

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 POTTERVILLE	County EATON
Fiscal Year End JUNE 30, 2007	Opinion Date MARCH 27, 2008	Date Audit Report Submitted to State APRIL 8, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

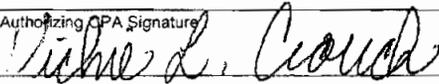
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, PC		Telephone Number (517) 332-1900		
Street Address 1000 COOLIDGE ROAD		City EAST LANSING	State MI	Zip 48823
Authorizing CPA Signature 	Printed Name VICKIE CROUCH	License Number 1101013436		

CITY OF POTTERVILLE, MICHIGAN
EATON COUNTY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007
AND
INDEPENDENT AUDITOR'S REPORT

3

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Pottersville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Pottersville, 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 of Pottersville, Michigan's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statement of the Tax Increment Finance Authority which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose reports thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pottersville, Michigan at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2008 on our consideration of the City of Pottersville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and pages 66 through 76 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Potterville, Michigan's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
March 27, 2008

City of Potterville, Michigan
Management's Discussion and Analysis
For Year Ended June 30, 2007

The management of the City of Potterville, Michigan (the City) offers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the City's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

Financial Highlights

Government-Wide

The assets of the City exceeded its liabilities at the close of this fiscal year by \$6,162,516 (shown as *Net Assets*), representing an increase of \$108,445 over the previous fiscal year. Governmental Funds had an increase of \$213,238 for the year, while Business-Type activities had a decrease of \$104,793, which resulted in the net increase of \$108,445.

Fund Level Financial Highlights

As of June 30, 2007, the governmental funds of the City of Potterville reported combined ending fund balances of \$601,705, of which \$360,755 is unreserved. The unreserved fund balance of the City's General Fund increased this year to \$192,066, or 39.66% of total general fund expenditures.

Long-Term Debt

The City of Potterville's total net debt decreased by \$148,319 during the fiscal year.

Overview of the Financial Statements

The City of Potterville's financial statements consist of three components:

1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the City's financial position. The Statement of Net Assets and the Statement of Activities are two new financial statements that report information about the City as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, the difference between the two being reported as the Net Assets of the City. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the City is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal years. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the City include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the City include water and sewer utility services.

Focus on Funds

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The City's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund, Park Fund Storm Drain Bonds, and Sunset Hills Special Assessment. The major Proprietary Funds include the Water and Sewer Funds.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The City of Potterville uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Many of the City's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund Balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the City include the General Fund as well as the special revenue, and debt service funds.

Proprietary Funds Proprietary funds account for services for which the City charges its customers for the services they are provided. These charges can be to external customers or other agencies for the services they are provided. These charges can be to external customers or other agencies within the City. There are two types of proprietary funds:

Enterprise funds are used to report business-like activities of the City. These activities intend to recover the full cost of the services through the fee charged to the customers. The City has two enterprise funds, which are the Water Fund and Sewer Fund.

Internal Service funds are the second type of proprietary funds. These funds provide services to other departments within the City. These funds allow the City to allocate costs of centralized services such as the City's vehicle fleet. The City has one internal service fund, the Equipment Pool Fund.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the City's programs. These funds are accounted for using the full accrual method of accounting much like the Proprietary funds.

Component Units The City's financial statements include reporting on separate legal entities for which the City has some level of financial responsibility. These funds are shown in a separate column. The City's component units include the Tax Increment Financing Authority.

Joint Venture The City of Pottersville and Benton Township entered into an inter-local agreement for the purpose of providing fire and emergency services to their respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operations. The Fire Department issues its own financial statements and they are not included in this report.

Notes to the Financial Statements

The Notes to the Basic Financial Statement provide additional information that is essential to a complete understanding of the information provided in both the Government-wide and the Fund Financial Statements.

Other information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-wide Financial Statements section of this document. This statement is useful for providing an indicator of the City's financial position over time. The Net Assets of the City are \$6,129,454 as of June 30, 2007, meaning that the City's assets were greater than its liabilities by this amount.

City of Pottersville Net Assets as of June 30, 2007 and 2006

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	728,949	657,207	607,760	495,818	1,336,709	1,153,025
Capital Assets	2,565,810	2,676,618	4,029,795	4,107,522	6,595,605	6,784,140
Total Assets	3,294,759	3,333,825	4,637,555	4,603,340	7,932,314	7,937,165
Long-term liabilities	643,242	745,870	864,000	904,000	1,507,242	1,649,870
Other liabilities	144,723	299,900	70,664	(60,406)	215,387	239,494
Total Liabilities	787,965	1,045,770	934,664	843,594	1,722,629	1,889,364
Net Assets						
Invested in capital assets						
net of related debt	1,819,921	1,820,410	3,125,795	3,165,522	4,945,716	4,985,932
Restricted	5,399	5,254	0	0	5,399	5,254
Unrestricted	682,243	462,391	529,158	594,224	1,211,401	1,056,615
Total Net Assets	2,507,563	2,288,055	3,654,953	3,759,746	6,162,516	6,047,801

The most significant portion of the City's Net Assets are the investments in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the City used to acquire or construct the asset. The City has \$1,211,401 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by the City policies regarding their use.

The total net assets of the City increased \$108,445 in this fiscal year. The following table illustrates and summarizes the results of the changes in the Net Assets for the City. The condensed information was derived from the government-wide Statement of Activities.

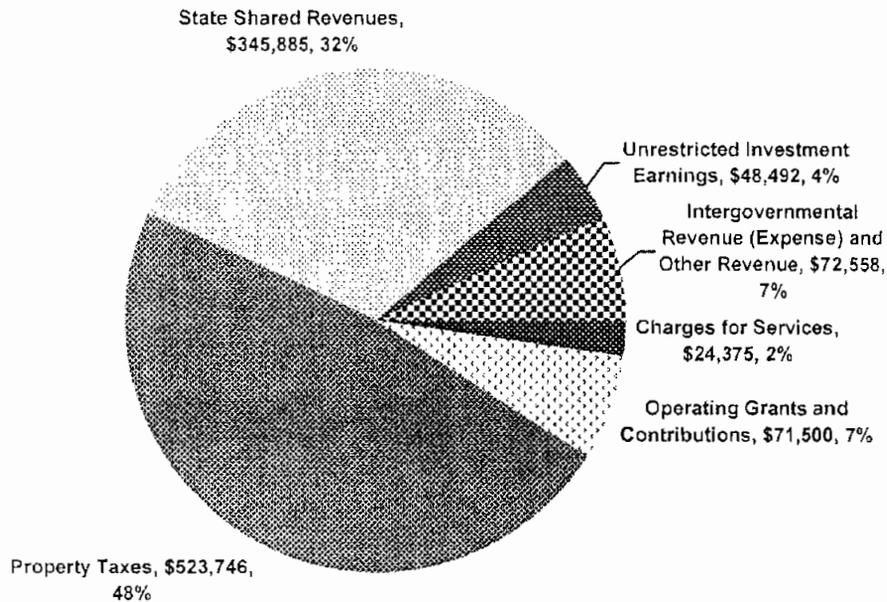
City of Pottersville
Change in Net Assets for Fiscal Year Ended June 30, 2007

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<u>REVENUES</u>						
Program Revenues						
Charges for Services	24,375	30,346	458,961	411,057	483,336	441,403
Operating Grants and Contributions	71,500	2,204	0	0	71,500	2,204
General Revenues						
Property Taxes & Assessments	523,746	501,829	0	0	523,746	501,829
State Shared Revenue	345,885	351,934	0	0	345,885	351,934
Unrestricted Investment Earnings	48,492	74,966	2,180	1,584	50,672	76,550
Intergovernmental Revenue	(4,531)	(25,000)	0	0	(4,531)	(25,000)
Other	77,089	44,523	48,882	109,532	125,971	154,055
Total Revenues	1,086,556	980,802	510,023	522,173	1,596,579	1,502,975
<u>EXPENSES</u>						
Legislative	9,243	13,233	0	0	9,243	13,233
General Government	181,260	256,200	0	0	181,260	256,200
Public Safety	239,877	276,569	0	0	239,877	276,569
Public Works	174,240	199,043	0	0	174,240	199,043
Recreation and Culture	62,977	65,927	0	0	62,977	65,927
Depreciation	171,447	171,154	0	0	171,447	171,154
Interest on Long-Term Debt	34,274	36,402	0	0	34,274	36,402
Water and Sewer	0	0	614,816	548,363	614,816	548,363
Total Expenses	873,318	1,018,528	614,816	548,363	1,488,134	1,566,891
Increase/Decrease in Net Assets	213,238	(37,726)	(104,793)	(26,190)	108,445	(63,916)
Beginning Net Assets	2,288,055	2,325,781	3,759,746	3,785,936	6,047,801	6,111,717
Prior Period Adjustment	0	0	0	0	0	0
Ending Net Assets	2,501,293	2,288,055	3,654,953	3,759,746	6,156,246	6,047,801

Governmental Activities

The following chart details the revenue sources for the governmental activities of the City for the fiscal year ended June 30, 2007:

Revenues - Governmental Activities Fiscal Year Ended June 30, 2007



The most significant portion of the revenue for all government activities of the City of Potterville comes from Property Taxes. The City's millage as the charter allows needs 11.6599 mills for operations.

State Shared Revenue is collected by the State of Michigan and is distributed to local governments by formula allocation of portions of the State Sales Tax and Motor Fuel Weight Taxes. In 2007, the amount of State Shared Revenue received by the City decreased by \$6,049 from 2006.

Public Safety expenses were the largest expenses for the City, like FY2006. In FY2007, the City spent \$239,877 on Public Safety, or 27.47% of the City's expenses. General Government expenses of \$181,260 represented 20.76% of the total expenses within the governmental activities.

Business-Type Activities

These activities accounted for a loss of \$104,793 during the fiscal year, reducing the increase that otherwise occurred in the City's Net Assets.

The Business-Type activities of the City include the Water and Sewer Fund, which provide water and sewer utilities to City residents as well as commercial customers.

Financial Analysis of the Government's Funds

Governmental Activities At the completion of the City's fiscal year on June 30, 2007, its governmental funds reported fund balances of \$601,705. Of this amount, \$360,755 or 59.96% is unreserved. Of this amount, \$168,689 of unreserved and undesignated fund balances exists in the City's Special Revenue funds. The remaining \$240,950 of fund balance of the governmental funds is reserved for specific purposes and is therefore not available for new appropriation.

General Fund The General Fund is the main operating fund of the City. The general Fund increased its balance in this fiscal year by \$160,925, bringing the balance to \$192,066. The General Fund's major functions that ended the year with expenditures above appropriated amounts include: Legislative and Public safety. Property Tax revenues in the General Fund increased \$21,917 in 2007, an increase of 4.3%.

Major Street Fund The fund balance of the Major Street Fund ended the year at \$138,978. This was an increase of \$11,535 from the previous year.

Local Street Fund The fund balance of this fund is at \$29,855, a decrease of \$5,832 during this fiscal year. The decrease was due to the expenditure of funds for various street projects.

Proprietary Funds The City's proprietary funds provide virtually the same information as the government-wide statements; however, more detail may be found in the fund financial statements.

Water Fund The Water Fund ended this fiscal year with \$264,482 in unrestricted net assets. The total operating revenues of the fund increased from \$241,939 in FY2006 to \$248,379 in 2007. The net assets of the fund decreased by \$70,779.

Sewer Fund The Sewer Fund ended this fiscal year with \$264,676 in unrestricted net assets. The total operating revenues increased from \$192,880 in FY2006 to \$232,464 in 2007. The net assets of the fund decreased by \$34,014.

Capital Asset and Debt Administration

Capital Assets The City’s investment in capital assets for the governmental and business-type activities as of June 30, 2007, amounted to \$6,595,605 (net of accumulated depreciation). Capital assets of the City include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The City has invested in a broad range of capital assets, as detailed below:

**City of Potterville
Capital Assets as of June 30, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Land and Land Improvements	294,763	260,076	554,839
Infrastructure	3,002,757	5,578,455	8,581,212
Buildings	540,627	0	540,627
Improvements other than Buildings	1,151,225	0	1,151,225
Machinery and Equipment	0	786,026	786,026
Subtotal	4,989,372	6,624,557	11,613,929
Accumulated Depreciation	2,510,484	2,594,762	5,105,246
Internal Service Fund (net capital assets)	86,922	0	86,922
Net Capital Assets	2,565,810	4,029,795	6,595,605

Additional information regarding the City’s capital assets can be found in the Notes to Financial Statements section.

Long Term Debt As of June 30, 2007, the City had total debt outstanding, exclusive of compensated absences, of \$1,649,889. Of this amount, \$1,380,889 comprises debt backed by the full faith and credit of the City. The remainder of the City’s debt represents bonds secured solely by specified revenue sources. The revenue bonds are from the Sewer Fund (\$269,000) which are backed by revenues from the Sewer system and have been used to finance major capital projects within the Sewer system.

**City of Potterville Outstanding Debt
General Obligation and Revenue Bonds
as of June 30, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
General Obligation Bonds	715,000	635,000	1,350,000
Contracts and Notes	30,889	0	30,889
Revenue Bonds	0	269,000	269,000
Total	745,889	904,000	1,649,889

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The current debt limitation based on the City’s assessed valuation is significantly in excess of the City’s outstanding general obligation debt of \$1,350,000.

The total debt retired was \$148,319 for the year ended June 30, 2007. As there was no new debt incurred, this resulted in a net reduction of \$148,319. More information on the City's long-term debt is available in the Notes to Financial Statements section of this document.

Contacting the City's Finance Department

This Financial report is designed to provide the wide variety of users of this document with a general overview of the City's finances and demonstrate the City's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Potterville, City Clerk, 319 N. Nelson Street, Potterville, MI 48876, or call (517) 645-7641.

The financial reports for the Tax Increment Financing Authority, a component unit of the City, can be obtained by contacting City of Potterville Tax Increment Financing Authority, 319 North Nelson Street, Potterville, MI 48876.

The Financial reports for the Potterville-Benton Township Fire Department, a joint venture of the City, can be obtained by contacting Potterville-Benton Township Fire Department, 4713 Hartel Road, Potterville, MI 48876.

GENERAL PURPOSE FINANCIAL STATEMENTS

General purpose financial statements provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. They also serve as an introduction to the more detailed statements and schedules that follow.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
ASSETS				
Current assets				
Cash	\$ 611,778	\$ 347,289	\$ 959,067	\$ 249,253
Receivables				
Accounts		54,437	54,437	10,540
Special assessment	81,798		81,798	
Due from				
Other governmental units	90,062		90,062	
Other funds	(86,737)	106,724	19,987	
Bond discount, net of amortization	20,000		20,000	21,446
Restricted assets				
Cash		46,325	46,325	
Prepaid insurance	3,252	3,358	6,610	
Noncurrent assets				
Investments - Certificates of deposit				78,956
Capital assets (net of accumulated depreciation)	<u>2,565,810</u>	<u>4,029,795</u>	<u>6,595,605</u>	
TOTAL ASSETS	<u>\$ 3,285,963</u>	<u>\$ 4,587,928</u>	<u>\$ 7,873,891</u>	<u>\$ 360,195</u>

See accompanying notes to financial statements.

	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL	COMPONENT UNIT
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities				
Accounts payable	\$ 9,402	\$ 7,600	\$ 17,002	\$
Accrued interest payable	6,421	9,613	16,034	2,837
Pension payable	2,495	4,858	7,353	
Accrued payroll	4,807	2,031	6,838	
Other	1,644		1,644	
Compensated absences	7,742	4,873	12,615	
Bonds and notes payable	102,647	40,000	142,647	55,000
Noncurrent liabilities				
Bonds payable	625,000	864,000	1,489,000	330,000
Equipment contracts payable	18,242		18,242	
TOTAL LIABILITIES	<u>778,400</u>	<u>932,975</u>	<u>1,711,375</u>	<u>387,837</u>
NET ASSETS				
Invested in capital assets net of related debt	1,819,921	3,125,795	4,945,716	
Restricted for				
Park expenditures	5,399		5,399	
Unrestricted	682,243	529,158	1,211,401	(27,642)
TOTAL NET ASSETS	<u>2,507,563</u>	<u>3,654,953</u>	<u>6,162,516</u>	<u>(27,642)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,285,963</u>	<u>\$ 4,587,928</u>	<u>\$ 7,873,891</u>	<u>\$ 360,195</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

		PROGRAM REVENUES	
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS
FUNCTIONS/PROGRAMS			
Primary Government			
Governmental Activities			
Legislative	\$ 9,243	\$	\$
General government	181,260		
Public safety	239,877		
Public works	174,240	710	
Recreation and culture	62,977	23,665	71,500
Debt service - interest on long-term debt	34,274		
Unallocated depreciation	171,447		
Total Governmental Activities	873,318	24,375	71,500
Business-Type Activities			
Water	334,458	237,223	
Sewer	280,358	221,738	
Total Business-Type Activities	614,816	458,961	
Total Primary Government	\$ 1,488,134	\$ 483,336	\$ 71,500
Component Unit			
Tax increment financing authority	\$ 230,514	\$	\$
General Revenues			
Property taxes			
State shared revenue			
Fines and forfeits			
Interest and rents			
Intergovernmental revenue (expenses)			
Other revenues			
		TOTAL GENERAL REVENUES	
CHANGE IN NET ASSETS			
NET ASSETS, JULY 1			
NET ASSETS, JUNE 30			

See accompanying notes to financial statements.

