>
	<u>\$ 230,000</u>

NOTE 22: **AGREEMENT WITH EATON RAPIDS AREA HISTORICAL SOCIETY**

In 2006, the City of Eaton Rapids Downtown Development Authority (DDA) entered into an agreement with Eaton Rapids Area Historical Society (ERAHS) to help purchase the Red Ribbon Hall building, a historical building in the downtown area. The agreement states that the Downtown Development Authority will contribute \$862 including interest of 6.25% monthly to Eaton Federal Savings Bank over the next five years. The total contribution totals \$51,720. In 2011, Eaton Rapids Area Historical Society shall obtain financing for the remaining cost of Red Ribbon Hall, totaling approximately \$88,280. Eaton Rapids Area Historical Society agrees to repay the Downtown Development Authority \$9,327 for a portion of the principal paid for this note. If Eaton Rapids Area Historical Society fails to provide the additional financing, then the title of Red Ribbon Hall will be transferred to the Downtown Development Authority. The balance owed as of June 30, 2007 is \$40,514.

The City of Eaton Rapids Downtown Development Authority annual contribution requirements are as follows:

YEAR ENDING JUNE 30,	AMOUNT
2008	\$ 10,344
2009	10,344
2010	10,344
2011	<u>9,482</u>
	<u>\$ 40,514</u>

The City of Eaton Rapids Downtown Development Authority has also agreed to provide a grant of \$45,000 to be used to help in the renovation of Red Ribbon Hall. This grant will be administered as the renovation expenses are incurred.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGETED AMOUNTS</u>		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes				
Property taxes	\$ 942,370	\$ 942,370	\$ 957,591	\$ 15,221
Penalties and interest	12,500	12,500	12,193	(307)
Trailer fee	1,000	1,000	942	(58)
Total Taxes	<u>955,870</u>	<u>955,870</u>	<u>970,726</u>	<u>14,856</u>
Licenses and Permits				
Licenses	300	300	285	(15)
Franchise fees	25,500	25,500	42,495	16,995
Total Licenses and Permits	<u>25,800</u>	<u>25,800</u>	<u>42,780</u>	<u>16,980</u>
Intergovernmental				
State aid and sales tax	482,500	482,500	467,156	(15,344)
Charges for Services				
Administrative fees	54,500	54,500	67,066	12,566
Video fees	3,000	3,000	2,338	(662)
Total Charges for Services	<u>57,500</u>	<u>57,500</u>	<u>69,404</u>	<u>11,904</u>
Reimbursements				
			221	221
Fines and Forfeits				
	31,500	38,500	51,367	12,867
Other Revenues				
Interest on investments	11,500	6,705	38,975	32,270
Rentals	25,030	38,530	42,770	4,240
Sales	37,500	25,920	24,504	(1,416)
Miscellaneous	47,800	62,900	81,625	18,725
Total Other Revenues	<u>121,830</u>	<u>134,055</u>	<u>187,874</u>	<u>53,819</u>
TOTAL REVENUES	<u>1,675,000</u>	<u>1,694,225</u>	<u>1,789,528</u>	<u>95,303</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - Continued
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
EXPENDITURES				
General Government				
City Council	\$ 30,425	\$ 20,425	\$ 20,465	\$ (40)
City Manager	1,500	650	1,260	(610)
General election	11,500	4,500	5,063	(563)
Assessor	87,846	87,846	87,409	437
Attorney	100,000	134,000	153,010	(19,010)
Clerk-Treasurer	76,000	87,250	86,902	348
Board of review	500	640	639	1
Buildings and grounds	12,000	22,800	21,943	857
Planning commission	2,160	2,160	2,136	24
Zoning board of appeals	600	600	80	520
Senior citizens	6,000	6,000	6,000	
City election	150	150		150
General - allocated	99,800	109,400	109,014	386
Total General Government	<u>428,481</u>	<u>476,421</u>	<u>493,921</u>	<u>(17,500)</u>
Public Safety				
Police	867,629	897,925	886,386	11,539
Fire	79,635	79,635	79,197	438
Total Public Safety	<u>947,264</u>	<u>977,560</u>	<u>965,583</u>	<u>11,977</u>
Public Works				
Public services	509,063	485,961	475,613	10,348
Community Development and Enrichment				
Library	220,236	220,236	219,138	1,098
Other	5,500	10,150	5,750	4,400
Total Community Development and Enrichment	<u>225,736</u>	<u>230,386</u>	<u>224,888</u>	<u>5,498</u>
Other Functions				
Cemetery	142,056	151,500	150,349	1,151
Storm sewers	20,665	23,430	22,838	592
Ambulance	9,000	9,000	11,003	(2,003)
Capital outlay	42,725	33,000	31,477	1,523
Contingencies	10	10		10
Total Other Functions	<u>214,456</u>	<u>216,940</u>	<u>215,667</u>	<u>1,273</u>
TOTAL EXPENDITURES	<u>2,325,000</u>	<u>2,387,268</u>	<u>2,375,672</u>	<u>11,596</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - Concluded
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGETED AMOUNTS</u>		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	<u>ORIGINAL</u>	<u>FINAL</u>		
DEFICIENCY OF REVENUES OVER EXPENDITURES	\$ <u>(650,000)</u>	\$ <u>(693,043)</u>	\$ <u>(586,144)</u>	\$ <u>106,899</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	678,000	766,543	794,543	28,000
Operating transfers out	<u>(28,000)</u>	<u>(73,500)</u>	<u>(73,500)</u>	<u> </u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>650,000</u>	<u>693,043</u>	<u>721,043</u>	<u>28,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			134,899	134,899
FUND BALANCE, JULY 1	<u>551,769</u>	<u>551,769</u>	<u>551,769</u>	<u> </u>
FUND BALANCE, JUNE 30	<u>\$ 551,769</u>	<u>\$ 551,769</u>	<u>\$ 686,668</u>	<u>\$ 134,899</u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUDGETED AMOUNTS</u>		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
State grants	\$ 265,600	\$ 265,600	\$ 285,877	\$ 20,277
Interest on investments	2,400	2,400	20,353	17,953
TOTAL REVENUES	<u>268,000</u>	<u>268,000</u>	<u>306,230</u>	<u>38,230</u>
EXPENDITURES				
Highways and streets	<u>293,000</u>	<u>293,000</u>	<u>292,720</u>	<u>280</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(25,000)</u>	<u>(25,000)</u>	<u>13,510</u>	<u>38,510</u>
OTHER FINANCING USES				
Operating transfers out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(45,000)	(45,000)	(6,490)	38,510
FUND BALANCE, JULY 1	<u>492,328</u>	<u>492,328</u>	<u>492,328</u>	
FUND BALANCE, JUNE 30	<u>\$ 447,328</u>	<u>\$ 447,328</u>	<u>\$ 485,838</u>	<u>\$ 38,510</u>

