

# 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 Harbor Beach		County Huron	
Fiscal Year End 6/30/2007		Opinion Date 11/27/2007		Date Audit Report Submitted to State 12/06/2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

YES NO

**Check each applicable box below.** (See instructions for further detail.)

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) Yellow Book Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.		Telephone Number 989-453-3122	
Street Address 7274 Hartley Street		City Pigeon	State Zip MI 48755
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA	
		License Number 1101014007	

**CITY OF HARBOR BEACH  
HARBOR BEACH, MICHIGAN**

**FINANCIAL REPORT  
JUNE 30, 2007**

# CITY OF HARBOR BEACH, MICHIGAN

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CPA's On Your Team

## Report of Independent Auditors

To the City Council  
City of Harbor Beach  
Harbor Beach, Michigan 48441

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 Harbor Beach, 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 Harbor Beach, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harbor Beach, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007, on our consideration of the City of Harbor Beach, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Report of Independent Auditors (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harbor Beach, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nietzke & Faupel, PC*

NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

November 27, 2007

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

The management of the City of Harbor Beach presents this narrative financial information to the readers of the City's financial statements. It contains an objective overview and analysis of the financial position of the City as of and for the year ended June 30, 2007. As management of the City, we encourage readers to consider information contained in this discussion and contained in the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- > The City's net assets exceeded its liabilities at the end of the fiscal year by \$7,069,057.
- > Net assets decreased by a total of \$306,456, or by approximately 2.05% of last year's total net assets of \$14,981,000.
- > Net assets of Business-type Activities - Enterprise Funds decreased by \$286,232. Net assets for Governmental Activities - Internal Service Fund (Equipment Fund) increased by \$87,893 during the fiscal year.
- > The total fund balance of Governmental Funds decreased by only \$25,216, much less than the decrease of \$203,755 for last fiscal year. Of this total, the City's General Fund showed a decrease of \$61,749 while Other Governmental Funds showed an increase of \$101,996. This large increase was due to revenue exceeding expenditures of \$34,928, incoming operating transfers of \$142,946, and outgoing operating transfers of \$75,878.

**FINANCIAL STATEMENTS OVERVIEW**

This Management Discussion and Analysis serves to introduce to the reader of the City of Harbor Beach's essential financial statements. These financial statements consist of three components, as follows:

- > **Government-wide financial statements**
- > **Fund financial statements**
- > **Notes to the financial statements**

The above financial information will provide the reader with a general understanding of the City's current financial condition. Also, this report contains supplemental information in addition to the basic financial statements which provide a more detailed understanding of the City's finances.

**Government-wide Financial Statements**

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

The **Statement of Net Assets** presents information on all of the assets and liabilities of the City, with the differences between the two identified as net assets. Over a given period of time, increases or decreases in net assets can serve as a useful indicator of an improving or declining financial position of the City.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

The **Statement of Activities** shows changes in net assets that occurred during the most recent fiscal year. These changes were recorded on an accrual basis, which distinguishes between the time when a financial transaction occurs and when payment is actually made. An example of accrual accounting is when debt interest payments are scheduled between the fiscal year ends. The Statement of Activities will show additional interest expense for the time period between the last interest payment and the end of the fiscal year as an accrual.

The Government-wide Financial Statements are broken down into two activities: Governmental Activities and Business-type Activities. Governmental activities are primarily supported through tax and intergovernmental revenue. Business-type activities are primarily supported through user fees and charges.

Governmental Activities for the City of Harbor Beach include general governmental functions, such as Financial Administration (City Council and Administrative Staff), General Administration (Major and Local Streets and Sidewalk Maintenance and Public Improvements), Planning, Police, Property Assessment, Zoning Administration, Sanitation, and Parks and Recreation. Business-type Activities include Sewer, Water, Campground, and Marina activities.

Activities not included in this report are the Harbor Beach Area Fire Department and the East Huron Ambulance Service, which are separate entities. Although the City contributes to both entities and has representation on their respective boards, the City has no legislative control over their financial activity.

The Government-wide Financial Statements are found as listed in the table of contents.

**Fund Financial Statements**

A fund is a set of closely related accounts that are used to maintain control over resources that have been segregated for specific activities or purposes. The City of Harbor Beach uses fund accounting to demonstrate compliance with legal financial requirements, like all state and local governments. All City funds can be categorized as either governmental or proprietary funds.