PRIMARY GOVERNMENT			COMPONENT UNIT
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCING AUTHORITY
\$ (9,243)	\$	\$ (9,243)	\$
(181,260)		(181,260)	
(239,877)		(239,877)	
(173,530)		(173,530)	
32,188		32,188	
(34,274)		(34,274)	
(171,447)		(171,447)	
<u>(777,443)</u>		<u>(777,443)</u>	
	(97,235)	(97,235)	
	<u>(58,620)</u>	<u>(58,620)</u>	
	(155,855)	(155,855)	
<u>(777,443)</u>	<u>(155,855)</u>	<u>(933,298)</u>	
			<u>(230,514)</u>
523,746		523,746	162,974
345,885		345,885	
261		261	
48,492	2,180	50,672	3,822
(4,531)		(4,531)	
83,098	48,882	131,980	
<u>996,951</u>	<u>51,062</u>	<u>1,048,013</u>	<u>166,796</u>
219,508	(104,793)	114,715	(63,718)
<u>2,288,055</u>	<u>3,759,746</u>	<u>6,047,801</u>	<u>36,076</u>
\$ <u>2,507,563</u>	\$ <u>3,654,953</u>	\$ <u>6,162,516</u>	\$ <u>(27,642)</u>

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	GENERAL FUND	MAJOR STREETS FUND
ASSETS		
Cash	\$ 258,076	\$ 134,340
Special assessments		
Due from other governments	69,236	14,860
Due from other funds	84,285	5,200
Bond discount		
Prepaid insurance	2,696	278
TOTAL ASSETS	\$ 414,293	\$ 154,678
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 5,704	\$ 563
Pension payable	867	366
Accrued payroll	3,745	225
Due to other funds	210,267	14,546
Other	1,644	
Deferred revenue		
TOTAL LIABILITIES	222,227	15,700
FUND BALANCE		
Reserved for debt service		
Reserved for park		
Unreserved, undesignated	192,066	138,978
TOTAL FUND BALANCE	192,066	138,978
TOTAL LIABILITIES AND FUND BALANCE	\$ 414,293	\$ 154,678

See accompanying notes to financial statements.

LOCAL STREETS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 33,609	\$ 153,040	\$ 579,065
5,966	81,798	81,798
4,200	88,549	90,062
278	20,000	182,234
<u>44,053</u>	<u>343,387</u>	<u>3,252</u>
<u>\$ 44,053</u>	<u>\$ 343,387</u>	<u>\$ 956,411</u>
\$ 763	\$ 1,898	\$ 8,928
358	527	2,118
225	481	4,676
12,852	17,877	255,542
<u>14,198</u>	<u>81,798</u>	<u>1,644</u>
	<u>102,581</u>	<u>81,798</u>
		<u>354,706</u>
	235,551	235,551
29,855	5,399	5,399
<u>29,855</u>	<u>(144)</u>	<u>360,755</u>
	<u>240,806</u>	<u>601,705</u>
<u>\$ 44,053</u>	<u>\$ 343,387</u>	<u>\$ 956,411</u>

CITY OF POTTERVILLE, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

Total fund balances - governmental funds	\$	601,705
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 therefore are not reported as assets in governmental funds. The cost of the assets is \$4,989,372 and the accumulated depreciation is \$2,510,484		2,478,888
Long-term receivables are not available to pay current period expenditures and therefore are deferred in governmental funds		
Deferred revenue		81,798
An internal service fund is used by the City's management to charge the costs of vehicle use to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities		72,994
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds		
Long-term liabilities at year-end consist of:		
Bonds payable		(715,000)
Accrued interest		(5,640)
Compensated absences		(7,182)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	\$	<u>2,507,563</u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	GENERAL FUND	MAJOR STREETS FUND
REVENUES		
Taxes	\$ 523,746	\$
Licenses and permits	710	
State grants	216,786	92,767
Charges for services		
Fines and forfeits	261	
Interest and rents	37,992	6,780
Other revenue	50,119	
TOTAL REVENUES	<u>829,614</u>	<u>99,547</u>
EXPENDITURES		
Legislative	9,243	
General government	193,871	
Public safety	241,266	
Public works	39,778	48,012
Recreation and culture		
Debt service		
Principal		
Interest and fiscal charges		
TOTAL EXPENDITURES	<u>484,158</u>	<u>48,012</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>345,456</u>	<u>51,535</u>
OTHER FINANCING SOURCES (USES)		
Operating transfers in		
Operating transfers out	<u>(184,531)</u>	<u>(40,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(184,531)</u>	<u>(40,000)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	160,925	11,535
FUND BALANCE, JULY 1	<u>31,141</u>	<u>127,443</u>
FUND BALANCE , JUNE 30	<u>\$ 192,066</u>	<u>\$ 138,978</u>

See accompanying notes to financial statements.

LOCAL STREETS FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$	\$	\$
36,332		523,746
	23,665	710
1,900	1,820	345,885
<u>38,232</u>	<u>29,060</u>	23,665
	54,545	261
		48,492
		<u>79,179</u>
		1,021,938
		9,243
84,064	4,000	193,871
	63,848	241,266
	85,000	175,854
<u>84,064</u>	<u>37,784</u>	63,848
	190,632	85,000
		<u>37,784</u>
		806,866
<u>(45,832)</u>	<u>(136,087)</u>	215,072
40,000	180,000	220,000
<u>40,000</u>		<u>(224,531)</u>
	180,000	(4,531)
(5,832)	43,913	210,541
<u>35,687</u>	<u>196,893</u>	391,164
\$ <u>29,855</u>	\$ <u>240,806</u>	\$ <u>601,705</u>

CITY OF POTTERVILLE, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	210,541
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures.		
However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.		9,600
Less: current year depreciation		(171,447)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		75,419
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		
Accrued interest		3,510
Principal payments		85,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in long-term compensated absences		2,343
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
The net income (expense) of the internal service funds is reported with governmental activities.		4,542
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>219,508</u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
NON MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	SPECIAL REVENUE FUND	
	PARK FUND	STORM DRAIN MAINTENANCE FUND
ASSETS		
Cash	\$ 11,269	\$ 1,134
Special assessments		
Due from other funds	40,000	
Bond discount	20,000	
TOTAL ASSETS	\$ 71,269	\$ 1,134
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable	\$ 1,898	\$
Pension payable	527	
Accrued payroll	481	
Due to other funds	6,848	1,278
Deferred revenue		
TOTAL LIABILITIES	9,754	1,278
 FUND BALANCE		
Reserved for debt service	61,515	
Reserved for park		
Reserved for storm drain maintenance		(144)
TOTAL FUND BALANCE	61,515	(144)
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 71,269	 \$ 1,134

See accompanying notes to financial statements.

DEBT SERVICE FUND		PERMANENT FUND		
STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	DEBT SERVICE	IMAGINATION STATION PARK FUND	TOTAL NON MAJOR GOVERNMENTAL FUNDS
\$ 27,314	\$ 128,035	\$ 7,203	\$ 5,399	\$ 153,040
8,045	54,484	38,798		81,798
	1,706			88,549
				20,000
<u>\$ 35,359</u>	<u>\$ 184,225</u>	<u>\$ 46,001</u>	<u>\$ 5,399</u>	<u>\$ 343,387</u>
\$ 1,706	\$ 8,045	\$	\$	\$ 1,898
27,314	54,484			527
				481
<u>29,020</u>	<u>62,529</u>			17,877
				81,798
				<u>102,581</u>
6,339	121,696	46,001		235,551
			5,399	5,399
<u>6,339</u>	<u>121,696</u>	<u>46,001</u>	<u>5,399</u>	(144)
				<u>240,806</u>
<u>\$ 35,359</u>	<u>\$ 184,225</u>	<u>\$ 46,001</u>	<u>\$ 5,399</u>	<u>\$ 343,387</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE FUND	
	PARK FUND	STORM DRAIN MAINTENANCE FUND
REVENUES		
Charges for services	\$ 23,665	\$
Interest and rents	1,675	
Other revenue		
TOTAL REVENUES	25,340	
EXPENDITURES		
Recreation and culture	63,848	
Public works		4,000
Debt service		
Principal		
Interest and fiscal charges	2,500	
TOTAL EXPENDITURES	66,348	4,000
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(41,008)	(4,000)
OTHER FINANCING SOURCES		
Operating transfers in	35,000	4,000
NET CHANGE IN FUND BALANCE	(6,008)	
FUND BALANCE, JULY 1	67,523	(144)
FUND BALANCE , JUNE 30	\$ 61,515	\$ (144)

See accompanying notes to financial statements.

DEBT SERVICE FUND		PERMANENT FUND		
STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	DEBT SERVICE	IMAGINATION STATION PARK FUND	TOTAL NON MAJOR GOVERNMENTAL FUNDS
\$	\$	\$	\$	\$
8,045	21,015		145	23,665
<u>8,045</u>	<u>21,015</u>		<u>145</u>	<u>29,060</u>
				63,848
				4,000
	30,000	55,000		85,000
	9,285	25,999		37,784
	<u>39,285</u>	<u>80,999</u>		<u>190,632</u>
8,045	(18,270)	(80,999)	145	(136,087)
	<u>14,000</u>	<u>127,000</u>		<u>180,000</u>
8,045	(4,270)	46,001	145	43,913
<u>(1,706)</u>	<u>125,966</u>		<u>5,254</u>	<u>196,893</u>
<u>\$ 6,339</u>	<u>\$ 121,696</u>	<u>\$ 46,001</u>	<u>\$ 5,399</u>	<u>\$ 240,806</u>

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2007

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL
	<u>MAJOR FUNDS</u>			ACTIVITIES -
	WATER	SEWAGE		INTERNAL
	SUPPLY	DISPOSAL	TOTALS	SERVICE
				FUND
ASSETS				
CURRENT ASSETS				
Cash	\$ 134,879	\$ 212,410	\$ 347,289	\$ 32,713
Receivables				
Accounts	28,260	26,177	54,437	
Due from other funds	151,351	5,000	156,351	67,154
Prepaid expenses	<u>1,679</u>	<u>1,679</u>	<u>3,358</u>	
TOTAL CURRENT ASSETS	<u>316,169</u>	<u>245,266</u>	<u>561,435</u>	<u>99,867</u>
RESTRICTED ASSETS				
Cash		<u>46,325</u>	<u>46,325</u>	
PROPERTY, PLANT AND EQUIPMENT				
Land	23,713	236,363	260,076	
Treatment system		83,377	83,377	
Collection lines		3,825,538	3,825,538	
Mains and connections	863,948		863,948	
Vehicles				157,106
Wells and controls	805,592		805,592	
Machinery and equipment	<u>749,728</u>	<u>36,298</u>	<u>786,026</u>	<u>134,286</u>
	2,442,981	4,181,576	6,624,557	291,392
Less: accumulated depreciation	<u>(582,547)</u>	<u>(2,012,215)</u>	<u>(2,594,762)</u>	<u>(204,470)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>1,860,434</u>	<u>2,169,361</u>	<u>4,029,795</u>	<u>86,922</u>
TOTAL ASSETS	<u>\$ 2,176,603</u>	<u>\$ 2,460,952</u>	<u>\$ 4,637,555</u>	<u>\$ 186,789</u>

See accompanying notes to financial statements.

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	<u>MAJOR FUNDS</u>		TOTALS	
	<u>WATER SUPPLY</u>	<u>SEWAGE DISPOSAL</u>		
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 3,831	\$ 3,769	\$ 7,600	\$ 474
Accrued payroll	1,165	866	2,031	131
Accrued interest payable	7,402	2,211	9,613	781
Pension payable	2,415	2,443	4,858	377
Due to other funds	34,475	15,152	49,627	80,583
Accrued compensated absences	2,399	2,474	4,873	560
TOTAL CURRENT LIABILITIES	<u>51,687</u>	<u>26,915</u>	<u>78,602</u>	<u>82,906</u>
CURRENT LIABILITIES FROM RESTRICTED ASSETS				
Revenue bonds	20,000	20,000	40,000	
Equipment contracts				12,647
TOTAL CURRENT LIABILITIES FROM RESTRICTED ASSETS	<u>20,000</u>	<u>20,000</u>	<u>40,000</u>	<u>12,647</u>
LONG-TERM LIABILITIES				
Revenue bonds	615,000	249,000	864,000	
Equipment contracts				18,242
TOTAL LONG-TERM LIABILITIES	<u>615,000</u>	<u>249,000</u>	<u>864,000</u>	<u>18,242</u>
TOTAL LIABILITIES	<u>686,687</u>	<u>295,915</u>	<u>982,602</u>	<u>113,795</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,225,434	1,900,361	3,125,795	56,033
Unrestricted	264,482	264,676	529,158	16,961
TOTAL NET ASSETS	<u>1,489,916</u>	<u>2,165,037</u>	<u>3,654,953</u>	<u>72,994</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,176,603</u>	<u>\$ 2,460,952</u>	<u>\$ 4,637,555</u>	<u>\$ 186,789</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>			GOVERNMENTAL
	<u>MAJOR FUNDS</u>			ACTIVITIES -
	<u>WATER</u>	<u>SEWAGE</u>	TOTALS	INTERNAL
SUPPLY	DISPOSAL	SERVICE		
				FUND
OPERATING REVENUES				
Charges for services	\$ 237,223	\$ 221,738	\$ 458,961	\$ 62,979
Other revenue	<u>11,156</u>	<u>10,726</u>	<u>21,882</u>	<u>5,137</u>
TOTAL OPERATING REVENUES	<u>248,379</u>	<u>232,464</u>	<u>480,843</u>	<u>68,116</u>
OPERATING EXPENSES				
Personal services	96,656	62,451	159,107	7,097
Employee benefits	27,151	22,385	49,536	1,708
Professional services	12,814	10,275	23,089	
Office supplies and expense	54,616	14,183	68,799	2,567
Repairs and maintenance	14,783	26,447	41,230	15,235
Insurance	3,229	7,244	10,473	7,116
Utilities	20,743	21,287	42,030	5,965
Depreciation	49,691	82,820	132,511	19,484
Rentals	18,917	14,384	33,301	
Other	<u>4,683</u>	<u>4,680</u>	<u>9,363</u>	<u>2,500</u>
TOTAL OPERATING EXPENSES	<u>303,283</u>	<u>266,156</u>	<u>569,439</u>	<u>61,672</u>
OPERATING LOSS	<u>(54,904)</u>	<u>(33,692)</u>	<u>(88,596)</u>	<u>6,444</u>
NONOPERATING REVENUES				
(EXPENSES)				
Interest income		2,180	2,180	
Hook-up fees	15,300	11,700	27,000	
Transfers in				
Interest and fiscal charges	<u>(31,175)</u>	<u>(14,202)</u>	<u>(45,377)</u>	<u>(1,902)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(15,875)</u>	<u>(322)</u>	<u>(16,197)</u>	<u>(1,902)</u>
NET LOSS	(70,779)	(34,014)	(104,793)	4,542
NET ASSETS, JULY 1	<u>1,560,695</u>	<u>2,199,051</u>	<u>3,759,746</u>	<u>68,452</u>
NET ASSETS, JUNE 30	<u>\$ 1,489,916</u>	<u>\$ 2,165,037</u>	<u>\$ 3,654,953</u>	<u>\$ 72,994</u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS			ACTIVITIES -
	WATER SUPPLY	SEWAGE DISPOSAL	TOTALS	INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 244,033	\$ 230,412	\$ 474,445	\$ 6,114
Payments to suppliers	(134,447)	(115,193)	(249,640)	44,595
Payments to employees	(90,059)	(58,076)	(148,135)	(6,830)
NET CASH PROVIDED BY OPERATING ACTIVITIES	19,527	57,143	76,670	43,879
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating transfers in Restricted cash	6,118	3,811	9,929	
Customer deposits payable	(7,629)	(7,629)	(15,258)	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,511)	(3,818)	(5,329)	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from hook up fees	15,300	11,700	27,000	
Acquisition of capital assets	(30,913)	(23,871)	(54,784)	
Principal paid on bonds	(20,000)	(18,000)	(38,000)	(25,318)
Interest paid on bonds	(31,671)	(14,350)	(46,021)	(2,135)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(67,284)	(44,521)	(111,805)	(27,453)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		2,180	2,180	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(49,268)	10,984	(38,284)	16,426
CASH AND CASH EQUIVALENTS, JULY 1	184,147	201,426	385,573	16,287
CASH AND CASH EQUIVALENTS, JUNE 30	\$ 134,879	\$ 212,410	\$ 347,289	\$ 32,713

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS			GOVERNMENTAL
	MAJOR FUNDS		TOTALS	ACTIVITIES -
	WATER SUPPLY	SEWAGE DISPOSAL		INTERNAL SERVICE FUND
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating loss	\$ <u>(54,904)</u>	\$ <u>(33,692)</u>	\$ <u>(88,596)</u>	\$ <u>6,444</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Depreciation	49,691	82,820	132,511	19,484
Loss on disposal of equipment				977
(Increase) decrease in current assets				
Accounts receivable	(4,346)	(2,052)	(6,398)	
Due from other funds	(5,000)	(5,000)	(10,000)	
Prepaid expenses	1,298	1,297	2,595	
Increase (decrease) in current liabilities				
Accounts payable	94	467	561	(192)
Accrued payroll	96	(292)	(196)	
Accrued compensated absences	(955)	(789)	(1,744)	(327)
Due to other funds	<u>33,553</u>	<u>14,384</u>	<u>47,937</u>	<u>80,472</u>
TOTAL ADJUSTMENTS	<u>74,431</u>	<u>90,835</u>	<u>165,266</u>	<u>100,414</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>19,527</u></u>	\$ <u><u>57,143</u></u>	\$ <u><u>76,670</u></u>	\$ <u><u>106,858</u></u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2007

	EXTERNAL AGENCY FUNDS	INTERNAL AGENCY FUNDS	TOTAL AGENCY FUNDS
ASSETS			
Cash	\$ 41,430	\$ 8,568	\$ 49,998
Due from other funds	-	11,256	11,256
Due from County	<u>38,151</u>	<u>-</u>	<u>38,151</u>
NET ASSETS	<u>\$ 79,581</u>	<u>\$ 19,824</u>	<u>\$ 99,405</u>
LIABILITIES			
Due to			
Other governmental units	\$ 34,031	\$ -	\$ 34,031
State of Michigan	4,320	-	4,320
Other funds	31,243	-	31,243
Component unit	9,987	-	9,987
Payroll withholdings payable	-	(496)	(496)
Pension payable	<u>-</u>	<u>20,320</u>	<u>20,320</u>
TOTAL LIABILITIES	<u>\$ 79,581</u>	<u>\$ 19,824</u>	<u>\$ 99,405</u>

See accompanying notes to financial statements.