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

LOCAL STREET FUND

FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
State grants	\$ 91,500	\$ 91,500	\$ 93,833	\$ 2,333
Federal grants			605	605
Interest on investments	4,500	4,500	19,849	15,349
TOTAL REVENUES	96,000	96,000	114,287	18,287
EXPENDITURES				
Highways and streets	116,000	116,000	112,517	3,483
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(20,000)	(20,000)	1,770	21,770
OTHER FINANCING SOURCES				
Operating transfers in	20,000	20,000	20,000	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			21,770	21,770
FUND BALANCE, JULY 1	460,728	460,728	460,728	
FUND BALANCE, JUNE 30	\$ 460,728	\$ 460,728	\$ 482,498	\$ 21,770

CITY OF EATON RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

PARKS AND RECREATION FUND

FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Taxes	\$ 92,323	\$ 94,900	\$ 96,151	\$ 1,251
Charges for services	7,500	10,940	12,819	1,879
Interest and rent	1,500	1,500	6,716	5,216
Other revenues	7,000	8,550	14,318	5,768
TOTAL REVENUES	<u>108,323</u>	<u>115,890</u>	<u>130,004</u>	<u>14,114</u>
EXPENDITURES				
Culture and recreation	103,323	110,453	108,834	1,619
Capital outlay	8,000	8,437	12,345	(3,908)
TOTAL EXPENDITURES	<u>111,323</u>	<u>118,890</u>	<u>121,179</u>	<u>(2,289)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(3,000)</u>	<u>(3,000)</u>	<u>8,825</u>	<u>11,825</u>
OTHER FINANCING SOURCES				
Operating transfers in	3,000	3,000	3,000	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			11,825	11,825
FUND BALANCE, JULY 1	<u>81,552</u>	<u>81,552</u>	<u>81,552</u>	
FUND BALANCE, JUNE 30	<u>\$ 81,552</u>	<u>\$ 81,552</u>	<u>\$ 93,377</u>	<u>\$ 11,825</u>

CITY OF EATON RAPIDS, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 BLENDED COMPONENT UNIT - BUILDING AUTHORITY
 FOR THE YEAR ENDED JUNE 30, 2007

	BUDGETED AMOUNTS		ACTUAL	VARIANCE
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES	\$ _____	\$ _____	\$ _____	\$ _____
EXPENDITURES				
Note principal	150,000	154,600	125,000	29,600
Note interest and fees	175,450	178,400	153,587	24,813
TOTAL EXPENDITURES	325,450	333,000	278,587	54,413
DEFICIENCY OF REVENUES OVER EXPENDITURES	(325,450)	(333,000)	(278,587)	54,413
OTHER FINANCING SOURCES				
Operating transfers in	325,450	333,000	333,000	
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES			54,413	54,413
FUND BALANCE, JULY 1	(52,635)	(52,635)	(52,635)	
FUND BALANCE, JUNE 30	\$ (52,635)	\$ (52,635)	\$ 1,778	\$ 54,413

GENERAL FUND

The General Fund exists to account for the resources devoted to finance the services traditionally associated with local government. Included in these services are police and fire protection, building safety and general administration of the City. Any other activity for which a special fund has not been created is accounted for in the General Fund.

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

BALANCE SHEET

JUNE 30, 2007

ASSETS

Imprest cash	\$	325
Cash and cash equivalents		332,614
Accounts receivable - other		15,770
Taxes receivable		2,737
Due from other funds		203,537
Due from state		<u>184,023</u>
TOTAL ASSETS	\$	<u><u>739,006</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	30,613
Accrued payroll and payroll taxes		<u>21,725</u>
TOTAL LIABILITIES		<u>52,338</u>

FUND BALANCE

Unreserved and undesignated		<u>686,668</u>
TOTAL LIABILITIES AND FUND BALANCE	\$	<u><u>739,006</u></u>

CITY OF EATON RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Taxes	\$ 955,870	\$ 970,726	\$ 14,856
Licenses and permits	25,800	42,780	16,980
Intergovernmental			
State	482,500	467,156	(15,344)
Charges for services	57,500	69,404	11,904
Reimbursements		221	221
Fines and forfeitures	38,500	51,367	12,867
Interest	6,705	38,975	32,270
Rentals	38,530	42,770	4,240
Sales	25,920	24,504	(1,416)
Other	62,900	81,625	18,725
TOTAL REVENUES	<u>1,694,225</u>	<u>1,789,528</u>	<u>95,303</u>
EXPENDITURES	<u>2,387,268</u>	<u>2,375,672</u>	<u>11,596</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(693,043)</u>	<u>(586,144)</u>	<u>106,899</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	766,543	794,543	28,000
Operating transfers out	(73,500)	(73,500)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>693,043</u>	<u>721,043</u>	<u>28,000</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		134,899	134,899
FUND BALANCE, JULY 1	<u>551,769</u>	<u>551,769</u>	
FUND BALANCE, JUNE 30	<u>\$ 551,769</u>	<u>\$ 686,668</u>	<u>\$ 134,899</u>

CITY OF EATON RAPIDS, MICHIGAN

GENERAL FUND

STATEMENT OF EXPENDITURES

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

EXPENDITURES	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Administration			
City Council	\$ 20,425	\$ 20,465	\$ (40)
City Manager	650	1,260	(610)
General election	4,500	5,063	(563)
Assessor	87,846	87,409	437
Attorney	134,000	153,010	(19,010)
Clerk - Treasurer	87,250	86,902	348
Board of review	640	639	1
Building and grounds	22,800	21,943	857
Planning commission	2,160	2,136	24
Zoning board of appeals	600	80	520
Senior citizens	6,000	6,000	
City election	150		150
General - unallocated	109,400	109,014	386
Police	897,925	886,386	11,539
Cemetery	151,500	150,349	1,151
Fire	79,635	79,197	438
Public works	485,961	475,613	10,348
Storm sewers	23,430	22,838	592
Library	220,236	219,138	1,098
Community development	10,150	5,750	4,400
Ambulance	9,000	11,003	(2,003)
Capital outlay	33,000	31,477	1,523
Contingencies	10		10
TOTAL EXPENDITURES	\$ 2,387,268	\$ 2,375,672	\$ 11,596

NON-MAJOR SPECIAL REVENUE FUNDS

A Special Revenue Fund is used to finance particular activities and is created out of receipts of specific taxes or other earmarked revenues. Such funds are authorized by statutory or charter provisions to pay for certain activities with some special form of continuing revenues.

The City's non-major Special Revenue Funds are the Act 302 Training, Building Department, Drug Law Enforcement Fund, and MSHDA Pass Through Grant.

CITY OF EATON RAPIDS, MICHIGAN
 COMBINING BALANCE SHEET
 NON- MAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	MSHDA PASS THROUGH GRANT	TOTALS
ASSETS					
Cash and cash equivalents	\$ 15,255	\$ 7,346	\$ 1,324	\$ 4,258	\$ 28,183
Due from other funds		<u>7,550</u>			<u>7,550</u>
TOTAL ASSETS	<u>\$ 15,255</u>	<u>\$ 14,896</u>	<u>\$ 1,324</u>	<u>\$ 4,258</u>	<u>\$ 35,733</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$	\$	\$	\$ 4,258	\$ 4,258
Accrued payroll and taxes		<u>1,264</u>			<u>1,264</u>
TOTAL LIABILITIES		<u>1,264</u>		<u>4,258</u>	<u>5,522</u>
FUND BALANCE					
Unreserved and undesignated	<u>15,255</u>	<u>13,632</u>	<u>1,324</u>		<u>30,211</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 15,255</u>	<u>\$ 14,896</u>	<u>\$ 1,324</u>	<u>4,258</u>	<u>\$ 35,734</u>

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	ACT 302 TRAINING	BUILDING DEPARTMENT	DRUG LAW ENFORCEMENT	MSHDA PASS THROUGH GRANT	TOTALS
REVENUES					
Charges for services	\$	\$ 52,852	\$	\$	\$ 52,852
Interest	492		46		537
Other revenue	<u>2,609</u>		<u>1,163</u>	<u>117,959</u>	<u>121,731</u>
TOTAL REVENUES	<u>3,101</u>	<u>52,852</u>	<u>1,209</u>	<u>117,959</u>	<u>175,120</u>
EXPENDITURES					
Community development	1,045				1,045
Other		<u>95,283</u>	<u>938</u>	<u>117,959</u>	<u>214,179</u>
TOTAL EXPENDITURES	<u>1,045</u>	<u>95,283</u>	<u>938</u>	<u>117,959</u>	<u>215,224</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,056	(42,431)	271		(40,104)
OPERATING TRANSFER IN		<u>53,050</u>			<u>53,050</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	2,056	10,619	271		12,946
FUND BALANCE, JULY 1	<u>13,199</u>	<u>3,013</u>	<u>1,053</u>		<u>17,265</u>
FUND BALANCE, JUNE 30	<u>\$ 15,255</u>	<u>\$ 13,632</u>	<u>\$ 1,324</u>	<u>\$</u>	<u>\$ 30,211</u>

CITY OF EATON RAPIDS, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 ACT 302 TRAINING
 FOR THE YEAR ENDED JUNE 30, 2007

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Interest	\$ 200	\$ 492	\$ 292
Other revenue	<u> </u>	<u>2,609</u>	<u>2,609</u>
TOTAL REVENUES	<u>200</u>	<u>3,101</u>	<u>2,901</u>
EXPENDITURES			
Community development	<u>1,600</u>	<u>1,045</u>	<u>555</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,400)	2,056	3,456
FUND BALANCE, JULY 1	<u>13,199</u>	<u>13,199</u>	
FUND BALANCE, JUNE 30	<u>\$ 11,799</u>	<u>\$ 15,255</u>	<u>\$ 3,456</u>

CITY OF EATON RAPIDS, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 BUILDING DEPARTMENT
 FOR THE YEAR ENDED JUNE 30, 2007

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Charges for services	\$ <u>51,550</u>	\$ <u>52,852</u>	\$ <u>1,302</u>
EXPENDITURES			
Other	<u>61,875</u>	<u>95,283</u>	<u>(33,408)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(10,325)	(42,431)	(32,106)
OPERATING TRANSFER IN	<u>45,500</u>	<u>53,050</u>	<u>7,550</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	35,175	10,619	(24,556)
FUND BALANCE, JULY 1	<u>3,013</u>	<u>3,013</u>	<u></u>
FUND BALANCE, JUNE 30	\$ <u><u>38,188</u></u>	\$ <u><u>13,632</u></u>	\$ <u><u>(24,556)</u></u>