CITY OF POTTERVILLE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Potterville, Michigan, was incorporated December 12, 1962, and adopted its current charter on November 11, 1988. Located in Eaton County, the City operates under a Council-Manager form of government and provides the following services: public safety (police protection), highways and streets, recreation, public improvements, planning and zoning, and general administrative services. In addition, the City operates two major enterprise activities; a water supply system and a sewage collection and treatment system. The City's financial statements include the accountings of all City operations.

The financial statements of the City of Potterville, Michigan (government) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

As required by U.S. generally accepted accounting principles, these financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. The discretely presented component unit has a June 30 year end.

Discretely Presented Component Unit

Tax Increment Financing Authority

On July 11, 1984, the City of Potterville established a Tax Increment Financing Authority (TIFA) for the purpose of promoting growth and development. The TIFA is legally separate from the primary government. The City Council appoints the three-member TIFA board and approves their budget.

Complete financial statements of the TIFA can be obtained from their administrative offices or from the City Clerk's office at City Hall.

Administrative Offices

City of Potterville Tax Increment Financing Authority
319 North Nelson
Potterville, MI 48876

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

A. Reporting Entity – Concluded

Discretely Presented Component Unit – Concluded

Based on the foregoing criteria, the financial statements of the following organizations are excluded from the accompanying financial statements:

Joint Ventures

Potterville-Benton Township Fire Department – The City of Potterville and the Township of Benton entered into an interlocal agreement for the purpose of providing fire and emergency services to respective units. Both local governmental units have an undivided 50% joint ownership of the Fire Department and its operation. The fire board consists of six members, three appointed by the City and three appointed by the Township. The City and Township both approve the annual Fire Department budget. During the fiscal year ended June 30, 2007, the City of Potterville contributed \$92,496 to the Fire Department.

Complete financial statements of the joint venture can be obtained by writing to:

Potterville-Benton Township Fire Department
4713 Hartel Road
Potterville, MI 48876

Related Organizations

Benton Township-Potterville District Library – The district library is a legally separate organization established to provide library services to residents of Benton Township and the City of Potterville. An elected seven-member board governs the district library. The district library is supported, in part, by a millage passed November 4, 1994. The tax of 1/5 mill applies to all taxable property in the library district, which consists of Benton Township and the City of Potterville. The district library board is empowered to propose and levy upon approval of the electors a tax for the support of the district library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988 (MCL 397.287 et. Seq.). The district library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The City and Township do not hold title to any of the district library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the district library.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

B. Government-Wide Fund Financial Statements

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

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

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

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

C. Measurement Focus, Basis of Accounting and Basis of Presentation

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

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

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

Property taxes, franchise taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the City are organized on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum numbers of funds are maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

Restricted Net Assets

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The City of Potterville reports the following major governmental funds:

General Fund

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.

Major Street Fund

The Major Street Fund is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state truck lines.

Local Street Fund

The Local Street Fund receives all local street money paid to the City by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Continued

The City of Potterville reports the following major proprietary funds:

Water Fund

The Water Fund records financial activity of the water system which provides water to customers.

Sewer Fund

The Sewer Fund records financial activity of the sewage disposal services to its customers.

Additionally, the City of Potterville reports the following fund types:

Special Revenue Funds

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

Debt Service Funds

The Debt Service Funds account for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

Internal Service Funds

The Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the City under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

C. Measurement Focus, Basis of Accounting and Basis of Presentation - Concluded

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

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

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water fund, sewer fund, and the City's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Assets, Liabilities and Equity

Cash and Cash Equivalents

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

Investments

The City's investment policy is in compliance with state law and authorizes the City to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, banker acceptances, federal agency instruments, money market funds and commercial paper. Investments in commercial paper must be rated in one of the two highest rating categories by Standard and Poor's or Moody's and are limited to fifty percent of a funds portfolio in accordance with state statutes. Investments are stated at fair value which is determined using selected bases. Securities traded on a national exchange are valued at the last reported sales price. Managed funds not listed on an established market are reported at fair value as determined by the respective fund managers based on quoted prices of underlying securities.

Receivables and Payables

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

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City bills and collects its own property taxes and also taxes for the County and school districts. Collections of the County and school taxes and remittance of them to the taxing units are accounted for in the Current Tax Collection Fund. County and school taxes are billed and due December 1, and become delinquent after February 14. City property tax revenues are recognized when levied thus none of the 2007 summer roll has been recognized in these statements. City taxes are billed and due July 1, and become delinquent after August 10.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Continued

D. Assets, Liabilities and Equity - Continued

Restricted Assets

The restricted assets of the Enterprise Funds consist of bond and interest redemption, bond reserve and system improvement deposits. These have been set up in keeping with the bond indenture agreements.

Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Inventories held by the General, Water and Internal Service Funds are not considered material and are not included in these financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

D. Assets, Liabilities and Equity - Continued

Capital Assets - Concluded

Property, plant and equipment are depreciated in the proprietary funds of the government using the straight-line method over the following estimated useful lives:

ASSETS	USEFUL LIFE
Buildings	20-50 years
Public domain infrastructure	20-30 years
Mains and connections	20-100 years
Equipment	10-20 years
Intangibles	3-5 years

Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for nonvesting, unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund that will pay it. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The City has opted to apply the provisions of GASB 34 paragraph 146, which allows the amortizations of premiums, discounts, and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – Concluded

D. Assets, Liabilities and Equity - Concluded

Long-Term Obligations – Concluded

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

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

Use of Estimates

The presentation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: **BUDGETS AND BUDGETARY ACCOUNTING**

Budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue and capital projects funds. All annual appropriations lapse at fiscal year-end.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 2: **BUDGETS AND BUDGETARY ACCOUNTING – Concluded**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance.
4. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the City Council. General Fund expenditures may not legally exceed appropriation at the total fund level.
5. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the City Council from time to time throughout the year. The City amended its budget once during the current fiscal year.
6. Budget appropriations lapse at the end of the fiscal year for all funds, except for certain capital projects which are adopted on a per project basis.

Funds with expenditures in excess of appropriations were as follows:

	AMENDED BUDGET	ACTUAL	VARIANCE
General Fund			
Legislative	\$ 9,216	\$ 9,243	\$(27)
Public safety	234,174	241,266	(7,092)
Special Revenue Funds			
Major street fund	46,436	48,012	(1,576)
Local street fund	81,156	84,064	(2,908)

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 3: **CUSTODIAL CREDIT RISK - DEPOSITS**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned.

The City's deposits are owned by several of the City's funds. At year end, the carrying amount of the primary government's deposits and cash on hand was \$1,055,390 and the bank balance was \$1,087,571. Of the bank balance, \$146,325 was covered by federal depository insurance, and \$941,246 was uninsured and uncollateralized. The government does not have a deposit policy for credit risk.

A reconciliation of cash and investments follows:

	PRIMARY GOVERNMENT	COMPONENT UNITS
Cash on hand	\$ 300	\$
Carrying amount of deposits	1,008,765	249,253
Investments – Certificates of deposit		78,956
Restricted cash	<u>46,325</u>	<u> </u>
TOTAL	<u>\$ 1,055,390</u>	<u>\$ 328,209</u>
Government-Wide		
Statement of Net Assets		
Cash	\$ 959,067	\$ 249,253
Restricted cash	46,325	
Investments – Certificates of deposit		78,956
Statement of Fiduciary Net Assets		
Cash	<u>49,998</u>	<u> </u>
TOTAL	<u>\$ 1,055,390</u>	<u>\$ 328,209</u>

As of June 30, 2007, \$228,389 of the component unit's bank balances and investments in certificates of deposit were uninsured and exposed to custodial credit risk. The component unit does not have a deposit policy for custodial credit risk.

CITY OF POTTERVILLE, MICHIGAN
 NOTES TO FINANCIAL STATEMENTS – Continued
 JUNE 30, 2007

NOTE 4: **RECEIVABLES**

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

	STORM DRAIN SPECIAL ASSESSMENT	SUNSET HILLS SPECIAL ASSESSMENT	WATER FUND	SEWAGE DISPOSAL FUND	TOTAL
Receivables Accounts	\$	\$	\$ 28,260	\$ 26,177	\$ 54,437
Special Assessments Deferred	<u>27,314</u>	<u>54,484</u>	<u>-----</u>	<u>-----</u>	<u>81,798</u>
TOTAL	\$ <u>27,314</u>	\$ <u>54,484</u>	\$ <u>28,260</u>	\$ <u>26,177</u>	\$ <u>136,235</u>

By ordinance, the City can place substantially all of its delinquent receivables on the tax rolls as a lien against real property.

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

	DEFERRED REVENUE	
	UNAVAILABLE	UNEARNED
General Fund Special Assessments Receivable (Debt Service Funds)	\$ <u>81,798</u>	\$ <u>-----</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 5: **CAPITAL ASSETS**

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
PRIMARY GOVERNMENT				
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ <u>223,263</u>	\$ <u>71,500</u>	\$ _____	\$ <u>294,763</u>
Capital assets, being depreciated				
Buildings	531,027	9,600		540,627
Land improvements	1,151,225			1,151,225
Paved roads	2,661,494			2,661,494
Unpaved roads	67,770			67,770
Bike path	<u>273,493</u>	_____	_____	<u>273,493</u>
Total capital assets being depreciated	<u>4,685,009</u>	<u>9,600</u>	_____	<u>4,694,609</u>
Less: accumulated depreciation				
Buildings	79,481	10,914		90,395
Land improvements	934,495	57,561		992,056
Paved roads	1,277,259	88,717		1,365,976
Unpaved roads	29,367	2,259		31,626
Bike path	<u>18,435</u>	<u>11,996</u>	_____	<u>30,431</u>
Total accumulated depreciation	<u>2,339,037</u>	<u>171,447</u>	_____	<u>2,510,484</u>
Net capital assets being depreciated	<u>2,345,972</u>	(<u>161,847</u>)	_____	<u>2,184,125</u>
Net Governmental Activities Capital Assets	<u>\$ 2,569,235</u>	<u>\$ (90,347)</u>	\$ _____	<u>2,478,888</u>
Internal Service Fund Net Capital Assets				<u>86,922</u>
Net Capital Assets per Statement of Net Assets				<u>\$ 2,565,810</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 5: **CAPITAL ASSETS** – Continued

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
PRIMARY GOVERNMENT – Continued				
BUSINESS-TYPE ACTIVITIES				
SEWER				
Capital assets, not being depreciated				
Land	\$ <u>236,363</u>	\$ _____	\$ _____	\$ <u>236,363</u>
Capital assets, being depreciated				
Treatment system	3,449,218			3,449,218
Sewer connection lines	459,697			459,697
Machinery and equipment	<u>12,427</u>	<u>23,871</u>	_____	<u>36,298</u>
Total capital assets being depreciated	<u>3,921,342</u>	<u>23,871</u>	_____	<u>3,945,213</u>
Less: accumulated depreciation				
Treatment system	1,610,545	71,114		1,681,659
Sewer connection lines	306,498	9,194		315,692
Machinery and equipment	<u>12,352</u>	<u>2,512</u>	_____	<u>14,864</u>
Total accumulated depreciation	<u>1,929,395</u>	<u>82,820</u>	_____	<u>2,012,215</u>
Net capital assets being depreciated	<u>1,991,947</u>	(<u>58,949</u>)	_____	<u>1,932,998</u>
Net Sewer Capital Assets	<u>\$ 2,228,310</u>	\$(<u>58,949</u>)	\$ _____	<u>\$ 2,169,361</u>
WATER				
Capital assets, not being depreciated				
Land	\$ <u>23,713</u>	\$ _____	\$ _____	\$ <u>23,713</u>
Capital assets, being depreciated				
Machinery and equipment	718,815	30,913		749,728
Mains and connections	863,948			863,948
Wells and structures	<u>805,592</u>	_____	_____	<u>805,592</u>
Total capital assets being depreciated	<u>2,388,355</u>	<u>30,913</u>	_____	<u>2,419,268</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 5: **CAPITAL ASSETS - Concluded**

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
BUSINESS-TYPE ACTIVITIES – Concluded				
WATER – Concluded				
Less: accumulated depreciation				
Machinery and equipment	\$ 225,133	\$ 16,188	\$	\$ 241,321
Mains and connections	264,366	16,393		280,759
Wells and structures	<u>43,357</u>	<u>17,110</u>	_____	<u>60,467</u>
 Total accumulated depreciation	 <u>532,856</u>	 <u>49,691</u>	 _____	 <u>582,547</u>
 Total capital assets being depreciated, net	 <u>1,855,499</u>	 (<u>18,778</u>)	 _____	 <u>1,836,721</u>
 Water Capital Assets, net	 <u>\$1,879,212</u>	 \$(<u>18,778</u>)	 \$ _____	 <u>\$1,860,434</u>
 Total Capital Assets, net				
Business-type activities	<u>\$4,107,522</u>	<u>\$(77,727)</u>	<u>\$ _____</u>	<u>\$4,029,795</u>

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

Governmental Activities	
Unallocated depreciation	\$ <u>171,447</u>
 Business-Type Activities	
Sewer	\$ 82,820
Water	<u>49,691</u>
 Total depreciation expense -- Business-Type Activities	 <u>\$132,511</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

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

FUND	INTERFUND RECEIVABLES DUE FROM'S		INTERFUND PAYABLES DUE TO'S
PRIMARY GOVERNMENT			
General fund	\$ 84,285	Major streets	\$ 8,327
		Local streets	6,527
		Storm drain maint. fund	1,278
		Equipment fund	36,910
		Tax fund	<u>31,243</u>
Subtotal	<u>84,285</u>	Subtotal	<u>84,285</u>
Equipment fund	67,154	General fund	14,851
		Major streets	6,089
		Local streets	6,221
		Parks	6,692
		Sewer disposal	14,384
		Water supply	<u>18,917</u>
Subtotal	<u>67,154</u>	Subtotal	<u>67,154</u>
Payroll fund	11,256	Major streets	130
		Local streets	104
		Parks	156
		Sewer disposal	768
		Water supply	922
		Equipment fund	111
		General fund	<u>9,065</u>
Subtotal	<u>11,256</u>	Subtotal	<u>11,256</u>
Major streets	5,200	Equipment fund	43,562
Local streets	4,200		
Sewer disposal	5,000		
Water supply	5,000		
Debt service fund	<u>24,162</u>		
Subtotal	<u>43,562</u>	Subtotal	<u>43,562</u>
Storm drain	<u>8,045</u>	Sunset Hills	<u>8,045</u>
Sunset Hills	<u>1,706</u>	Storm drain	<u>1,706</u>
Debt service fund	<u>14,636</u>	Water supply	<u>14,636</u>
Water supply	146,351	General	186,351
Parks	<u>40,000</u>		
Subtotal	<u>186,351</u>	Subtotal	<u>186,351</u>
TOTAL	<u>\$ 416,995</u>	TOTAL	<u>\$ 416,995</u>

All interfund loans were made for operating activities.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 7: CHANGES IN LONG-TERM DEBT

The following is a summary of debt transactions of the City of Potterville for the year ended June 30, 2007:

	GENERAL OBLIGATION BONDS	OTHER DEBT	COMPENSATED ABSENCES	TOTAL
GOVERNMENTAL ACTIVITIES				
Debt payable at July 1, 2006	\$ 800,000	\$ 56,208	\$ 10,412	\$ 866,620
Debt retired	(85,000)	(25,319)	(2,670)	(112,989)
DEBT PAYABLE AT				
JUNE 30, 2007	<u>\$ 715,000</u>	<u>\$ 30,889</u>	<u>\$ 7,742</u>	<u>\$ 753,631</u>

Debt payable at June 30, 2007 is comprised of the following individual issues:

	TOTAL	DUE WITHIN ONE YEAR
GOVERNMENTAL ACTIVITIES		
GENERAL OBLIGATION		
\$400,000 Sunset Hills Special Assessment Bonds, due in annual installments at 5.40% to 5.45% interest, payable from special assessments.	\$ 150,000	\$ 30,000
\$675,000 2006 City of Potterville refunding issue, Building Authority, due in annual installments at 4.35% interest.	565,000	60,000
OTHER DEBT		
COMPENSATED ABSENCES		
Vested sick and vacation pay owed to City employees under various contracts and agreements (this debt is payable from the General Fund and various Special Revenue Funds)	7,742	