CITY OF EATON RAPIDS, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 DRUG LAW ENFORCEMENT
 FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Fines and forfeitures	\$ 990	\$ 1,163	\$ 173
Interest	<u>10</u>	<u>46</u>	<u>36</u>
TOTAL REVENUES	<u>1,000</u>	<u>1,209</u>	<u>209</u>
EXPENDITURES			
Public safety	<u>1,000</u>	<u>938</u>	<u>62</u>
EXCESS OF REVENUES OVER EXPENDITURES		271	271
FUND BALANCE, JULY 1	<u>1,053</u>	<u>1,053</u>	
FUND BALANCE, JUNE 30	<u><u>\$ 1,053</u></u>	<u><u>\$ 1,324</u></u>	<u><u>\$ 271</u></u>

CITY OF EATON RAPIDS, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 MSHDA PASS THROUGH GRANT
 FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
MSHDA revenue	\$ <u>113,701</u>	\$ <u>117,959</u>	\$ <u>4,258</u>
EXPENDITURES			
Other	<u>113,701</u>	<u>117,959</u>	<u>(4,258)</u>
EXCESS OF REVENUES OVER EXPENDITURES			
FUND BALANCE, JULY 1	<u> </u>	<u> </u>	<u> </u>
FUND BALANCE, JUNE 30	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>

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NONMAJOR CAPITAL PROJECTS FUNDS

Capital Projects Funds are designed to account for the resources expended to acquire assets of a relatively permanent nature. (Enterprise Fund resources are not included in this category). These funds satisfy the special accounting requirements for bond proceeds and projects utilizing more than one funding source.

Capital Projects Funds provide a formal mechanism which enables administrators to ensure that revenues dedicated to a certain purpose are used only for that purpose, and further enables them to report to creditors and other grantors of Capital Projects Funds revenue, that their requirement regarding the use of the revenue was fully satisfied.

The Public Improvement Fund operates as a Capital Projects Fund.

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
BALANCE SHEET
PUBLIC IMPROVEMENT
JUNE 30, 2007

ASSETS

Cash and cash equivalents

\$ 37,990

FUND BALANCE

Reserved for fire department

\$ 37,990

CITY OF EATON RAPIDS, MICHIGAN
NON-MAJOR CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PUBLIC IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
Sale of vehicle	\$ 1,000	\$	\$ (1,000)
Interest earned	<u>2,000</u>	<u>6,310</u>	<u>4,310</u>
TOTAL REVENUES	<u>3,000</u>	<u>6,310</u>	<u>3,310</u>
OTHER FINANCING SOURCES (USES)			
Operating transfers in	30,000	30,000	
Operating transfers out	<u>(174,000)</u>	<u>(174,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(144,000)</u>	<u>(144,000)</u>	
DEFICIENCY OF REVENUES AND OTHER SOURCES OVER EXPENDITURES	(141,000)	(137,690)	3,310
FUND BALANCE, JULY 1	<u>175,680</u>	<u>175,680</u>	
FUND BALANCE, JUNE 30	<u>\$ 34,680</u>	<u>\$ 37,990</u>	<u>\$ 3,310</u>

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ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation and maintenance of governmental facilities and services which are entirely or predominately self-supporting by user charges. The significant characteristic of Enterprise Funds is that the accounting system must make it possible to show whether the activity is operated at a profit or loss, similar to comparable private enterprise. Thus, the reports of Enterprise Funds are self-contained and creditors, legislators or the general public can evaluate the performance of the municipal enterprise on the same basis as they can the performance of investor-owned enterprises in the same industry.

The Utility Fund is operated as an Enterprise Fund.

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

BALANCE SHEET

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Imprest cash	\$ 450
Cash and cash equivalents	1,207,171
Receivables	
Accounts - net of allowance for doubtful accounts of \$8,005 in 2007	803,184
Note receivable - current portion	984
Due from other funds	21,126
Inventory - at lower of cost or market	299,816
TOTAL CURRENT ASSETS	<u>2,332,731</u>

RESTRICTED ASSETS

Electric utility reserve	
Certificate of deposit	461,647
Accrued interest receivable	7,482
Customer meter deposits	134,220
Sewer reserve	
Certificate of deposit	223,987
Accrued interest receivable	3,652
Bond retirement reserve	
Certificate of deposit	612,587
Accrued interest receivable	24,039
Economic Development Reserve	
Certificate of deposit	350,339
Accrued interest receivable	5,712
TOTAL RESTRICTED ASSETS	<u>1,823,665</u>

PROPERTY, PLANT AND EQUIPMENT

Water department	6,912,307
Electric department	6,739,789
Sewage department	14,128,978
	27,781,074
Less: accumulated depreciation	10,690,397
NET PROPERTY PLANT AND EQUIPMENT	<u>17,090,677</u>

OTHER ASSETS

Note receivable - long-term	19,493
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TOTAL ASSETS	<u>\$ 21,266,566</u>
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES	
Bonds payable	\$ 579,206
Note payable	47,264
Accounts payable	636,024
Accrued interest payable	65,969
Accrued sick and vacation	36,599
Accrued payroll and payroll taxes	20,127
Due to other funds	152,093
Due to state	11,643
TOTAL CURRENT LIABILITIES	<u>1,548,925</u>
LONG-TERM DEBT	
Bond payable	9,678,894
Note payable	193,402
TOTAL LONG-TERM DEBT	<u>9,872,296</u>
RESTRICTED LIABILITIES	
Refundable meter deposits	134,220
TOTAL LIABILITIES	<u>11,555,441</u>
FUND EQUITY	
CONTRIBUTED CAPITAL	
Local	351,584
Federal - net of amortization of \$2,153,457 in 2007	745,055
State - net of amortization of \$214,503 in 2007	388,774
TOTAL CONTRIBUTED CAPITAL	<u>1,485,413</u>
RETAINED EARNINGS	
Reserved for Economic Development	445,408
Reserved for Bond/Note Retirement	609,912
Reserved for Electric Utility	585,123
Reserved for Sewer Utility	573,211
Reserved for Water Utility	367,653
Unreserved	5,644,405
TOTAL RETAINED EARNINGS	<u>8,225,712</u>
TOTAL FUND EQUITY	<u>9,711,125</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 21,266,566</u>

CITY OF EATON RAPIDS, MICHIGAN

UTILITY FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Charges for services	\$ 8,621,185
Fines and forfeitures	22,389
Other revenue	25,501
TOTAL OPERATING REVENUES	<u>8,669,075</u>
OPERATING EXPENSES	
Operating expenses	7,304,526
Depreciation	698,013
TOTAL OPERATING EXPENSES	<u>8,002,539</u>
OPERATING INCOME	<u>666,536</u>
NON-OPERATING REVENUES (EXPENSES)	
Property taxes	606,502
Gain on sale of capital asset	10,449
Interest expense and fees on bonds	(258,119)
Interest income on investments	142,001
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>500,833</u>
NET INCOME BEFORE OPERATING TRANSFERS	1,167,369
OPERATING TRANSFERS OUT	<u>(1,306,792)</u>
NET LOSS	(139,423)
ADD DEPRECIATION OF FIXED ASSETS ACQUIRED BY GRANTS, ENTITLEMENTS AND SHARED REVENUES EXTERNALLY RESTRICTED FOR CAPITAL ACQUISITION AND CONSTRUCTION THAT REDUCES CONTRIBUTED CAPITAL	49,018
RETAINED EARNINGS, JULY 1	8,290,032
PRIOR PERIOD ADJUSTMENT	26,085
RETAINED EARNINGS, JUNE 30	<u>\$ 8,225,712</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 8,597,178
Cash received from penalties	22,389
Cash received from State of Michigan	557,541
Cash received from miscellaneous sources	25,500
Payments to suppliers	(6,229,451)
Payments to employees	(1,068,500)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,904,657</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from note receivable	959
Interest income	132,814
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>133,773</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Operating transfers out	(1,105,057)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Property taxes	727,188
Increase in restricted assets	(13,560)
Increase in restricted liabilities	13,560
Principal payments on long term debt	(617,101)
Interest and fiscal charges	(262,582)
Bond proceeds	1,069,368
Gain on sale of assets	10,449
Purchase of capital assets	(1,226,732)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(299,410)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	633,963
CASH AND CASH EQUIVALENTS, JULY 1	<u>573,658</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 1,207,621</u></u>

CITY OF EATON RAPIDS, MICHIGAN
 UTILITY FUND
 STATEMENT OF CASH FLOWS - Concluded
 FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF OPERATING INCOME TO NET	
CASH PROVIDED BY (USED IN) OPERATIONS	
Operating income	\$ 666,536
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	698,013
Change in assets and liabilities	
Increase in accounts receivable	533,535
Decrease in inventory	(47,562)
Increase in accounts payable	64,718
Increase in accrued payroll	(10,909)
Decrease accrued sick and vacation	(467)
Increase in other liabilities	793
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,904,657</u>

CITY OF EATON RAPIDS, MICHIGAN
UTILITY FUND
ANALYSIS OF REVENUES AND EXPENSES
FOR THE YEAR ENDED JUNE 30, 2007

	ELECTRIC DEPARTMENT	WATER DEPARTMENT	SEWAGE DEPARTMENT	TOTAL
REVENUES				
Charges for services	\$ 7,087,759	\$ 743,564	\$ 789,862	\$ 8,621,185
Fines and forfeitures	22,389			22,389
Other revenue	<u>13,248</u>	<u>10,664</u>	<u>1,589</u>	<u>25,501</u>
TOTAL REVENUES	<u>7,123,396</u>	<u>754,228</u>	<u>791,451</u>	<u>8,669,075</u>
OPERATING EXPENSES	5,857,076	573,340	874,110	7,304,526
DEPRECIATION	<u>330,236</u>	<u>190,263</u>	<u>177,514</u>	<u>698,013</u>
TOTAL OPERATING EXPENSES	<u>6,187,312</u>	<u>763,603</u>	<u>1,051,624</u>	<u>8,002,539</u>
OPERATING INCOME (LOSS)	<u>936,084</u>	<u>(9,375)</u>	<u>(260,173)</u>	<u>666,536</u>
NON-OPERATING REVENUES (EXPENSES)				
Property taxes			606,502	606,502
Gain on sale of capital assets		10,449		10,449
Interest expense and fees on bonds	(7,408)	(47,055)	(203,656)	(258,119)
Interest income on investments	<u>98,768</u>	<u>16,443</u>	<u>26,790</u>	<u>142,001</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>91,360</u>	<u>(20,163)</u>	<u>429,636</u>	<u>500,833</u>
NET INCOME (LOSS) BEFORE OPERATING TRANSFERS	1,027,444	(29,538)	169,463	1,167,369
OPERATING TRANSFERS OUT	<u>(1,306,792)</u>			<u>(1,306,792)</u>
NET INCOME (LOSS)	<u>\$ (279,348)</u>	<u>\$ (29,538)</u>	<u>\$ 169,463</u>	<u>\$ (139,423)</u>

CITY OF EATON RAPIDS, MICHIGAN
 UTILITY FUND
 STATEMENT OF OPERATING EXPENSES
 FOR THE YEAR ENDED JUNE 30, 2007

	ELECTRIC	WATER	SEWAGE	TOTAL
OPERATING EXPENSES				
Personnel services	\$ 412,731	\$ 243,622	\$ 400,773	\$ 1,057,126
Contractual services	65,371	11,107	32,347	108,825
Supplies	14,446	9,313	10,891	34,650
Materials	1,001	119,554	33,318	153,873
Utilities	3,220	34,555	147,838	185,613
Telephone	16,680	2,682	3,218	22,580
Insurance	21,237	9,471	11,011	41,719
Maintenance	5,073,458	19,037	75,440	5,167,935
Benefit payments	201,096	118,271	151,478	470,845
Other expense	47,836	5,728	7,796	61,360
Depreciation	330,236	190,263	177,514	698,013
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL OPERATING EXPENSES	<u>\$ 6,187,312</u>	<u>\$ 763,603</u>	<u>\$ 1,051,624</u>	<u>\$ 8,002,539</u>

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City or to other governments, on a cost or reimbursement basis.