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

	TOTAL	DUE WITHIN ONE YEAR
NOTE PAYABLE – BANK		
\$24,000 note payable to Ionia County National Bank for a police car, interest at 5.5%, due in annual installments.	\$ 18,479	\$ 5,863
LEASE PURCHASE AGREEMENT – GMC 1-1/2 TON PICKUP		
\$47,588 Lease Purchase Agreement for a GMC 1-1/2 ton pick up truck at 5.0% interest.	<u>12,410</u>	<u>6,784</u>
	753,631	102,647
Less: amount due within one year	<u>102,647</u>	<u> </u>
 TOTAL LONG-TERM DEBT – GOVERNMENT ACTIVITIES	 <u>\$ 650,984</u>	 <u>\$ 102,647</u>

The annual requirements to amortize debt outstanding other than vested sick and vacation pay as of June 30, 2007 are as follows:

	GENERAL OBLIGATION BONDS	OTHER DEBT	TOTAL
YEAR ENDING JUNE 30,			
2008 Principal	\$ 90,000	\$ 12,647	\$ 102,647
Interest	30,630	1,481	32,111
Total	120,630	14,128	134,758
2009 Principal	100,000	11,792	111,792
Interest	26,168	817	26,985
Total	126,168	12,609	138,777
2010 Principal	100,000	6,450	106,450
Interest	21,488	355	21,843
Total	121,488	6,805	128,293

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 7: CHANGES IN LONG-TERM DEBT – Continued

	GENERAL OBLIGATION BONDS	OTHER DEBT	TOTAL
2011 Principal	\$ 100,000	\$	\$ 100,000
Interest	16,808		16,808
Total	116,808		116,808
2012 Principal	105,000		105,000
Interest	11,019		11,019
Total	116,019		116,019
2013 Principal	80,000		80,000
Interest	7,830		7,830
Total	87,830		87,830
2014 Principal	85,000		85,000
Interest	4,241		4,241
Total	89,241		89,241
2015 Principal	55,000		55,000
Interest	1,196		1,196
Total	56,196		56,196
TOTAL			
Principal	715,000	30,889	745,889
Interest	119,380	2,653	122,033
Total	834,380	33,542	867,922

	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
BUSINESS-TYPE ACTIVITIES			
Debt payable at July 1, 2006	\$ 655,000	\$ 287,000	\$ 942,000
Debt retired	(20,000)	(18,000)	(38,000)
DEBT PAYABLE AT			
JUNE 30, 2007	<u>\$ 635,000</u>	<u>\$ 269,000</u>	<u>\$ 904,000</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 7: **CHANGES IN LONG-TERM DEBT** -- Continued

	TOTAL	DUE WITHIN ONE YEAR
BUSINESS-TYPE ACTIVITIES		
GENERAL OBLIGATION		
\$700,000 2002 Series, General Obligation Limited Tax Bonds, due in annual installments at 4.2% to 7.0% interest.	\$ 635,000	\$ 20,000
REVENUE BONDS		
\$551,000 1979 Series, Sewage Disposal System Revenue Bonds, due in annual installments at 5.0% interest.	<u>269,000</u>	<u>20,000</u>
	904,000	40,000
Less: amount due within one year	<u>40,000</u>	<u> </u>
TOTAL LONG-TERM – BUSINESS-TYPE ACTIVITIES	<u>\$ 864,000</u>	<u>\$ 40,000</u>

The annual requirements to amortize all debt outstanding for the business-type activities as of June 30, 2007 are as follows:

	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
YEAR ENDING JUNE 30,			
2008 Principal	\$ 20,000	\$ 20,000	\$ 40,000
Interest	30,020	13,450	43,470
Total	50,020	33,450	83,470
2009 Principal	20,000	20,000	40,000
Interest	28,620	12,450	41,070
Total	48,620	32,450	81,070
2010 Principal	25,000	20,000	45,000
Interest	27,045	11,450	38,495
Total	52,045	31,450	83,495
2011 Principal	25,000	23,000	48,000
Interest	25,295	10,450	35,745
Total	50,295	33,450	83,745

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Continued

	GENERAL OBLIGATION BONDS	REVENUE BONDS	TOTAL
2012 – 2016			
Principal	\$ 170,000	\$ 127,000	\$ 297,000
Interest	99,105	34,300	133,405
Total	269,105	161,300	430,405
2017 – 2021			
Principal	250,000	59,000	309,000
Interest	53,760	4,500	58,260
Total	303,760	63,500	367,260
2022 – 2023			
Principal	125,000		125,000
Interest	5,355		5,355
Total	130,355		130,355
TOTAL			
Principal	635,000	269,000	904,000
Interest	269,200	86,600	355,800
Total	904,200	355,600	1,259,800

The following is a summary of general obligation bond transactions of the component unit for the year ended June 30, 2007:

	GENERAL OBLIGATION BONDS
Debt payable at July 1, 2006	\$ 445,000
Debt retired	(<u>60,000</u>)
TOTAL	\$ <u>385,000</u>

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS -- Continued
JUNE 30, 2007

NOTE 7: **CHANGES IN LONG-TERM DEBT** – Concluded

The General obligation bond balance as of June 30, 2007, is as follows:

\$270,000, 1988 Series, Limited Tax Development Bonds, due in annual installments at 8.5% to 9.0% interest.	\$ 55,000
\$400,000, 2004 Series, Tax Increment Revenue Bonds, due in annual installments at 2.0% to 4.0% interest.	<u>330,000</u>
	<u>\$ 385,000</u>

The annual principal and interest requirement to amortize notes payable, capital lease obligations, land contracts, and general obligation bonds as of June 30, 2007, is as follows:

YEAR ENDED JUNE 30,		
2008	Principal	\$ 55,000
	Interest	14,943
	Total	69,943
2009	Principal	60,000
	Interest	11,725
	Total	71,725
2010	Principal	35,000
	Interest	9,445
	Total	44,445
2011	Principal	35,000
	Interest	8,260
	Total	43,260
2012	Principal	40,000
	Interest	7,000
	Total	47,000
2013 - 2016	Principal	160,000
	Interest	13,400
	Total	173,400
Total	Principal	385,000
	Interest	64,773
	Total	449,773

CITY OF POTTERVILLE, MICHIGAN
 NOTES TO FINANCIAL STATEMENTS – Continued
 JUNE 30, 2007

NOTE 8: OPERATING TRANSFERS IN/OUT

The following is a schedule of operating transfers between funds for the year ending June 30, 2007:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
Park Fund	\$ 35,000	General Fund	\$ 184,531
Debt Service Fund	127,000	Major Street Fund	40,000
Storm Drain Maintenance Fund	4,000		
Sunset Hills Special Assessment Bond Fund	14,000		
Local Street Fund	40,000		
Winter Tax	<u>4,531</u>		
TOTAL	\$ <u>224,531</u>	TOTAL	\$ <u>224,531</u>

The following is a schedule of operating transfers between the primary government and the joint venture for the year ending June 30, 2007:

FUND	TRANSFERS IN	FUND	TRANSFERS OUT
		Potterville-Benton Township	
Joint Venture	<u>\$ 92,496</u>	Fire Department	<u>\$ 92,496</u>

All operating transfers were made for operating purposes.

NOTE 9: EMPLOYEE RETIREMENT SYSTEMS

Defined Contribution

The City has defined contribution pension plan with the Mass Mutual Life Insurance company which covers 8 to 11 employees who have satisfied eligibility requirements. Each employee becomes eligible after three years of service. Benefits vest according to the following schedule.

YEARS OF SERVICE	VESTED PERCENT
1	20%
2	40%
3	50%
4	80%
5	100%

The formula for determining contributions is based on an employee's annual compensation. The City has elected to contribute 10% of compensation. Employees may make elective deferral contributions up to limits defined by the Internal Revenue Service.

During the year, the City of Potterville's required contributions amounted to \$27,107 which was 10% of its current year covered payroll. However, the City actually contributed \$26,477 which was due for the prior year.

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 10: **DEFERRED COMPENSATION PLAN**

The City of Potterville offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, section 457. The assets of the plan are held in trust, custodial account or annuity contract described in IRC section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian for the exclusive benefit of the participants and beneficiaries of these section 457 plans and the assets may not be diverted to any other use. The administrator is an agent of the employer. The administrator provides direction to the custodian, from time to time, regarding the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB statement No. 32, plan balances and activities are not reflected in the City's financial statements.

NOTE 11: **RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; error and omissions; workers' compensation; and natural disasters. The City participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, error and omissions, physical damage (equipment, building and contents) and workers' compensations. Settlement amounts have not exceeded insurance coverage for the past four years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool pursuant to the provision of Public Act 138 of 1982. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities within the state.

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

NOTE 12: **RELATED PARTY TRANSACTIONS**

The City purchases health insurance from a Council Member's insurance agency. The total premiums paid during the year ended June 30, 2007 were \$72,450.

NOTE 13: **ACCUMULATED FUND DEFICITS**

The City had the following fund deficits at June 30, 2007:

Special Revenue	
Storm Drain Maintenance Fund	\$(<u>144</u>)

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Continued
JUNE 30, 2007

NOTE 14: SEGMENT INFORMATION FOR INDIVIDUAL ENTERPRISE FUNDS

The City maintains three Enterprise Funds which provide equipment rentals, water and sewer services. Segment information for the year ended June 30, 2007, is as follows:

	WATER FUND	SEWER FUND	EQUIPMENT POOL FUND
Current assets	\$ 311,169	\$ 240,266	\$ 36,888
Restricted assets		46,325	
Net capital assets	1,860,434	2,169,361	86,922
Total assets	2,171,603	2,455,952	123,810
Current liabilities	52,769	32,531	39,243
Long-term liabilities	615,000	249,000	18,242
Total liabilities	667,769	281,531	57,485
Net assets invested in capital assets, net of related debt	1,225,434	1,900,361	56,033
Unrestricted net assets	278,400	274,060	10,292
Total net assets	1,503,834	2,174,421	66,325
Charges for services and rentals	237,223	221,738	19,400
Other operating revenues	11,156	10,726	5,137
Depreciation	49,691	82,820	19,484
Other operating expenses	239,674	173,952	36,778
Operating loss	(40,986)	(24,308)	(31,725)
Nonoperating revenues (expenses)	(15,875)	(322)	29,598
Change in net assets	(56,861)	(24,630)	(2,127)
Net assets, beginning	1,560,695	2,199,051	68,452
Net assets, ending	1,503,834	2,174,421	66,325
Net cash provided by (used in)			
Operating activities	19,527	57,143	12,379
Noncapital financing activities	(1,511)	(3,818)	31,500
Capital and related financing activities	(67,284)	(44,521)	(27,453)
Investing activities		2,180	
Cash and cash equivalents – beginning	184,147	201,426	16,287
Cash and cash equivalents – ending	134,879	212,410	32,713

CITY OF POTTERVILLE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS – Concluded
JUNE 30, 2007

NOTE 15: **CONTINGENT LIABILITIES**

A lawsuit has been filed, Darrow, et al v City of Potterville, regarding a claim for damages based upon employment discrimination and sexual harassment. The claim is partially insured. The case is still in discovery and the City has taken an aggressive defense in this cause of action. A Motion for Summary Disposition was filed, which resulted in the dismissal of several claims set forth in the Plaintiffs' Complaint, however they have been allowed to amend the Complaint. The Amended Complaint has not yet been filed. Upon completion of discovery, the City intends to file a renewed Motion for Summary Disposition. No liability has been recorded related to this claim as management believes that any liability that may ultimately result from this case, that is not covered by insurance, will not be material.

Additionally, the City of Potterville is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its operating activities, including zoning and building code issues. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material effect on the City's financial condition or results of operations.

REQUIRED SUPPLEMENTARY INFORMATION

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUES				
Taxes				
Current portion	\$ 460,400	\$ 461,321	\$ 505,194	\$ 43,873
Administration fees	19,000	18,181	18,181	
Trailer court tax	1,200	371	371	
Total Taxes	<u>480,600</u>	<u>479,873</u>	<u>523,746</u>	<u>43,873</u>
Licenses and Permits				
Permits	<u>2,000</u>	<u>680</u>	<u>710</u>	<u>30</u>
State Grants				
State revenue sharing				
Sales and use tax	210,000	218,217	215,305	(2,912)
Liquor licenses	1,000	1,288	1,481	193
Total State Grants	<u>211,000</u>	<u>219,505</u>	<u>216,786</u>	<u>(2,719)</u>
Fines and Forfeits				
	<u>100</u>	<u>209</u>	<u>261</u>	<u>52</u>
Interest and Rents				
Interest	<u>24,000</u>	<u>35,085</u>	<u>37,992</u>	<u>2,907</u>
Other Revenue				
Communication tower lease	15,000	15,125	15,125	
Election reimbursements	1,500			
Miscellaneous	500	34,256	34,994	738
Total Other Revenue	<u>17,000</u>	<u>49,381</u>	<u>50,119</u>	<u>738</u>
TOTAL REVENUES	<u>\$ 734,700</u>	<u>\$ 784,733</u>	<u>\$ 829,614</u>	<u>\$ 44,881</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES				
LEGISLATIVE				
Salaries	\$ 7,500	\$ 6,180	\$ 6,207	\$ (27)
Social security	600	383	383	
Medicare	225	90	90	
State unemployment	150			
Publication	500			
Operating supplies	100			
Service	100	1,563	1,563	
Workers compensation insurance	150			
Liability insurance	1,000	1,000	1,000	
TOTAL LEGISLATIVE	<u>10,325</u>	<u>9,216</u>	<u>9,243</u>	<u>(27)</u>
GENERAL GOVERNMENT				
Mayor				
Wages - part-time	1,500	1,400	1,406	(6)
Social security	120	87	87	
Medicare	45	20	20	
State unemployment	30			
Workers compensation insurance	30			
Total Mayor	<u>1,725</u>	<u>1,507</u>	<u>1,513</u>	<u>(6)</u>
City Manager				
Salaries	36,000	2,885	3,185	(300)
Social security	2,880	179	179	
Medicare	1,080	42	42	
Pension	3,600	288	288	
State unemployment	720	245	245	
Office supplies		243	243	
Health insurance	733	2,166	2,160	6
Workers compensation insurance	720			
Disability and life	300	112	88	24
Liability insurance	150			
Total City Manager	<u>46,183</u>	<u>6,160</u>	<u>6,430</u>	<u>(270)</u>