The Public Employee Benefit Fund and Motor Vehicle Pool are operated as Internal Service Funds.

CITY OF EATON RAPIDS, MICHIGAN

COMBINING BALANCE SHEET

INTERNAL SERVICE FUNDS

JUNE 30, 2007

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ <u>43,216</u>	\$ <u>293,339</u>	\$ <u>336,555</u>
EQUIPMENT			
Vehicles		676,867	676,867
Less: accumulated depreciation	<u> </u>	<u>166,049</u>	<u>166,049</u>
NET EQUIPMENT	<u> </u>	<u>510,818</u>	<u>510,818</u>
TOTAL ASSETS	\$ <u><u>43,216</u></u>	\$ <u><u>804,157</u></u>	\$ <u><u>847,373</u></u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Advance from other funds	\$ <u> </u>	\$ <u>230,000</u>	\$ <u>230,000</u>
FUND EQUITY			
Unreserved	<u>43,216</u>	<u>574,157</u>	<u>617,373</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>43,216</u></u>	\$ <u><u>804,157</u></u>	\$ <u><u>847,373</u></u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTAL
OPERATING REVENUES			
Contributions from other funds	\$ 596,813	\$	\$ 596,813
Other revenue	<u>10,567</u>	<u>2,530</u>	<u>13,097</u>
TOTAL OPERATING REVENUES	<u>607,380</u>	<u>2,530</u>	<u>609,910</u>
OPERATING EXPENSES			
Depreciation		68,801	68,801
Benefit payments	<u>565,361</u>		<u>565,361</u>
TOTAL OPERATING EXPENSES	<u>565,361</u>	<u>68,801</u>	<u>634,162</u>
OPERATING INCOME (LOSS) BEFORE OPERATING TRANSFERS	42,019	(66,271)	(24,252)
OPERATING TRANSFERS IN		<u>340,699</u>	<u>340,699</u>
NET INCOME	42,019	274,428	316,447
RETAINED EARNINGS, JULY 1	<u>1,197</u>	<u>299,729</u>	<u>300,926</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 43,216</u>	<u>\$ 574,157</u>	<u>\$ 617,373</u>

CITY OF EATON RAPIDS, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	PUBLIC EMPLOYEE BENEFIT	MOTOR VEHICLE POOL	TOTALS
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from other funds	\$ 596,813	\$ 230,000	\$ 826,813
Cash received from miscellaneous	10,567	2,530	13,097
Payment to vendors	<u>(565,361)</u>	<u> </u>	<u>(565,361)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>42,019</u>	<u>232,530</u>	<u>274,549</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Operating transfers in	<u> </u>	<u>340,699</u>	<u>340,699</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u> </u>	<u>(469,588)</u>	<u>(469,588)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	42,019	103,641	145,660
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,197</u>	<u>189,698</u>	<u>190,895</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 43,216</u>	<u>\$ 293,339</u>	<u>\$ 336,555</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES			
Operating income (loss)	\$ 42,019	\$ (66,271)	\$ (24,252)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation		68,801	68,801
Changes in assets and liabilities			
Advance from other fund		<u>230,000</u>	<u>230,000</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 42,019</u>	<u>\$ 232,530</u>	<u>\$ 274,549</u>

PERMANENT FUNDS

The permanent funds exist to account for resources legally held in trust to be used for Cemetery Perpetual Care Fund.

CITY OF EATON RAPIDS, MICHIGAN
PERMANENT FUND
COMBINING BALANCE SHEET
JUNE 30, 2007

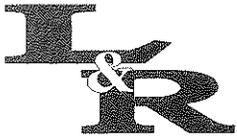
	NONEXPENDABLE TRUST FUND CEMETERY PERPETUAL CARE FUND
ASSETS	
Cash and cash equivalents	\$ <u>136,928</u>
FUND BALANCE	
Reserved for perpetual care	\$ <u>136,928</u>

CITY OF EATON RAPIDS, MICHIGAN
 PERMANENT FUND
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2007

	CEMETERY PERPETUAL CARE FUND
REVENUES	
Perpetual care receipts	\$ <u>2,200</u>
EXPENDITURES	
Other	<u> </u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>2,200</u>
FUND BALANCE, JULY 1	<u>134,728</u>
FUND BALANCE, JUNE 30	\$ <u><u>136,928</u></u>

CITY OF EATON RAPIDS, MICHIGAN
 PERMANENT FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2007

	CEMETERY PERPETUAL CARE FUND
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ <u>2,200</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,200
CASH AND CASH EQUIVALENTS, JULY 1	<u>134,728</u>
CASH AND CASH EQUIVALENTS, JUNE 30	\$ <u><u>136,928</u></u>



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

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and the remaining aggregate fund information of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City of Eaton Rapids, Michigan's basic financial statements and have issued our report thereon dated December 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

07-1 SEGREGATION OF DUTIES

Due to the limited personal in the accounting department, the City lacks segregation of duties over several areas, including cash receipting, journal entry processes, and cash disbursements. The limited size of the staff does not allow for segregating duties. The City should be aware of these areas and attempt to establish procedures to minimize this lack of controls.

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07-2 PREPARATION OF FINANCIAL STATEMENTS

Michigan governments are required to prepare financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Responsibility for the financial statements of the City rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the City of Eaton Rapids. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the City's annual financial statements and notes to the financial statements in accordance with GAAP. The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

07-3 FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the City has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct.

Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Due to the City not developing a fraud risk assessment and monitoring program it is unable to assess the organization's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

We recommend that the City develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

07-4 DISTRIBUTION OF PROPERTY TAX COLLECTIONS

During the course of our audit, it was noted that the City was delinquent in distributing tax revenues paid in 2007 for property tax years 2005 and prior that were collected for another taxing unit.