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND - Continued

FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Continued				
Elections				
Publication	\$ 550	\$ 378	\$ 378	\$
Supplies	500	320	320	
Office supplies	4,000	1,588	1,588	
Contract labor	1,400	1,350	1,350	
Total Elections	<u>6,450</u>	<u>3,636</u>	<u>3,636</u>	
Independent Audit and Accounting				
Professional services	2,200	4,040	4,040	
Treasurer				
Salaries	14,000	16,482	16,353	129
Social security	1,120	737	737	
Medicare	420	172	172	
Pension	1,400	358	358	
State unemployment	280	58	58	
Benton Township 425 tax agreement	10,000	9,282	9,282	
Postage		1,352	1,351	1
Computer software	1,500	4,000	1,505	2,495
Health insurance	2,802	6,227	6,241	(14)
Workers compensation insurance	280			
Disability and life	155	93	77	16
Liability insurance	1,542	1,542	1,542	
Total Treasurer	<u>33,499</u>	<u>40,303</u>	<u>37,676</u>	<u>2,627</u>
Assessor				
Salaries	12,000	12,000	12,052	(52)
Social security	960	744	744	
Medicare	360	174	174	
State unemployment	240			
Publication	500			
Supplies	250	45	45	
Postage	1,000	195	195	
Computer software	500	430	430	
Office supplies	500	500	500	
Workers compensation insurance	240			
Liability insurance	250			
Computer equipment	1,000	1,000	1,000	
Total Assessor	<u>17,800</u>	<u>15,088</u>	<u>15,140</u>	<u>(52)</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
GENERAL GOVERNMENT - Concluded				
Attorney				
Professional services	\$ 34,000	\$ 40,000	\$ 34,641	\$ 5,359
City Clerk's Office				
Salaries	36,000	22,905	22,577	328
Social security	2,880	1,420	1,420	
Medicare	1,080	332	332	
Pension	3,600	1,270	1,270	
State unemployment	720	409	409	
Supplies		97	97	
Health insurance	4,576	5,128	5,314	(186)
Workers compensation insurance	720			
Liability insurance	150			
Disability and life	300	720	537	183
Total City Clerk's Office	<u>50,026</u>	<u>32,281</u>	<u>31,956</u>	<u>325</u>
Board of Review				
Publication	500			
Contract labor	1,200	850	850	
Total Board of Review	<u>1,700</u>	<u>850</u>	<u>850</u>	
Building and Grounds - City Hall				
Publication	2,000	1,535	1,682	(147)
Supplies	6,000	9,882	10,975	(1,093)
Postage	5,000	1,673	1,673	
Repairs and maintenance	500	500	500	
Computer software	2,000	2,014	1,789	225
Service	3,000	5,844	5,844	
Office supplies		1,512	1,511	1
Telephone expense	4,000	7,384	6,434	950
Liability insurance	4,000	4,000	4,000	
Utilities	12,000	12,500	12,486	14
Dues and subscriptions	2,000	1,495	1,495	
Capital outlay	10,000	9,600	9,600	
Total Building and Grounds - City Hall	<u>50,500</u>	<u>57,939</u>	<u>57,989</u>	<u>(50)</u>
TOTAL GENERAL GOVERNMENT	<u>244,083</u>	<u>201,804</u>	<u>193,871</u>	<u>7,933</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
PUBLIC SAFETY				
Police Department				
Salaries	\$ 86,000	\$ 86,416	\$ 88,118	\$ (1,702)
Crossing guard salary	3,000	4,211	4,230	(19)
Social security	6,880	5,352	5,352	
Medicare	2,580	1,251	1,252	(1)
Pension	8,600	8,632	8,632	
State unemployment	1,720	972	972	
Uniform expenses	1,000	524	524	
Supplies	1,000	971	971	
Repairs and maintenance	5,500	5,410		5,410
Computer software	750	2,667	2,667	
Training	1,000	551	551	
Contract labor		53	53	
Radio repairs	500			
Gas and oil	10,000	3,853	3,883	(30)
Health insurance	14,767	9,151	9,905	(754)
Workers compensation insurance	1,720	1,200	1,200	
Disability and life	900	229	157	72
Liability insurance	4,700	4,560	4,560	
Equipment rental			10,057	(10,057)
Miscellaneous	1,000	197	195	2
Police state training	848	848	848	
Total Police Department	<u>152,465</u>	<u>137,048</u>	<u>144,127</u>	<u>(7,079)</u>
Fire Department				
Hydrant rental	<u>92,000</u>	<u>92,496</u>	<u>92,496</u>	
Planning Commission				
Salaries	8,000	2,865	2,877	(12)
Social security	640	177	178	(1)
Medicare	240	42	42	
State unemployment	160	1	1	
Publication	500	323	323	
Liability insurance	1,000	1,000	1,000	
Total Planning Commission	<u>10,540</u>	<u>4,408</u>	<u>4,421</u>	<u>(13)</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Continued				
PUBLIC SAFETY - Concluded				
Zoning Commission				
Publication	\$ 2,000	\$ 222	\$ 222	\$
TOTAL PUBLIC SAFETY	<u>257,005</u>	<u>234,174</u>	<u>241,266</u>	<u>(7,092)</u>
PUBLIC WORKS				
Administration				
Salaries	7,700	6,904	6,934	(30)
Social security	616	428	428	
Medicare	231	100	100	
Pension	770	690	690	
State unemployment	154	71	71	
Uniform expenses	240	541	563	(22)
Publication	300	150	150	
Supplies	800	560	560	
Repairs and maintenance	1,000	1,000	1,000	
Service	1,000			
Health insurance	6,384	11,317	11,660	(343)
Workers compensation insurance	154	115	116	(1)
Disability and life	600	95	83	12
Utilities	340	270	270	
Equipment rental			620	(620)
Total Administration	<u>20,289</u>	<u>22,241</u>	<u>23,245</u>	<u>(1,004)</u>
Street Lights				
Utilities	<u>21,600</u>	<u>19,000</u>	<u>16,533</u>	<u>2,467</u>
TOTAL PUBLIC WORKS	<u>41,889</u>	<u>41,241</u>	<u>39,778</u>	<u>1,463</u>
TOTAL EXPENDITURES	<u>553,302</u>	<u>486,435</u>	<u>484,158</u>	<u>2,277</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	<u>181,398</u>	<u>298,298</u>	<u>345,456</u>	<u>(47,158)</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
OTHER FINANCING USES				
Operating transfers out				
Debt Service	\$ (127,000)	\$ (127,000)	\$ (127,000)	\$
Park Fund	(4,000)	(35,000)	(35,000)	
Storm Drain Maintenance Fund	(4,000)	(4,000)	(4,000)	
Equipment Fund	(31,500)	(31,500)		(31,500)
Winter Tax Fund		(18,189)	(4,531)	(13,658)
Sunset Hills Debt Fund	(14,000)	(14,000)	(14,000)	
TOTAL OTHER				
FINANCING USES	<u>(180,500)</u>	<u>(229,689)</u>	<u>(184,531)</u>	<u>45,158</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES	<u>898</u>	<u>68,609</u>	<u>160,925</u>	<u>92,316</u>
FUND BALANCE, JULY 1	<u>31,141</u>	<u>31,141</u>	<u>31,141</u>	
FUND BALANCE, JUNE 30	<u>\$ 32,039</u>	<u>\$ 99,750</u>	<u>\$ 192,066</u>	<u>\$ 92,316</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUES				
State grants				
State revenue sharing - Act 51	\$ 85,000	\$ 93,026	\$ 92,767	\$ (259)
Interest	1,000	6,292	6,780	488
TOTAL REVENUES	<u>86,000</u>	<u>99,318</u>	<u>99,547</u>	<u>229</u>
EXPENDITURES				
PUBLIC WORKS				
Street Construction				
Engineer fees	200			
Routine Maintenance				
Salaries	5,800	5,990	5,990	
Social security	464	371	371	
Medicare	174	87	87	
Pension	580	599	599	
State unemployment	116	7	7	
Uniform expenses	400	541	563	(22)
Street materials and supplies	2,000	2,544	2,544	
Audit	2,200	6,040	6,040	
Contract labor	200			
Health insurance	2,107	3,667	3,839	(172)
Workers compensation insurance	116			
Liability insurance	3,000	3,724	3,724	
Disability and life	150	77	71	6
Equipment rentals	5,200	5,296	3,877	1,419
Total Routine Maintenance	<u>22,507</u>	<u>28,943</u>	<u>27,712</u>	<u>1,231</u>
Special Maintenance				
Tree trimming	500	500	1,000	(500)

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded				
PUBLIC WORKS - Concluded				
Winter Maintenance				
Salaries	\$ 11,200	\$ 6,328	\$ 6,328	\$
Social security	896	392	392	
Medicare	336	92	92	
Pension	1,120	633	633	
State unemployment	224	134	134	
Street materials and supplies	5,000	5,913	5,913	
Health insurance	1,085	2,099	2,099	
Workers compensation insurance	224			
Disability and life	150	56	56	
Equipment rentals			2,308	(2,308)
Total Winter Maintenance	<u>20,235</u>	<u>15,647</u>	<u>17,955</u>	<u>(2,308)</u>
Traffic Signs				
Street materials and supplies	<u>1,500</u>	<u>1,346</u>	<u>1,345</u>	<u>1</u>
TOTAL PUBLIC WORKS	<u>44,942</u>	<u>46,436</u>	<u>48,012</u>	<u>(1,576)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>41,058</u>	<u>52,882</u>	<u>51,535</u>	<u>(1,347)</u>
OTHER FINANCING USES				
Operating transfers out				
Local Street Fund	<u>(17,000)</u>	<u>(40,000)</u>	<u>(40,000)</u>	
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	24,058	12,882	11,535	(1,347)
FUND BALANCE, JULY 1	<u>127,443</u>	<u>127,443</u>	<u>127,443</u>	
FUND BALANCE, JUNE 30	<u>\$ 151,501</u>	<u>\$ 140,325</u>	<u>\$ 138,978</u>	<u>\$ (1,347)</u>

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

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUES				
State grants				
State revenue sharing - Act 51	\$ 32,000	\$ 36,175	\$ 36,332	\$ 157
Interest and rents				
Interest	500	1,712	1,900	188
TOTAL REVENUES	<u>32,500</u>	<u>37,887</u>	<u>38,232</u>	<u>345</u>
EXPENDITURES				
PUBLIC WORKS				
Routine Maintenance				
Salaries	5,800	5,859	5,859	
Social security	464	363	363	
Medicare	174	85	85	
Pension	580	586	586	
State unemployment	116			
Uniform expenses	400	541	562	(21)
Street materials and supplies	1,500	873	873	
Audit	2,200	6,040	6,040	
Contract labor	1,000	7,100	7,100	
Health insurance	2,107	4,328	4,500	(172)
Workers compensation insurance	116			
Disability and life	150	77	71	6
Liability insurance	3,000	3,229	3,229	
Equipment rentals	4,200	4,200	4,101	99
Tree trimming	500			
Capital outlay		33,618	33,618	
Total Routine Maintenance	<u>22,307</u>	<u>66,899</u>	<u>66,987</u>	<u>(88)</u>
Winter Maintenance				
Salaries	11,200	6,223	6,223	
Social security	896	386	386	
Medicare	336	90	90	
Pension	1,120	622	622	
State unemployment	224	139	139	
Street materials and supplies	5,000	2,470	2,470	
Health insurance	1,085	2,099	2,099	
Workers compensation insurance	224	14	14	
Disability and life	150	56	56	
Equipment rentals			2,120	(2,120)
Tree trimming	1,500	1,700	2,400	(700)
Total Winter Maintenance	<u>21,735</u>	<u>13,799</u>	<u>16,619</u>	<u>(2,820)</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOCAL STREET FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded				
PUBLIC WORKS - Concluded				
Traffic Signs				
Street materials and supplies	\$ 1,000	\$ 458	\$ 458	\$
TOTAL EXPENDITURES	<u>45,042</u>	<u>81,156</u>	<u>84,064</u>	<u>(2,908)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(12,542)</u>	<u>(43,269)</u>	<u>(45,832)</u>	<u>(2,563)</u>
OTHER FINANCING SOURCES				
Operating transfers in Major Street Fund	<u>17,000</u>	<u>40,000</u>	<u>40,000</u>	<u></u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	4,458	(3,269)	(5,832)	(2,563)
FUND BALANCE, JULY 1	<u>35,687</u>	<u>35,687</u>	<u>35,687</u>	<u></u>
FUND BALANCE, JUNE 30	<u>\$ 40,145</u>	<u>\$ 32,418</u>	<u>\$ 29,855</u>	<u>\$ (2,563)</u>

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 Nonmajor Special Revenue Funds include the Park Fund and the Storm Drain Maintenance Fund.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
NON MAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	PARK FUND	STORM DRAIN MAINTENANCE FUND	TOTAL
ASSETS			
Cash	\$ 11,269	\$ 1,134	\$ 12,403
Due from other funds	40,000		40,000
Bond discount	20,000		20,000
TOTAL ASSETS	\$ <u>71,269</u>	\$ <u>1,134</u>	\$ <u>72,403</u>
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 1,898	\$	\$ 1,898
Pension payable	527		527
Accrued payroll	481		481
Due to other funds	6,848	1,278	8,126
TOTAL LIABILITIES	<u>9,754</u>	<u>1,278</u>	<u>11,032</u>
 FUND BALANCE			
Reserved for debt service	61,515		61,515
Reserved for storm drain maintenance		(144)	(144)
TOTAL FUND BALANCE	<u>61,515</u>	<u>(144)</u>	<u>61,371</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>71,269</u>	 \$ <u>1,134</u>	 \$ <u>72,403</u>

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

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Fees and Rents			
3% Cable television	\$ 5,909	\$ 5,909	\$
League fees	11,756	11,756	
Pavillion rent	1,500	1,675	175
Concessions	6,000	6,000	
TOTAL REVENUES	<u>25,165</u>	<u>25,340</u>	<u>175</u>
EXPENDITURES			
Recreation and Culture			
Lake Alliance Maintenance			
Repairs and maintenance	210	210	
Disability and life	56	56	
Equipment rental		2,737	(2,737)
Total Lake Alliance Maintenance	<u>266</u>	<u>3,003</u>	<u>(2,737)</u>
City Park Maintenance			
Supplies	327	328	(1)
Service	1,710	1,710	
Contract labor	728	728	
Health insurance	661	661	
Disability and life	56	56	
Liability insurance	1,000	1,000	
Utilities	294	294	
Equipment rental		3,954	(3,954)
Total City Park Maintenance	<u>4,776</u>	<u>8,731</u>	<u>(3,955)</u>
Ball Field			
Social security	656	656	
Medicare	153	153	
Supplies	10,000	10,819	(819)
Repairs and maintenance	1,912	2,113	(201)
Service	2,368	2,368	
Advertising	890	890	
Trophies and awards	553	553	
Contract labor	32,028	32,509	(481)
Utilities	2,053	2,053	
Total Ball Field	<u>50,613</u>	<u>52,114</u>	<u>(1,501)</u>
Total Recreation and Culture	<u>55,655</u>	<u>63,848</u>	<u>(8,193)</u>

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

	BUDGET	ACTUAL	VARIANCE
EXPENDITURES - Concluded			
Debt Service			
Interest	\$ <u> </u>	\$ <u> 2,500</u>	\$ <u> (2,500)</u>
TOTAL EXPENDITURES	<u> 55,655</u>	<u> 66,348</u>	<u> (10,693)</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u> (30,490)</u>	<u> (41,008)</u>	<u> 10,518</u>
OTHER FINANCING SOURCES			
Operating transfers in General Fund	<u> 35,000</u>	<u> 35,000</u>	<u> </u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES	4,510	(6,008)	(10,518)
FUND BALANCE, JULY 1	<u> 67,523</u>	<u> 67,523</u>	<u> </u>
FUND BALANCE, JUNE 30	<u> 72,033</u>	<u> 61,515</u>	<u> (10,518)</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STORM DRAIN MAINTENANCE FUND
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE
EXPENDITURES			
Public Works			
Contract labor	\$ <u>4,000</u>	\$ <u>4,000</u>	\$ _____
TOTAL EXPENDITURES	<u>4,000</u>	<u>4,000</u>	_____
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(4,000)</u>	<u>(4,000)</u>	_____
OTHER FINANCING SOURCES			
Operating transfers in General Fund	<u>4,000</u>	<u>4,000</u>	_____
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER SOURCES			
FUND BALANCE, JULY 1	<u>(144)</u>	<u>(144)</u>	_____
FUND BALANCE, JUNE 30	<u><u>\$ (144)</u></u>	<u><u>\$ (144)</u></u>	<u><u>\$ _____</u></u>

DEBT SERVICE FUNDS

Debt Service Funds are established to finance and account for the payment of interest and principal on all general obligation debt and revenue bonds issued for and serviced by a governmental enterprise.

The City's Debt Service Funds include the Storm Drain Special Assessment Bond Fund, Sunset Hills Special Assessment Bond Fund and the Debt Service Fund.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
NON MAJOR DEBT SERVICE FUNDS
JUNE 30, 2007

	STORM DRAIN SPECIAL ASSESSMENT BOND FUND	SUNSET HILLS SPECIAL ASSESSMENT BOND FUND	DEBT SERVICE	TOTAL
ASSETS				
Cash	\$	\$ 128,035	\$ 7,203	\$ 135,238
Special assessments	27,314	54,484		81,798
Due from other funds	<u>8,045</u>	<u>1,706</u>	<u>38,798</u>	<u>48,549</u>
TOTAL ASSETS	\$ <u>35,359</u>	\$ <u>184,225</u>	\$ <u>46,001</u>	\$ <u>265,585</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Due to other funds	\$ 1,706	\$ 8,045	\$	\$ 9,751
Deferred revenue	<u>27,314</u>	<u>54,484</u>		<u>81,798</u>
TOTAL LIABILITIES	<u>29,020</u>	<u>62,529</u>		<u>91,549</u>
FUND BALANCE				
Reserved for debt service	<u>6,339</u>	<u>121,696</u>	<u>46,001</u>	<u>174,036</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>35,359</u>	\$ <u>184,225</u>	\$ <u>46,001</u>	\$ <u>265,585</u>

CITY OF POTTERVILLE, MICHIGAN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 STORM DRAIN SPECIAL ASSESSMENT BOND FUND
 FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Special assessments	\$ <u>8,045</u>	\$ <u>8,045</u>	\$ _____
EXCESS OF REVENUES OVER EXPENDITURES	8,045	8,045	
FUND BALANCE, JULY 1	<u>(1,706)</u>	<u>(1,706)</u>	_____
FUND BALANCE, JUNE 30	<u><u>\$ 6,339</u></u>	<u><u>\$ 6,339</u></u>	<u><u>\$ _____</u></u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SUNSET HILLS SPECIAL ASSESSMENT BOND FUND
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE
REVENUES			
Special assessments	\$ <u>21,015</u>	\$ <u>21,015</u>	\$ _____
EXPENDITURES			
Debt service			
Principal	30,000	30,000	
Interest and fiscal charges	<u>9,285</u>	<u>9,285</u>	_____
TOTAL EXPENDITURES	<u>39,285</u>	<u>39,285</u>	_____
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(18,270)</u>	<u>(18,270)</u>	_____
OTHER FINANCING SOURCES			
Transfer in from other funds	<u>14,000</u>	<u>14,000</u>	_____
DEFICIENCY OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES	(4,270)	(4,270)	
FUND BALANCE, JULY 1	<u>125,966</u>	<u>125,966</u>	_____
FUND BALANCE, JUNE 30	\$ <u><u>121,696</u></u>	\$ <u><u>121,696</u></u>	\$ <u><u>_____</u></u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2007

	BUDGET	ACTUAL	VARIANCE
EXPENDITURES			
Loan from water	\$ 14,636	\$	\$ 14,636
Capital outlay - police	6,860		6,860
Capital outlay - DPW	13,350		13,350
Debt service			
Principal	61,424	55,000	6,424
Interest and fiscal charges	26,825	25,999	826
TOTAL EXPENDITURES	<u>123,095</u>	<u>80,999</u>	<u>42,096</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(123,095)</u>	<u>(80,999)</u>	<u>(42,096)</u>
OTHER FINANCING SOURCES			
Transfer in from other funds	<u>127,000</u>	<u>127,000</u>	<u></u>
EXCESS OF REVENUES AND SOURCES OVER EXPENDITURES AND OTHER USES	3,905	46,001	(42,096)
FUND BALANCE, JULY 1	<u></u>	<u></u>	<u></u>
FUND BALANCE, JUNE 30	<u>\$ 3,905</u>	<u>\$ 46,001</u>	<u>\$ 42,096</u>

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 City operates its Water Supply and Sewage Disposal as Enterprise Funds.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

WATER SUPPLY SYSTEM

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$	134,879
Accounts receivable		28,260
Due from other funds		151,351
Prepaid expenses		1,679
TOTAL CURRENT ASSETS		316,169

CAPITAL ASSETS

Land		23,713
Mains and connections		863,948
Wells and controls		805,592
Machinery and equipment		749,728
		2,442,981
Less: accumulated depreciation		(582,547)
NET CAPITAL ASSETS		1,860,434
TOTAL ASSETS	\$	2,176,603

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	3,831
Accrued payroll		1,165
Accrued interest payable		7,402
Pension payable		2,415
Due to other funds		34,475
Accrued compensated absences		2,399
TOTAL CURRENT LIABILITIES		51,687

CURRENT LIABILITIES PAYABLE
FROM RESTRICTED ASSETS

Current portion of long-term debt Water system bonds		20,000
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LONG-TERM LIABILITIES

Revenue bonds payable		615,000
TOTAL LIABILITIES		686,687

NET ASSETS

Invested in capital assets, net of related debt		1,225,434
Unrestricted		264,482
TOTAL NET ASSETS		1,489,916
TOTAL LIABILITIES AND NET ASSETS	\$	2,176,603

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
WATER SUPPLY SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES

Charges for services		
Sales	\$	237,223
Other revenue		
Penalties on delinquent accounts		8,884
Miscellaneous		2,272
TOTAL OPERATING REVENUES		248,379

OPERATING EXPENSES

Public Works		
Administration and General		
Salaries		25,413
Social security		1,252
Medicare		293
Pension		917
State unemployment		160
Uniform expense		805
Liability insurance		3,229
Computer software		2,326
Operating supplies		1,631
Postage		1,191
Legal		5,092
Professional services		6,040
Engineer fees		1,986
Contract labor		(304)
Membership and dues		50
Publications		94
Health insurance		8,079
Workers Compensation insurance		525
Disability and life insurance		90
Utilities		4,199
Miscellaneous		4,539
Total Administrative and General Expenses		67,607

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
WATER SUPPLY SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING EXPENSES - Concluded	
Collection and Distribution	
Salaries	\$ 63,787
Social security	3,972
Medicare	929
Pension	6,407
State unemployment	850
Operating supplies and capital outlay	49,430
Service	12,860
Meters	1,923
Office supplies	38
Health insurance	9,218
Workers Compensation insurance	1,000
Disability and life insurance	110
Utilities	16,544
Equipment rental	18,917
Depreciation	<u>49,691</u>
Total Collection and Distribution	<u>235,676</u>
TOTAL EXPENDITURES	<u>303,283</u>
OPERATING LOSS	<u>(54,904)</u>
NONOPERATING REVENUES (EXPENSES)	
Hook-up fees	15,300
Interest and fiscal charges	<u>(31,175)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(15,875)</u>
CHANGES IN NET ASSETS	(70,779)
NET ASSETS, JULY 1	<u>1,560,695</u>
NET ASSETS, JUNE 30	\$ <u><u>1,489,916</u></u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Customers and other revenues	\$ 244,033
Suppliers for goods and services	(134,447)
Employees for services	(90,059)
	<u>19,527</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Restricted cash	6,118
Customer deposits payable	(7,629)
	<u>(1,511)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds	
Hook up fees	15,300
Acquisition of capital assets	(30,913)
Debt	
Principal	(20,000)
Interest	(31,671)
	<u>(67,284)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
NET DECREASE IN CASH AND CASH EQUIVALENTS	
	(49,268)
CASH AND CASH EQUIVALENTS, JULY 1	<u>184,147</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u>\$ 134,879</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF OPERATING INCOME	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ <u>(54,904)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	49,691
(Increase) decrease in current assets	
Accounts receivable	(4,346)
Due from other funds	(5,000)
Prepaid expenses	1,298
Increase (decrease) in current liabilities	
Accounts payable	94
Accrued payroll	96
Accrued compensated absences	(955)
Due to other funds	<u>33,553</u>
TOTAL ADJUSTMENTS	<u>74,431</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 19,527</u></u>

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

SEWAGE DISPOSAL SYSTEM

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 212,410
Accounts receivable	26,177
Due from other funds	5,000
Prepaid expenses	1,679
	245,266

TOTAL CURRENT ASSETS

RESTRICTED ASSETS

Cash	46,325
------	--------

CAPITAL ASSETS

Land	236,363
Treatment systems	83,377
Collection lines	3,825,538
Machinery and equipment	36,298
	4,181,576

Less: accumulated depreciation	(2,012,215)
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NET CAPITAL ASSETS 2,169,361

TOTAL ASSETS \$ 2,460,952

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 3,769
Accrued payroll	866
Accrued interest payable	2,211
Pension payable	2,443
Due to other funds	15,152
Accrued compensated absences	2,474
	26,915

TOTAL CURRENT LIABILITIES 26,915

CURRENT LIABILITIES PAYABLE

FROM RESTRICTED ASSETS

Current portion of long-term debt	
Revenue bonds payable	20,000
	20,000

LONG-TERM LIABILITIES

Revenue bonds payable	249,000
	249,000

TOTAL LIABILITIES 295,915

NET ASSETS

Invested in capital assets, net of related debt	1,900,361
Unrestricted	264,676
	2,165,037

TOTAL NET ASSETS 2,165,037

TOTAL LIABILITIES AND NET ASSETS \$ 2,460,952

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
SEWAGE DISPOSAL SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES

Charges for services		
Sales	\$	221,738
Other revenue		
Penalties on delinquent accounts		10,161
Miscellaneous		565
		232,464
TOTAL OPERATING REVENUES		232,464

OPERATING EXPENSES

Public Works		
Administration and General		
Salaries		26,830
Social security		1,339
Medicare		313
Pension		1,059
State unemployment		236
Uniform expenses		563
Publications		576
Liability insurance		7,244
Computer software		2,326
Operating supplies		1,707
Postage		882
Legal		4,539
Professional services		6,040
Contract labor		(304)
Conference and workshops		395
Health insurance		7,812
Workers compensation insurance		525
Disability and life insurance		90
Utilities		9,491
Miscellaneous		4,285
		75,948
Total Administrative and General		75,948

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
SEWAGE DISPOSAL SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING EXPENSES - Concluded

Collection and Distribution

Salaries	\$	30,165
Social security		1,902
Medicare		445
Pension		3,696
State unemployment		186
Operating supplies		8,692
Repairs and maintenance		2,365
Service		24,082
Health insurance		8,530
Workers compensation insurance		1,035
Disability and life insurance		110
Utilities		11,796
Equipment rental		14,384
Depreciation		82,820

Total Collection and Distribution		<u>190,208</u>
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TOTAL EXPENDITURES		<u>266,156</u>
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OPERATING LOSS		<u>(33,692)</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income		2,180
Hook-up fees		11,700
Interest and fiscal charges		<u>(14,202)</u>

TOTAL NONOPERATING REVENUES (EXPENSES)		<u>(322)</u>
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CHANGE IN NET ASSETS		(34,014)
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NET ASSETS, JULY 1		<u>2,199,051</u>
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NET ASSETS, JUNE 30	\$	<u><u>2,165,037</u></u>
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CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
SEWAGE DISPOSAL SYSTEM
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Customers and other revenues	\$ 230,412
Suppliers for goods and services	(115,193)
Employees for services	(58,076)
	<u>57,143</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Restricted cash	3,811
Customer deposits payable	(7,629)
	<u>(3,818)</u>
NET CASH USED IN NONCAPITAL FINANCING ACTIVITIES	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(23,871)
Proceeds from hook-up fees	11,700
Principal payments on debt	(18,000)
Interest	(14,350)
	<u>(44,521)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>2,180</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	
	10,984
CASH AND CASH EQUIVALENTS, JULY 1	<u>201,426</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 212,410</u></u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
SEWAGE DISPOSAL SYSTEM - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF OPERATING LOSS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ <u>(33,692)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	82,820
(Increase) decrease in current assets	
Accounts receivable	(2,052)
Prepaid expenses	1,297
Due from other funds	(5,000)
Increase (decrease) in current liabilities	
Accounts payable	467
Accrued payroll	(292)
Due to other funds	14,384
Accrued compensated absences	<u>(789)</u>
TOTAL ADJUSTMENTS	<u>90,835</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 57,143</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 Equipment Pool Fund is operated as an Internal Service Fund.

CITY OF POTTERVILLE, MICHIGAN

STATEMENT OF NET ASSETS

EQUIPMENT POOL FUND

JUNE 30, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 32,713
Due from other funds	67,154
	<hr/>
TOTAL CURRENT ASSETS	99,867

CAPITAL ASSETS

Vehicles	157,106
Machinery and equipment	134,286
	<hr/>
	291,392
Less: accumulated depreciation	(204,470)
	<hr/>
NET CAPITAL ASSETS	86,922
	<hr/>
TOTAL ASSETS	\$ 186,789

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 474
Due to other funds	80,583
Accrued payroll	131
Pension payable	377
Accrued interest payable	781
Accrued compensated absences	560
Current portion of long-term debt	12,647
	<hr/>
TOTAL CURRENT LIABILITIES	95,553

LONG-TERM LIABILITIES

Note payable-2001 GMC Truck	5,626
Note payable-2005 Crown Victoria	12,616
	<hr/>
TOTAL LONG-TERM LIABILITIES	18,242
	<hr/>
TOTAL LIABILITIES	113,795

NET ASSETS

Invested in capital assets, net of related debt	56,033
Unrestricted	16,961
	<hr/>
TOTAL NET ASSETS	72,994
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 186,789

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
EQUIPMENT POOL FUND
FOR THE YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Equipment rental	\$ 62,979
Other income	
Miscellaneous	5,137
TOTAL REVENUES	<u>68,116</u>
OPERATING EXPENSES	
Equipment Pool Activities	
Salaries	6,503
Social security	424
Medicare	99
Pension	683
State unemployment	71
Supplies	2,567
Repairs and maintenance	8,360
Service	101
Gas	6,774
Health insurance	793
Workers compensation insurance	176
Liability insurance	7,116
Disability and life	56
Utilities	5,965
Miscellaneous	2,500
Depreciation expense	19,484
TOTAL OPERATING EXPENSES	<u>61,672</u>
OPERATING INCOME	<u>6,444</u>
NON OPERATING REVENUES (EXPENSES)	
Interest expense	(1,902)
Transfer in from other funds	
TOTAL NON OPERATING REVENUES (EXPENSES)	<u>(1,902)</u>
CHANGE IN NET ASSETS	4,542
NET ASSETS, JULY 1	<u>68,452</u>
NET ASSETS, JUNE 30	<u>\$ 72,994</u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
EQUIPMENT POOL FUND
FOR THE YEAR ENDED JUNE 30, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Customers and other revenues	\$ 6,114
Suppliers for goods and services	44,595
Employees for services	<u>(6,830)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>43,879</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments on debt	(25,318)
Interest	<u>(2,135)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(27,453)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,426
CASH AND CASH EQUIVALENTS, JULY 1	<u>16,287</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 32,713</u></u>

CITY OF POTTERVILLE, MICHIGAN
STATEMENT OF CASH FLOWS
EQUIPMENT POOL FUND - Concluded
FOR THE YEAR ENDED JUNE 30, 2007

RECONCILIATION OF OPERATING LOSS	
TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ <u>6,444</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	19,484
Loss on disposal of equipment	977
(Increase) decrease in current assets	
Due from other funds	(62,979)
Increase (decrease) in current liabilities	
Accounts payable	(192)
Due to other funds	80,472
Accrued compensated absences	<u>(327)</u>
TOTAL ADJUSTMENTS	<u>37,435</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 43,879</u></u>

PERMANENT FUND

The permanent fund exists to account for resources legally held in trust to be used for Imagination Station Park Fund.

CITY OF POTTERVILLE, MICHIGAN
BALANCE SHEET
PERMANENT FUND
IMAGINATION STATION PARK FUND
JUNE 30, 2007

ASSETS

Cash

\$ 5,399

LIABILITIES AND FUND BALANCE

FUND BALANCE

Reserved for park

\$ 5,399

CITY OF POTTERVILLE, MICHIGAN
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 PERMANENT FUND
 IMAGINATION STATION PARK
 YEAR ENDED JUNE 30, 2007

REVENUES	
Interest and rents	\$ <u>145</u>
EXPENDITURES	<u> </u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>145</u>
FUND BALANCE, JULY 1	<u>5,254</u>
FUND BALANCE, JUNE 30	\$ <u><u>5,399</u></u>

FIDUCIARY FUNDS

Fiduciary Funds are established to administer resources received and held by a governmental unit as the trustee or as the agent for others. Use of these funds facilitates the discharge of responsibilities placed upon the governmental unit by virtue of law or other similar authority.

In this category, the City administers the transactions of the Current and Delinquent Tax Funds and Imprest Payroll Fund.

CITY OF POTTERVILLE, MICHIGAN

FIDUCIARY FUNDS

COMBINING BALANCE SHEET

JUNE 30, 2007

	EXTERNAL AGENCY FUNDS	
	CURRENT TAX	WINTER TAX
ASSETS		
Cash	\$ 43,214	\$ (2,697)
Due from Other funds County	38,151	
TOTAL ASSETS	\$ 81,365	\$ (2,697)
LIABILITIES		
Due to Other governmental units	\$ 35,815	\$ (2,697)
State of Michigan	4,320	
Other funds	31,243	
Component unit	9,987	
Payroll withholdings payable		
Pension payable		
TOTAL LIABILITIES	\$ 81,365	\$ (2,697)

EXTERNAL AGENCY FUNDS <u>DELINQUENT TAX</u>	TOTAL EXTERNAL <u>AGENCY FUNDS</u>	INTERNAL AGENCY FUNDS <u>IMPREST PAYROLL</u>
\$ 913	\$ 41,430	\$ 8,568
		11,256
<u>\$ 913</u>	<u>\$ 38,151</u>	<u>\$ 19,824</u>
<u>\$ 913</u>	<u>\$ 79,581</u>	<u>\$ 19,824</u>
		(496)
		20,320
<u>\$ 913</u>	<u>\$ 34,031</u>	<u>\$ 19,824</u>
	4,320	
	31,243	
	9,987	
<u>\$ 913</u>	<u>\$ 79,581</u>	<u>\$ 19,824</u>

SUPPLEMENTARY INFORMATION

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING
JUNE 30, 2007

TITLE OF ISSUE: 1979 Series, Sewage Disposal System Revenue Bonds

PURPOSE: Construction of Sanitary Sewage Disposal System

DATE OF ISSUE: November 1, 1979

AMOUNT OF ISSUE \$ 551,000

AMOUNT REDEEMED:

Prior to current period	\$ 264,000	
During current period	<u>18,000</u>	<u>282,000</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 269,000

SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIRMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
May 1, 2008	5.00%	\$ 33,450	\$ 13,450	\$ 20,000
May 1, 2009	5.00%	32,450	12,450	20,000
May 1, 2010	5.00%	31,450	11,450	20,000
May 1, 2011	5.00%	33,450	10,450	23,000
May 1, 2012	5.00%	32,300	9,300	23,000
May 1, 2013	5.00%	33,150	8,150	25,000
May 1, 2014	5.00%	31,900	6,900	25,000
May 1, 2015	5.00%	32,650	5,650	27,000
May 1, 2016	5.00%	31,300	4,300	27,000
May 1, 2017	5.00%	30,950	2,950	28,000
May 1, 2018	5.00%	<u>32,550</u>	<u>1,550</u>	<u>31,000</u>
		<u>\$ 355,600</u>	<u>\$ 86,600</u>	<u>\$ 269,000</u>

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Continued
JUNE 30, 2007

TITLE OF ISSUE: Lease Purchase Agreement for a John Deere 2WD Tractor Loader		
PURPOSE: Purchase John Deere Backhoe		
DATE OF ISSUE: July 1, 2004		
AMOUNT OF ISSUE		\$ 40,030
AMOUNT REDEEMED:		
Prior to current period	\$ 26,686	
During current period	<u>13,344</u>	<u>40,030</u>
BALANCE OUTSTANDING, JUNE 30, 2007		\$ <u> </u>

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING -- Continued
JUNE 30, 2007

TITLE OF ISSUE: Purchase Agreement for a 2006 Ford Crown Victoria Police Car

PURPOSE: Purchase 2006 Ford Crown Victoria Police Car

DATE OF ISSUE: September 22, 2006

AMOUNT OF ISSUE \$ 24,000

AMOUNT REDEEMED:

Prior to current period	\$		
During current period		<u>5,521</u>	<u>5,521</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 18,479

SCHEDULE OF PRINCIPAL AND INTEREST REQUIRMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
September 22, 2007	5.50%	\$ 6,860	\$ 997	\$ 5,863
September 22, 2008	5.50%	6,860	694	6,166
September 22, 2009	5.50%	<u>6,804</u>	<u>354</u>	<u>6,450</u>
		<u>\$ 20,524</u>	<u>\$ 2,045</u>	<u>\$ 18,479</u>

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Continued
JUNE 30, 2007

TITLE OF ISSUE: Lease Purchase Agreement for GMC 1 ½ ton Pickup Truck

PURPOSE: Purchase GMC 1 ½ ton Pickup Truck

DATE OF ISSUE: May 7, 2001

AMOUNT OF ISSUE \$ 47,589

AMOUNT REDEEMED:

Prior to current period	\$ 28,725	
During current period	<u>6,454</u>	<u>35,179</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 12,410

SCHEDULE OF PRINCIPAL AND INTEREST REQUIRMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
June 30, 2008	5.00%	\$ 7,250	\$ 466	\$ 6,784
June 30, 2009	5.00%	<u>5,749</u>	<u>123</u>	<u>5,626</u>
		<u>\$ 12,999</u>	<u>\$ 589</u>	<u>\$ 12,410</u>

Payments are due monthly at \$604.18 and include interest at 5.00%.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Continued
JUNE 30, 2007

TITLE OF ISSUE: Sunset Hills Special Assessment Bonds

PURPOSE: Construction Sewer Lift Station

DATE OF ISSUE: November 27, 1997

AMOUNT OF ISSUE \$ 400,000

AMOUNT REDEEMED:

Prior to current period	\$ 220,000	
During current period	<u>30,000</u>	<u>250,000</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 150,000

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
October 1, 2007	5.45%	\$ 34,088	\$ 4,088	\$ 30,000
April 1, 2008	5.45%	3,270	3,270	
October 1, 2008	5.45%	33,270	3,270	30,000
April 1, 2009	5.45%	2,453	2,453	
October, 2009	5.45%	32,453	2,453	30,000
April 1, 2010	5.45%	1,635	1,635	
October 1, 2010	5.45%	31,635	1,635	30,000
April 1, 2011	5.45%	818	818	
October 1, 2011	5.45%	<u>30,818</u>	<u>818</u>	<u>30,000</u>
		<u>\$ 170,440</u>	<u>\$ 20,440</u>	<u>\$ 150,000</u>

PRIOR REDEMPTION

Bonds of this issue, maturing the years 1997 to 2007, inclusive, are not subject to redemption prior to maturity. After October 1, 2007, but prior to October 1, 2008, bonds are subject to optional redemption in whole or in part at a premium of 1% of par value. After October 1, 2008, bonds are subject to optional redemption in or in part at par value.