We recommend that the City analyze the balance of the undistributed property taxes so that it may be distributed appropriately. We also recommend that the City distribute future property tax collections in a timely manner.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Eaton Rapids, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

07-5 ELECTRONIC TRANSACTION RESOLUTION

During our analysis of internal controls, it was noted that the Board has not implemented a written electronic transaction resolution as required by Michigan Compiled Law. Public Act 738 of 2002 requires that local units of government that utilize electronic transactions adopt a written Electronic Transaction Resolution. This issue was noted and reported in our previous audit comments.

We recommend the City prepare a formal electronic transaction resolution that complies with the compiled law and adopt it through City action as soon as possible.

We noted certain matters that we reported to management of the City of Eaton Rapids, Michigan, in a separate letter dated December 27, 2007.

This report is intended solely for the information and use of management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
December 27, 2007

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Layton & Richardson, P.C.

Certified Public Accountants

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

Honorable Mayor and City Council
City of Eaton Rapids
Eaton Rapids, Michigan

Compliance

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

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

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

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the City of Eaton Rapids, Michigan as of and for the year ended June 30, 2007, and have issued our report thereon dated December 27, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Eaton Rapids, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis is required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended for the information of the management, the City Council and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Layton + Richardson PC
Certified Public Accountants

East Lansing, Michigan
December 27, 2007

CITY OF EATON RAPIDS, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Eaton Rapids.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of the City of Eaton Rapids were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for the City of Eaton Rapids expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for the City of Eaton Rapids.
7. The programs tested as major programs included: Department of Environmental Clean Water Revolving Grant Loan, CFDA No. 66.458
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. The City of Eaton Rapids was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS -- MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

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CITY OF EATON RAPIDS, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1: **BASIS OF PRESENTATION**

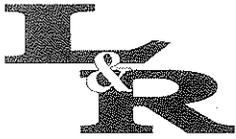
The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Eaton Rapids, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of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

CITY OF EATON RAPIDS, MICHIGAN
 SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
 FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	GRANT PERIOD	
		FROM	TO
U.S. Department of Environmental Office of Water, Environmental Protection Agency Passed-through Michigan Department of Environmental Clean Water Revolving Grant Loan	66.458	9/23/2004	9/23/2007
U.S. Department of Environmental Passed-through Michigan Department of Environmental Quality	66.460	3/20/2006	12/31/2006
Michigan State Housing Development Authority Passed through Michigan Community Development Block Grant Housing program	14.228	1/1/2006	12/31/2007
TOTALS			

PRIOR YEAR		CURRENT YEAR	
FEDERAL REVENUES	FEDERAL EXPENDITURES	FEDERAL REVENUES	FEDERAL EXPENDITURES
\$ 1,782,827	\$ 1,782,827	\$ 397,142	\$ 397,142
3,815	3,815	605	605
<u>1,786,642</u>	<u>1,786,642</u>	<u>117,959</u>	<u>117,959</u>
\$ <u><u>1,786,642</u></u>	\$ <u><u>1,786,642</u></u>	\$ <u><u>515,706</u></u>	\$ <u><u>515,706</u></u>

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LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
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Eaton Rapids, Michigan

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We have examined the financial statements of the CITY OF EATON RAPIDS, MICHIGAN for the year ended June 30, 2007, and have issued our report thereon dated December 27, 2007. As part of our audit, we made a study and evaluation of the City's system of internal accounting controls to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

The management of the City of Eaton Rapids is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. However, our examination did disclose the following conditions that we believe result in a risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Eaton Rapids may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses:

PRIOR YEAR RECOMMENDATIONS

UTILITY RECEIVABLES

An adjustment had to be made to balance the utilities receivables to the general ledger. We recommend that the utility receivable trial balance be reconciled monthly to the general ledger. This will ensure more accuracy in the utility billing procedures. **Current year status: This is currently in the process of being corrected. This has not been implemented.**

PROPERTY TAXES

We recommend that the tax fund general ledger be reconciled with property tax software on a monthly basis to ensure that all property tax collections and payments are recorded properly. **Management response: This is now being reconciled on a monthly basis.**

GENERAL

The City does not have a written internal control policy. We recommend that the City create a written internal control policy stating that deviation from these policies is a possible firing offense. This will prevent fraud and make everyone aware of the City's policy on fraud. **Current year status: This has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

GENERAL - Continued

Fund Deficit

During 2006, the City incurred a fund deficit in the Building Authority fund of \$52,636. We recommend this deficit be taken care of immediately with a transfer from another fund. **This deficit has been eliminated.**

Investment and Credit Card Policy

We recommend that the City update the investment policy to be in compliance with GASB 40. Also, the City's credit policy should be reviewed and updated. **Current year status: This has been implemented.**

PAYROLL

Some authorization forms in the employee files are either for the wrong amount or very old. We recommend authorization forms be filled out each year for all of the employees' payroll deductions. This will provide accurate and adequate records and verify the correct amount is being deducted from the employees' payroll. **Current year status: This has been implemented.**

Our audit disclosed that there is no procedure to review the payroll journal prior to printing payroll checks. We recommend that the payroll journal be reviewed by a person independent of the check printing function prior to the printing of checks. This will improve controls over the payroll function. **Current year status: This has been implemented.**

We noted during our testing instances where authorized payroll deductions were missing from the employee file. They were filed in a different file. We recommend the authorizations for payroll deductions be put in the employee file. Copies of these can be made and put in a different file. This will ensure the employee files contain all authorizations for all payroll deductions and thereby improve controls over payroll. **This has been implemented.**

We noted during our testing the individual who prepares payroll is the same individual who prepares the payroll tax returns. We recommend the individual who prepares the payroll tax returns be independent of the payroll processing function. This will improve controls over payroll. **Management response: This process is currently being implemented. Current year status: This has not been implemented. However, we noted during our audit that a second individual reviews the payroll tax returns.**