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Continued
JUNE 30, 2007

TITLE OF ISSUE: 2007 Refunding Building Authority Bonds

PURPOSE: Construct Recreational Facilities

DATE OF ISSUE:

AMOUNT OF ISSUE \$ 675,000

AMOUNT REDEEMED:

Prior to current period	\$ 55,000	
During current period	<u>55,000</u>	<u>110,000</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 565,000

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
November 1, 2007	4.35%	\$ 72,289	\$ 12,289	\$ 60,000
May 1, 2008	4.35%	10,984	10,984	
November 1, 2008	4.35%	80,984	10,984	70,000
May 1, 2009	4.35%	9,461	9,461	
November, 2009	4.35%	79,461	9,461	70,000
May 1, 2010	4.35%	7,939	7,939	
November 1, 2010	4.35%	77,939	7,939	70,000
May 1, 2011	4.35%	6,416	6,416	
November 1, 2011		81,416	6,416	75,000
May 1, 2012		4,785	4,785	
November 1, 2012		84,785	4,785	80,000
May 1, 2013		3,045	3,045	
November 1, 2013		88,045	3,045	85,000
May 1, 2014		1,196	1,196	
November 1, 2014		<u>56,196</u>	<u>1,196</u>	<u>55,000</u>
		<u>\$ 664,941</u>	<u>\$ 99,941</u>	<u>\$ 565,000</u>

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Continued
JUNE 30, 2007

TITLE OF ISSUE: 2002 General Obligation Limited Tax Bonds

PURPOSE: Construct Water Well

DATE OF ISSUE: November 1, 2002

AMOUNT OF ISSUE \$ 700,000

AMOUNT REDEEMED:

Prior to current period	\$ 45,000	
During current period	<u>20,000</u>	<u>65,000</u>

BALANCE OUTSTANDING, JUNE 30, 2007 \$ 635,000

SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
October 1, 2007	7.00%	\$ 35,360	\$ 15,360	\$ 20,000
April 1, 2008	7.00%	14,660	14,660	
October 1, 2008	7.00%	34,660	14,660	20,000
April 1, 2009	7.00%	13,960	13,960	
October, 2009	7.00%	38,960	13,960	25,000
April 1, 2010	7.00%	13,085	13,085	
October 1, 2010	7.00%	38,085	13,085	25,000
April 1, 2011	7.00%	12,210	12,210	
October 1, 2011	7.00%	42,210	12,210	30,000
April 1, 2012	6.50%	11,160	11,160	
October 1, 2012	6.50%	41,160	11,160	30,000
April 1, 2013	4.20%	10,185	10,185	
October 1, 2013	4.20%	45,185	10,185	35,000
April 1, 2014	4.20%	9,450	9,450	
October 1, 2014	4.20%	44,450	9,450	35,000
April 1, 2015	4.20%	8,715	8,715	
October 1, 2015	4.20%	48,715	8,715	40,000
April 1, 2016	4.20%	7,875	7,875	
October 1, 2016	4.20%	52,875	7,875	45,000
April 1, 2017	4.20%	6,930	6,930	
October 1, 2017	4.20%	51,930	6,930	45,000
April 1, 2018	4.20%	5,985	5,985	
October 1, 2018	4.20%	55,985	5,985	50,000
April 1, 2019	4.20%	4,935	4,935	
October 1, 2019	4.20%	59,935	4,935	55,000

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF DEBT OUTSTANDING – Concluded
JUNE 30, 2007

2002 General Obligation Limited Tax Bonds - Concluded

DUE DATES	RATE	TOTAL	INTEREST	PRINCIPAL
April 1, 2020	4.20%	\$ 3,780	\$ 3,780	\$
October 1, 2020	4.20%	58,780	3,780	55,000
April 1, 2021	4.20%	2,625	2,625	
October 1, 2021	4.20%	62,625	2,625	60,000
April 1, 2022	4.20%	1,365	1,365	
October 1, 2022	4.20%	<u>66,365</u>	<u>1,365</u>	<u>65,000</u>
		<u>\$ 904,200</u>	<u>\$ 269,200</u>	<u>\$ 635,000</u>

PRIOR REDEMPTION

Bonds maturing on or before October 1, 2011 are not subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 maturing on or after October 1, 2012 shall be subject to redemption without premium, at the option of the City, in such order as the City shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2011, at par and accrued interest to the date fixed for redemption.



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

Honorable Mayor and City Council
City of Pottersville
Pottersville, Michigan

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We have audited the accompanying 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 City of Pottersville, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Pottersville, Michigan's basic financial statements and have issued our report thereon dated March 27, 2008. 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 Pottersville, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pottersville, 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 Pottersville, 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 Pottersville, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Pottersville, Michigan's internal control.

The City of Pottersville, Michigan's written responses to the significant deficiencies and material weaknesses identified in our audit and listed in the attached Schedule of Findings, have not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

We consider the following deficiencies to be significant deficiencies in internal control:

2007-3, 2007-4

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 Potterville, Michigan's internal control.

We consider the following deficiencies to be material weaknesses in internal control:

2007-1, 2007-2

Our consideration of the internal control over financial reporting was for the limited purposes 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 the significant deficiencies described in the preceding paragraph are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Potterville, 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Potterville, Michigan, in a separate letter dated March 27, 2008.

This report is intended solely for the information and use of the City Council, management and state and federal agencies. However, this report is a matter of public record and its distribution is not limited.

Hayton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
March 27, 2008

CITY OF POTTERVILLE, MICHIGAN
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

- 2007-1 Understanding of Generally Accepted Accounting Principles – The City of Potterville, Michigan does not have an individual with sufficient formal training, prior experience or working knowledge of generally accepted accounting principles to properly apply them in preparing its financial statements in accordance with generally accepted accounting principles.
- 2007-2 Reconciliation of Tax Fund – The City of Potterville, Michigan does not reconcile the tax fund on a regular basis.
- 2007-3 Reconciliation of Bank Statements – The City of Potterville, Michigan did not perform monthly bank reconciliations on a timely basis.
- 2007-4 Reconciliation of Utility Accounts Receivable – The City of Potterville, Michigan did not perform monthly reconciliations of the Aged Utility Accounts Receivable report to the general ledger.

MANAGEMENT RESPONSES



Layton & Richardson, P.C.

Certified Public Accountants

LETTER OF COMMENTS AND RECOMMENDATIONS

Honorable Mayor and City Council
City of Potterville
Potterville, Michigan

We have audited the financial statements of the CITY OF POTTERVILLE, MICHIGAN for the year ended June 30, 2007, and have issued our report thereon dated March 27, 2008. 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 Potterville 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 Potterville may occur and not be detected within a timely period.

We noted the following recommendations concerning internal control weaknesses during the audit.

PRIOR YEAR RECOMMENDATIONS

CASH RECEIPTS

- 05-1 We noted a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system of The City of Potterville will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member of The City of Potterville's personnel. The following procedures should be enacted to ensure efficient internal control:
 - 05-1a One employee, preferably a non-accounting person, should open the mail, make a control list of all receipts, and restrictively endorse all items received as "FOR DEPOSIT ONLY, CITY OF POTTERVILLE." **Current year status: This recommendation has not been implemented.**

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PRIOR YEAR RECOMMENDATIONS - Continued

CASH RECEIPTS - Concluded

- 05-1b The receipts should then go to another employee for further processing and deposit to the bank on a timely basis. Once endorsed, checks should remain within the control of accounting personnel. We further recommend that they be put in a locked location as soon as they are endorsed. No cash or checks should be left in the open. Receipts should be deposited daily. **Current year status: This recommendation has not been implemented.**

CASH DISBURSEMENTS

- 05-2 After the council approves invoices, they should be initialed to indicate that they have been approved for payment. This will ensure that no checks are written without authorization. When checks are given to the check signers, the relevant invoice should be attached. This will ensure that checks are written correctly. Once the checks have been signed, they should be forwarded to a person independent of the accounts payable function for mailing. **Current year status: This recommendation has not been implemented.**
- 05-3 During our audit, we noted that paid invoices could be distinguished from unpaid invoices only by check vouchers that are attached to paid invoices. Check vouchers can at times become detached from paid invoices. Without having some notation of payment on the invoice, the check writer could inadvertently pay this invoice a second time. We would like to recommend the use of a "PAID" stamp or some other consistent method of defacing the invoice. This will ensure proper cancellation of invoices after payment, and should help prevent double payment on invoices. We further recommend that the check number, date, and general ledger account be written on the invoice. **Current year status: During our audit testing this year, we noted instances where invoices were not marked "Paid". We continue to recommend full implementation of this recommendation.**
- 05-4 During our audit, we noted no indication that vendor invoices were checked to the approved purchasing documents or extensions, footings, discounts and freight terms checked for accuracy. We recommend these items be implemented and that their performance is indicated on the face of the original invoice. **Current year status: During our audit testing this year, we noted no documentation of checking of vendor invoices. We continue to recommend full implementation of this recommendation.**
- 05-5 During the audit, we noted that a member of the accounting personnel presently has check signing authority, access to blank checks and prepares cash disbursements. We recommend that check signers not be accounting personnel. If a signature stamp is used, it should be kept secure by the authorized signer at all times. **Current year status: This recommendation has not been implemented. Specifically, the City Manager/Clerk should not be a check signer because of all the other accounting duties he is responsible for.**
- 05-6 We noted during our audit that Potterville hand writes checks without the benefit of a check protector device. The use of this procedure opens the possibility of check value alterations. We also noted that a hand written check had not been entered into the general ledger. We recommend the City of Potterville eliminate the use of hand written checks and convert all check writing to the automated system currently used for most check writing. Converting to the automated system will improve the control over these accounts. **Current year status: This recommendation has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

CASH DISBURSEMENTS – Concluded

- 05-7 We noted during our audit that Potterville’s current operating cash account provides them with images of the face only of their canceled checks. Review of canceled checks for endorsements is impossible under this account, which weakens internal controls over cash. We recommend that Potterville make arrangements with the bank to have online access to their account, which would enable them to view the scanned images of both the front and back of the canceled checks. The ability to review all canceled checks is critically important to maintaining a strong system of cash controls. We further recommend that the reconciliation procedure include a comparison of canceled checks with the disbursement journal as to number, date, payee, and amount. **Current year status: This recommendation has not been implemented.**
- 05-8 We noted during our audit that Potterville does not perform independent random checks on bank reconciliations and investigations of checks that fail to clear the bank. We recommend that a person independent of the accounting function perform random checks of bank reconciliations and investigate any checks that fail to clear the bank. **Current year status: This recommendation has not been implemented.**

CASH

- 05-9 Outstanding transfers among accounts are reflected on the bank reconciliations as “Deposits in Transit”. Amounts owing from one fund to another should be recorded in the appropriate due to/from accounts until the transfer is made. This way the cash account balances and due to/from balances are not over/under stated. Payroll transfers were treated in a similar manner when the transfer occurred in one month for the previous or subsequent month. Rather than being reflected in the bank reconciliation as a Deposit in Transit, such amounts should be posted to the appropriate due to/from accounts or payroll liability accounts when the transfer takes place, if different than the actual pay date. **Current year status: This recommendation has been implemented.**

PAYROLL

- 05-10 We observed during our audit that one person is responsible for preparing payroll input, reviewing the payroll journals, finalizing each payroll for employees, and acts as an authorized check signer. This combination of duties significantly increases the chance of an error or irregularity going unnoticed. We recommend that whoever prepares the payroll is not also an authorized check signer and someone completely independent of the process review the payroll journals for accuracy. **Current year status: This recommendation has not been implemented. There is not independent review of payroll processing and entry.**
- 05-11 Some employee files are missing payroll deduction authorization forms. We recommend all deductions have an authorization form filled out and kept in the employee file. Pay rates, in writing from the authorized official, should also be kept in each employee’s file. When payroll is prepared, the file should be compared with the payroll system rate. This will ensure that only authorized deductions are being deducted from employees’ payroll and the correct rate of employee pay is applied. **Current year status: A number of employee files tested this year did not contain W-4 forms, or had W-4 forms that were over three years old. We continue to recommend full implementation of this recommendation.**
- 05-12 During our audit, we noted that withholding amounts on several payrolls did not agree with withholding amounts manually determined using employees withholding information and taxing authority circulars. We recommend that quarterly random checks be made to compare the payroll system determined withholding amounts with withholding determined manually and the cause of the differences investigated and corrected. **Current year status: This recommendation has not been implemented, and exceptions were noted this year as well.**

PRIOR YEAR RECOMMENDATIONS – Continued

UTILITY BILLINGS

- 05-13 During our audit we noted that the utility billings were not reviewed by someone other than the preparer. We recommend that someone other than the person preparing the billings review the billing reports for accuracy. We further recommend that adjustments not be made by the person who prepares the billing and that any billing adjustment is reviewed by the City Manager. This will prevent errors being overlooked and accounts being adjusted without approval. We also noted that the utility receivables report is not reconciled to the general ledger. We recommend that the utility receivables report be reconciled to the general ledger on a monthly basis. **Current year status: The City Manager now reviews billing adjustments, however, the Aged Utility Accounts Receivables report has not been reconciled to the general ledger. We continue to recommend full implementation of this recommendation.**
- 05-14 During our audit, we noted that the water and sewer customer deposits were not in agreement with the general ledger. We recommend that the customer deposits be reconciled on a monthly basis to the general ledger. This will help to ensure the accuracy of this restricted cash. **Current year status: This recommendation has not been implemented.**

SPECIAL ASSESSMENTS

- 05-15 During our audit, we noted there is no reconciliation of the special assessments. We recommend that the special assessments ledger book be reconciled to the general ledger on a monthly basis. **Current year status: This recommendation has been implemented as of the time of our audit.**

TAX FUND

- 05-16 We noted during our audit that no one reconciles the Tax Fund. We recommend that the Tax Fund be reconciled on a monthly basis. This procedure will help to ensure the accuracy of the tax receipts and disbursements of this fund. **Prior year status: It was necessary to summarize all activity in the tax fund in order to determine the portion of tax revenue to be recognized by the City and to compute the amounts owed by the City to other units of government. It is important that the City properly record tax revenues and properly transmit correct amounts of taxes collected to the appropriate units of government. We strongly recommend that the individual responsible for the Tax Fund be properly trained and have a solid understanding of the requirements of the City in collecting and remitting taxes. Further, we continue to recommend that the Tax Fund be reconciled on a monthly basis to assure receipts and disbursements of this fund are properly calculated and recorded. Current year status: Activity in the Tax Fund had not been reviewed during the year. We continue to recommend that the City see this as a priority to maintain accurate records and that taxes are properly collected and remitted to the correct units.**

BANK STATEMENTS

- 05-17 We suggest that the unopened bank statements received in the mail be forwarded directly to the City Manager. The City Manager should open and review the bank statements and copies of the canceled checks and investigate strange or unusual items should any be found. Documentation of the review of the items should be made on the face of the bank statement. We feel that this process will further enhance the checks and balances necessary for strong controls over cash. **Prior year status: The City Manager and the City Clerk positions are held by the same individual who is responsible for reconciling the bank accounts. In this situation, we recommend that the bank statements be received unopened by the Treasurer or a Board Member. Alternatively, the Treasurer can perform the bank reconciliations. In this case, we recommend a Board Member review the unopened bank statement. We continue to recommend the same review procedures and documentation of this independent review take place. An independent review of the bank statements provides added controls that are important due to the small number of staff, and will strengthen controls over cash. Current year status: This recommendation has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

SEGREGATION OF DUTIES AND BOARD OVERSIGHT

- 06-01 During the year, there were a number of changes involving City employees having responsibilities for processing, recording and approving financial transactions. Currently, the City Manager and the City Clerk functions are performed by one individual, who also performed many of the Treasurer functions for a portion of the year. With a small staff, it is difficult to segregate duties adequately so that any one individual is not performing too many portions of accounting transactions. In such situations, it is critical that the Board provide oversight in check approval and signing and reviewing, asking questions about and approving detail reports such as check registers, bank reconciliations, deposit records, payroll journals, etc. We strongly recommend the Board establish a good internal control policy manual that is followed and understood by all employees. The Board should also evaluate how it can provide increased oversight and monitoring to compensate for the lack of segregation of duties because of the limited number of staff. **Current year status: This recommendation has not been implemented. Specifically, the City Manager/Clerk should not be a check signer because of all the other accounting duties he is responsible for.**

GENERAL LEDGER

- 06-02 We became aware of the fact that changes had been made to certain account balances by means of adjusting the general ledger “master file record” within the Fund Balance software. It appears that general ledger master file record changes caused some of the discrepancies in balances among funds noted in other comments. We strongly recommend that this practice be stopped immediately, and that the software vendor be contacted and the system be changed so that this password is no longer valid. Changes to the general ledger master file records should not be permitted as they override controls in the system to prevent changes that do not balance. Such changes cause the detail general ledger balances to be different from balances generated by the system’s trial balance reports. All general ledger adjustments should be made by a journal entry. All journal entries made should flow through to the general ledger. **Current year status: This recommendation has not been implemented.**
- 06-03 A City employee signed a Password Release Form with the software vendor who in turn provided a password which permits access to the “Delete Data” function for all applications. We strongly recommend the software vendor be contacted and that this password be made inoperable. Deleting data may eliminate audit trails and cause file relational integrity problems. **Current year status: This recommendation has been implemented.**
- 06-04 The Fund Balance software used by the City for its accounting functions has features which permit access to various software features to be limited to properly authorized individuals only. Currently, access is permitted to most features to all system users. Strong internal controls call for limiting access to accounting programs to only those who have reason to have access. We recommend the City review the various applications and determine which staff members should have access to which applications and use the system features to limit access to those individuals. Also, all City employees in the accounting area should be properly trained in Fund Balance. The City should designate a system administrator to be the only individual having access to maintain user accounts within the computer system. Additionally, the system should require password access, staff members should not share passwords, and the system should be set up to require passwords to be changed on a periodic basis. **Current year status: It is our understanding that as of late October, 2007, access to the Fund Balance software has been limited to current employees and a user ID and password must be entered.**
- 06-05 When we arrived to begin our year end audit procedures, several funds did not balance in the accounting records. In other words, the total of all the debit account balances and the total of all the credit account balances within many individual funds did not agree, when they should always agree. We strongly recommend that only adjusting entries having equal debit and credit amounts for each fund be posted to the accounting records. Further, we recommend, as part of the month end close process, that each fund be reviewed and any funds that are out of balance be investigated and appropriate entries be made to the accounting records to bring all funds into balance. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS - Continued

GENERAL LEDGER - Continued

- 06-06 A number of "manual entries" were entered into the general ledger as adjusting entries. Currently, the Fund Balance software used by the City allows the user to print these manual entries only at the time of entry. Additionally, the detail of these manual entries is not included in the detail print out of account activity in general ledger reports. Accordingly, a print out of the detail activity of an account with a manual entry posted to it will not agree to the balance in the accounting records for that account. Additionally, we noted instances where the manual entry was not printed when it was entered and could not be reconstructed, nor could it be identified in the account detail as it does not print. This makes accurate reconciliation of accounts very difficult, if not impossible. It is of utmost importance that the detail accounting records support the account balances. We strongly recommend that the use of manual entries be discontinued immediately and that the software vendor be contacted and the system be changed so that manual entries are not possible. **Current year status: This recommendation has been implemented.**
- 06-07 We noted that none of the adjusting entries proposed by us and approved by management for the year ended June 30, 2005 were entered into the accounting records. It is important that the accounting records support the published financial statements. The purpose of such year end adjustments is to correct account balances and, if they are not posted, the financial reports generated by the accounting records do not reflect correct balances. We strongly recommend that all proposed and approved year end entries be posted to the accounting records, and that the year end financial reports produced by the City's system be reconciled to the annual published financial statements to assure accuracy. **Current year status: The adjusting journal entries from last year had been entered and reconciled. However, the beginning balance for a number of funds did not agree to the audited ending balance. It would appear that other entries had been posted to the prior year. We recommend that once the general ledger is reconciled to the final audited balances, that nothing additional be posted to the general ledger of the closed period.**
- 06-08 We noted a number of adjusting entries posted during the year where the offsetting debit or credit amount was incorrectly posted to accounts payable. Accordingly, the accounts payable balances reported in many funds were not correct. We strongly recommend that all adjusting entries posted to the accounting records be fully understood and that all portions of journal entries be posted to the correct account in the correct amount. Additionally, the detail accounts payable should be reconciled to the general ledger account balance on a monthly basis. This will help assure accurate financial reporting during the year. **Current year status: We did not note random journal entries posted to accounts payable during our audit this year. However, we did note that journal entries to reconcile the bank balance to the general ledger balance were posted incorrectly to the water and sewer fund accounts receivable. Additionally, water and sewer fund accounts receivable were not reconciled to the general ledger. We continue to recommend that entries not be posted to accounts payable or receivable as a "plug" to balance another account. Accounts receivable and payable balances should be reconciled monthly so that the detail report total agrees to the general ledger balances.**
- 06-09 At year end, the amounts due to and due from the different funds within the City's accounting records did not balance. These accounts should be in balance at all times during the year. We recommend the month end close procedures include verifying all due to and due from accounts are in balance. If any accounts are found to be out of balance, discrepancies should be investigated and correcting entries posted. This will help assure accurate financial reporting during the year. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS - Continued

GENERAL LEDGER - Concluded

- 06-10 At year end, the operating transfers in and out within the different funds of the City did not balance. These accounts should be in balance at all times during the year. We recommend the month end closing procedures include verifying all transfers in and out are in balance. Any discrepancies should be investigated and corrected. This will help assure accurate financial reporting during the year. **Current year status: This recommendation has been implemented.**

CASH RECEIPTS

- 06-11 During our testing of cash receipts, we noted two instances where the amount of the bank deposit was less than the amount reflected on the bank totals report. Strong internal controls require documentation in support of bank deposits to agree with the amount actually deposited. We strongly recommend that all bank deposit totals be reconciled to the bank totals reports and any discrepancies be investigated, corrected and documented in the supporting documentation. **Current year status: We noted exceptions during our audit testing this year also. We continue to recommend that all bank deposit totals be reconciled to the cash receipt reports and that any discrepancies be investigated, corrected and documented in the supporting documentation. We recommend that the City contact the software vendor to determine the process to follow to facilitate reconciling cash receipt reports to bank deposits. For many items we tested, it was very difficult to reconcile cash receipt reports to bank deposits.**

CASH DISBURSEMENTS

- 06-12 We noted instances of duplicate vendor payments. Some duplicate payments occurred because vendors were paid based not only on vendor invoices, but also based on monthly vendor statements and photocopies or faxed copies of invoices. Additionally, duplicate payments occurred when a prior month's payment had not yet been reflected by the vendor and the resulting "prior balance forward" was paid in addition to the current charges. Strong internal controls call for vendor payments to be based on current charges as reflected on original vendor invoices and not on invoice copies or monthly statements. For certain vendors with several invoices each month, payment based on the statement is acceptable, but only when all invoices included on the statement have been accounted for, attached and individually approved for payment by the appropriate individual. Generally, however, monthly statements should not be used as the basis for vendor payments. Vendor statements are of benefit when they are used as a reconciliation tool to verify the City is current with its vendor obligations. Similarly, any "prior balance forward" on a vendor billing should be investigated to determine its proper resolution. **Current year status: This recommendation has not been implemented.**
- 06-13 During our testing, we noted cash disbursement for which there was no supporting documentation available. Strong internal controls allow for disbursements to be made for only properly documented and approved expenditures. It is essential that properly approved supporting documentation be required for all disbursements, and that the supporting documentation be retained as evidence to support the validity and appropriateness of disbursements. In some instances, this may require retaining a photocopy of a form that is required to be submitted with the check. **Current year status: This recommendation has not been implemented. Additionally, this year we noted instances of paid invoices that did not have any documentation of approval for payment. We continue to recommend that disbursements be processed for only properly approved invoices.**
- 06-14 We noted instances where disbursements were made in payment of multiple invoices, however, not all invoices were attached. As mentioned above, supporting documentation should be required to account for the full amount of the disbursement. **Current year status: This recommendation has not been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

CASH DISBURSEMENTS - Continued

06-15 During our audit procedures, we noted instances where payment was made on a vendor statement reflecting a credit balance. We noted other instances where the check amount was different than the amount reflected in the supporting documentation. Strong internal controls require that the mathematical accuracy be verified before payment is made. We recommend all disbursements be reviewed to assure that the amount paid is the correct amount. If a payment should be made for an amount different than that reflected in the supporting documentation, the difference should be noted and explained on the supporting documentation, and the proper amount be clearly documented. Additionally, as the checks are being signed, the signer should review the supporting documentation to verify the check has been made out for the correct amount. **Current year status: No exceptions were noted during our testing this year. It appears that this recommendation has been implemented.**

06-16 We noted disbursements made based on hand written notes and store receipts which did not provide adequate documentation as to amount, payee, approval and other important information. For situations such as this, we recommend the use of a standard Check Request Form. A pre-printed check request form should have blanks for the following information to be documented:

- the name and address of the payee
- purpose of disbursement
- date of check request
- amount of requested payment
- fund and account to be charged
- attach any supporting documentation or receipts
- explanation or other pertinent information
- name of individual submitting the check request
- approval of appropriate individual
- place to note check number when paid

Use of check request forms, completed with the above information, will improve documentation for such disbursements and strengthen controls over cash disbursements. **Current year status: This recommendation has not been implemented.**

06-17 We noted instances where check information detailed in the check register did not agree with the physical checks as processed by the bank. Discrepancies noted included the following:

- * Multiple instances of two checks processed where the check numbers were switched. For example the register listed check #1 payable to X for \$A and #2 payable to Y for \$B. The checks were actually #1 payable to Y for \$B and #2 payable to X for \$A.
- * One check recorded in the check register listed the wrong payee.
- * One check cleared the bank, but was incorrectly recorded as void in the check register.
- * One check cleared the bank, but was not recorded in the check register.
- * One check was listed in the check register for a different amount and to a different payee than the actual check.

Adequate internal controls require that transactions be accurately recorded. We recommend that all checks be compared to the check register as they are being signed and any discrepancies be corrected before releasing checks. This control will help assure that transactions are properly recorded. **Current year status: No exceptions were noted during our testing this year. It appears that this recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS – Continued

CASH DISBURSEMENTS - Concluded

- 06-18 We noted instances of checks listed as void in the check register, but the physical check could not be located. We recommend all voided checks be defaced by removing the signature corner. Additionally, we recommend that all voided checks be retained in a voided check file to provide adequate documentation and allow for verification of the integrity of the numeric sequence of checks written. **Current year status: We noted exceptions during our audit testing this year also. This recommendation has not been implemented.**
- 06-19 We noted a number of disbursements for which a purchase order was prepared and signed by the Acting City Manager. In many cases, it appeared that the purchase order was prepared upon receipt of the related invoice, and accordingly, was of no real benefit. If the City decides to utilize purchase orders, they should be made out prior to entering into the transaction, thus providing authorization for the transaction to occur. When the invoice is received, it should be compared to the purchase order and any discrepancies should be resolved before the invoice is approved for payment. If the intent was to indicate approval of an invoice for payment, that could be properly noted on the invoice, without the additional steps needed to complete the purchase order. **Current year status: No exceptions were noted during our testing this year. It appears that this recommendation has been implemented.**

PAYROLL

- 06-20 During our testing of payroll transactions, we noted several employees whose file did not contain documentation of the current authorized pay rate. Strong internal controls call for proper documentation of pay rate authorizations, and for maintaining this documentation in the employee file. We recommend that all pay rate changes be documented and include the signature of the appropriate person authorizing the pay rate, and that this documentation be maintained in the employee files. **Current year status: This recommendation has not been implemented.**
- 06-21 During our payroll testing, we noted several payroll transactions where the hours paid did not agree with the hours indicated on the corresponding time sheet. We also noted an instance where a Planning Commission member was paid an amount that did not agree with the number of meetings attended. Adequate internal controls require that employees be paid for the correct number of hours, which should be documented on the time sheets. We recommend that the procedures for documenting hours to be paid on time sheets and for processing payroll be reviewed and revised to assure that time sheets accurately report the correct number of hours (or meetings) to be paid and that employees are paid for the number of hours (or meetings) as reflected on the time sheets. **Current year status: We noted exceptions during our audit testing this year also.**

UTILITIES BILLINGS

- 06-22 We noted an instance of usage being estimated by a meter reader who is not authorized to do so. The following month, the same meter reader changed the prior month's reading as the estimate made was too high. Readings are written in pencil, thus it was easy to erase and change the reading number. This caused the customer to be overcharged. We recommend that only those with adequate knowledge and proper authorization be permitted to estimate usage for billing purposes and that readings be written in ink so that changes in readings by the meter reader would not be possible. **Current year status: This recommendation has been implemented.**
- 06-23 We noted instances where one utility customer was charged for usage of another customer. During a four month period, customer A was charged for the usage of customer B and customer B was only charged penalties. We recommend that the utility clerk be properly trained on using the billing system and that all unusual billings be investigated and corrected. **Current year status: This recommendation has been implemented.**

PRIOR YEAR RECOMMENDATIONS – Concluded

UTILITIES BILLINGS - Concluded

- 06-24 We learned that some utility customer accounts could have been deleted, leaving no record of the history associated with those customers. Accordingly, it was impossible to review such accounts to determine whether or not it was proper for them to be adjusted to a zero balance. It is important to reconcile utility customer accounts and adjust individual account balances if found to be incorrect. However, accounts should be adjusted and not simply deleted. We recommend the practice of deleting utility accounts be discontinued immediately and the software vendor be contacted and the option of deleting utility accounts be removed. In the future, any utility customer accounts that have properly been adjusted to zero and will no longer have any activity should not be deleted, but should be marked inactive, which should provide an adequate historical transaction record. **Current year status: It is our understanding that the software has not been changed to remove the option of deleting utility customers. Accordingly, this recommendation has not been implemented.**

BUDGET AMENDMENTS

- 06-25 We noted documentation of amendments to the budget could be improved. Currently, when a budget amendment proposal is presented to the Board, it is done by way of a Revenue and Expenditure report with the Budget column adjusted to reflect any previously approved amendments and the current proposed amendments. To better inform the Board as to the actual changes being requested, we recommend proposed budget amendments be presented in four columns as follows: 1) Originally approved budget; 2) Currently approved budget; 3) Current proposed amendments; 4) Budget reflecting previously approved and currently proposed amendments (the sum of column 2 and column 3.) This format would not only improve documentation of budget amendments, but would provide the Board with improved information to allow a more informed decision when considering budget amendments. **Current year status: This recommendation has not been implemented.**

TAX FUND AND DELINQUENT TAX FUND

- 06-26 During testing of tax and delinquent tax fund disbursements, we noted several instances where supporting documentation did not have proper approval indicated and supporting documentation was not marked "paid" or otherwise cancelled upon payment. Strong internal controls call for payment of only properly approved expenses, and that supporting documents for disbursements be cancelled upon payment to prevent accidental duplicate payment. We recommend that proper authorization be documented on all tax and delinquent tax payments and that all documentation for disbursements be marked "paid" and the check number and date paid be noted on the supporting documentation as well. **Current year status: This recommendation has not been implemented. Additionally, this year we noted instances of disbursements from the tax fund for which supporting documentation could not be located.**

FUND DEFICITS

- 06-27 At June 30, 2006, the Storm Drain Maintenance Fund and Storm Drain Special Assessment Bond Fund had fund deficits. We recommend the City write a corrective action plan to correct the fund deficits. **Current year status: As of June 30, 2007, the Storm Drain Maintenance Fund continued to have a fund deficit. This recommendation has not been implemented.**

CURRENT YEAR RECOMMENDATIONS

COMMUNICATIONS

- 07-01 The City of Potterville does not have e-mail addresses for business use by employees. There are significant efficiencies that may be had by using this form of communication. We recommend the City consider establishing e-mail address for employees to facilitate communications.

UTILITY BILLINGS

- 07-02 Penalties were not run for the month of November. Accordingly, any interest or penalties due the City by utility customers were not billed or collected. Additionally, we noted instances of utility billings of usage amounts that were obvious errors, yet the errors were not detected. We recommend establishing standard procedures to be followed each month to assure that billings are done properly, accurately and timely.

PETTY CASH

- 07-03 We noted instances where petty cash had been drawn to provide change during collection of property taxes. There was no documentation available to indicate how or when the petty cash amounts were closed and redeposited into the City bank accounts. We recommend that all petty cash transactions be fully documented, posted and reconciled to the general ledger.

NSF CHECKS

- 07-04 We noted instances where checks deposited by the City were returned as uncollectible, however, there has been no action taken by the City to recover the amounts due the City. We recommend that all returned checks be investigated and amounts due the City be recovered.

BANK FEES AND INTEREST

- 07-05 We noted bank fees and interest were posted to the general ledger at the net amount. We recommend that interest and bank fees be posted to the appropriate revenue and expense accounts at their full amount.

JOURNAL ENTRIES

- 07-06 Our audit testing included examining documentation in support of journal entries. There were several journal entries for which no supporting documentation was provided. Strong internal controls require documentation of journal entries posted to the general ledger to support that adjustments were done correctly and properly. We recommend that adequate supporting documentation be required and retained for all journal entries posted to the accounting records.

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

Very truly yours,



Certified Public Accountants

East Lansing, Michigan
March 27, 2008