During our audit, we noted that the same person who prepares electronic funds transfers also receives the bank confirmations. We recommend the City Manager authorize EFT transactions and receive all EFT confirmations from the bank and compare to the authorized transactions. **Management response: The City Manager or City Treasurer only have approval to sign wire payments. The City Treasurer does compare all wire transfers to bank statements each month. Current year status: This has not been implemented. We noted during our audit that the individual who authorizes wire transfers also does the bank reconciliation. We recommend a second authorization be required for all wire transfers.**

During our audit, we noted that the bank statements are not reviewed by an independent person prior to reconciliation. We recommend that the City Manager or someone independent of payroll process receive the unopened statements, open and review the statements for unusual activity, and initial the statements prior to giving to the person performing the reconciliation. **Management response: This will be implemented. Current year status: This has not been implemented. We noted during our audit that the statements are not being initialed.**

During our audit, we noted that MERS earnings and contributions are not reviewed by an individual independent of the data entry. We recommend that the City request a printout of entered data verified by the state and an individual independent of the data entry compare the printout with payroll records. Also, the contribution confirmation should be received and reviewed by a person independent of making the electronic transmission. **Management response: MERS does send confirmation by department total to the City verifying payment was received. Also, all MERS reports will be reviewed prior to submission of contributions. Current year status: This has not been implemented.**

PRIOR YEAR RECOMMENDATIONS - Concluded

CASH DISBURSEMENTS

We noted during our audit that the same person at City Hall that prepares disbursements also approves invoices for payment. We recommend that the City Manager approve all City Hall invoices (invoices not for the departments) for payment. Implementing this recommendation will separate the approval and payments function and improve controls over cash disbursements. The invoices go to the department heads for review and approval. We recommend the department head initial the invoice. This will involve another individual, thereby, creating a segregation of duties between invoice approval and disbursement. **Management response: All invoices are being approved and authorized for payment. Current year status: This has not been implemented. We noted during our audit this year that some invoices are still missing department head approval and one individual is still performing the duties of invoice approval and disbursement.**

We noted during our testing instances where not all source documentation was cancelled. We recommend all source documentation be canceled. This will help to ensure no source documentation is double paid and therefore increases controls over disbursements. **Management response: This has been implemented.**

We recommend attaching a "Tax Receipt Summary Statistics" from the resource software program to any tax disbursements. This will improve controls over disbursements by providing supporting documentation for the amounts paid. **Current year status: This has been implemented.**

TAX FUND

We recommend that a separate checking account be established and used only for property tax receipts and disbursements. This will reduce the possibility of the property tax transactions being recorded incorrectly in another one of the City's funds. **Management response: The tax fund will be reconciled on a monthly basis.**

CURRENT YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

While conducting the audit on cash disbursement procedures, we noted an instance where a voided check was not completely defaced. The check stub was still attached to this check. VOID was written half on the check and half on the check stub. The check itself only contained VO. The check was unsigned, but nothing was done to deface the signature lines. We recommend all voided checks be defaced with the signature portion of the check removed. This will improve controls over cash disbursements and help to prevent theft or fraud.

We noted during our audit that debit cards were used for purchases. The purchases are taken directly off of the bank statement so the council does not get to review them. We recommend that all debit cards be cancelled immediately. Credit cards may be used as a replacement. We recommend that receipts be required for all credit card purchases and all credit card receipts be approved by council.

OUTSTANDING CHECKS

At the time of our audit, we noticed that there were several checks that had been outstanding for over a year. Tracking outstanding checks is an important control procedure that ensures all outgoing checks are accounted for. We suggest that the outstanding check list be reviewed periodically and either stop payment notices be issued for old outstanding checks or escheat old outstanding checks to the State, depending on the type of disbursement. **Management response: This will be performed during the current year.**

CURRENT YEAR RECOMMENDATIONS - Concluded

FRIENDS OF THE ISLAND

We recommend that a separate bank account be established for the donations and expenditures that are for the Friends of the Island projects. This will help to reduce the chances of these monies being commingled with the City's park operating funds.

INVENTORY

We noted during our audit that there were differences between the physical inventory counts and the amounts on inventory reports. We recommend that physical count amounts be reconciled with the amounts from the inventory reports and any differences investigated. This will provide better control over inventory.

PROPERTY TAXES

During our audit we noticed that names were changed on the delinquent tax reports from year to year. We recommend that the changes be investigated to determine whether the changes are due to human error or a computer error.

PETTY CASH

We noted during our examination several petty cash transactions that were not approved by management. We recommend that all petty cash transactions be approved by management or council. We also recommend that all mileage reimbursements be done by cash disbursement or through payroll. This will limit the number of petty cash transactions during the year and improve internal controls.

JOURNAL ENTRIES

We recommend that all journal entries be approved by a second person in management or City Council. An approval will validate the reason for the journal entry and ensure it is posted to the general ledger correctly.

INSURANCE

We recommend that a second person review all health insurance claims on DRS Services monthly invoices to verify that each claim is valid and represented by a current employee.

BUDGETED TRANSFERS

We noted during our audit budget amendments for operating transfers between funds. We recommend that these council approved transfers be done by issuing cash disbursements prior to the City's fiscal year end. This will provide a better audit trail and ensure monies are moved to the proper fund per council approval prior to year end.

POSTEMPLOYMENT BENEFITS

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements, rather than the individual fund level. Therefore, the manner in which retiree healthcare benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree healthcare benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, an under funding must be reported as a liability on the government-wide statement of net assets.

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

POSTEMPLOYMENT BENEFITS - Concluded

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Therefore, funding the contribution will actually reduce your long-run cost. We recommend that the City begin to plan for this adjustment. This will become part of the audited financial statements effective July 1, 2009 with fiscal year ended June 30, 2010.

We are grateful to the officials and employees of the City of Eaton Rapids for the assistance and cooperation we received during the audit, and we thank them.

Very truly yours,

Layton + Richardson PC

Certified Public Accountants

East Lansing, Michigan
December 27, 2007