**Government Funds** account for essentially the same activities as the Governmental Activities in the government-wide financial statements, but with a narrower focus. Governmental Funds concentrate on near-term inflows and outflows of financial resources and the balances of spendable resources available to the government at the end of the fiscal year. This information can be useful in evaluating the government's short-term financing requirements.

Comparing similar information presented in the Government-wide financial statements for the Governmental Activities with that presented in Governmental Funds financial statements can provide useful information because of the focus of the two approaches. With the long-term focus of the Government-wide financial statements, a reader may be able to better understand the long-term effects of the near term financing decisions. To aid in the comparison, both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance show a reconciliation between the governmental fund financial statements to the governmental activities in the government-wide financial statements.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

**Fund Financial Statements (continued)**

The City of Harbor Beach uses two individual major governmental funds. Of these two, information is shown separately for the general fund and the parks and recreation fund. There are also three non-major funds identified as the major street and trunkline, local street, and capital projects funds. These funds are classified as special revenue funds and a capital project fund. The City adopts an annual appropriated budget for all of its governmental funds.

The basic governmental fund financial statements can be found as listed in the table of contents.

**Proprietary Funds** include enterprise funds and an internal service fund. Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. The Internal Service Fund is used to report activities that provide goods or services to other funds or departments of the City.

The Enterprise Funds maintained by the City of Harbor Beach include water, sewer, marina, and north park funds. The City uses the Internal Service Fund to account for vehicles and equipment activities. Because they charge fees and charges to outside users of their systems, the Enterprise Funds are included in the Business-type Activities column of the government-wide financial statements. The Internal Service Fund, which accounts for equipment and vehicles that support City functions, is included under the Governmental Activities column.

Proprietary Funds present the same information as in government-wide financial statements, except in more detail. The fund financial statements for proprietary funds provide separate information for the Water, Sewer, Marina, and North Park funds, which are considered to be major funds of the City of Harbor Beach.

The basic proprietary fund financial statements can be found as listed in the table of contents.

**Notes to the Financial Statements** contain additional financial information to give the reader a complete understanding of the information contained in the government-wide and fund financial statements. Although these notes provide detailed explanation and information related to the financial statements, this information is typically easy for the reader to follow. Notes to the financial statements are located after the financial statements as listed in the table of contents.

**OTHER INFORMATION**

The combining financial statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund financial statements and schedules are listed in the table of contents.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**CITY OF HARBOR BEACH'S NET ASSETS**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	June 30, 2007 <u>Total</u>	June 30, 2006 <u>Total</u>
Current assets	\$ 2,379,227	\$ 579,637	\$ 2,958,864	\$ 3,064,528
Capital assets	7,515,457	10,151,222	17,666,679	18,307,549
Restricted and other assets	<u>170,485</u>	<u>1,484,003</u>	<u>1,654,488</u>	<u>1,304,214</u>
Total assets	<u>\$ 10,065,169</u>	<u>\$ 12,214,862</u>	<u>\$ 22,280,031</u>	<u>\$ 22,676,291</u>
Current liabilities	\$ 118,488	\$ 321,822	\$ 440,310	\$ 430,945
Long-term liabilities	<u>1,073,162</u>	<u>6,092,016</u>	<u>7,165,178</u>	<u>7,264,347</u>
Total liabilities	<u>\$ 1,191,650</u>	<u>\$ 6,413,838</u>	<u>\$ 7,605,488</u>	<u>\$ 7,695,292</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 6,853,224	\$ 3,902,153	\$ 10,755,377	\$ 11,344,271
Restricted	170,485	1,240,877	1,411,362	1,183,062
Unrestricted	<u>1,849,811</u>	<u>657,994</u>	<u>2,507,805</u>	<u>2,453,667</u>
Total net assets	<u>\$ 8,873,520</u>	<u>\$ 5,801,024</u>	<u>\$ 14,674,543</u>	<u>\$ 14,981,000</u>

As shown in the Statement of Net Assets provided above, the largest portion, by far, of the Net Assets of the City of Harbor Beach is its investment in capital assets. The seventy-three and three tenths percent (73.3%) of total net assets represents the City's investment in land and land improvements, curb, gutter and sidewalk; roads and storm drains; water and sewer lines; streetlights and signals; buildings; machinery and equipment, less any related outstanding debt that was used to acquire these assets. The City of Harbor Beach uses these capital assets to provide essential services to citizens who live, work or visit the City. These assets, by design, are not available for future spending. Additionally, even though these capital assets are reported net of any related debt, resources needed to repay this debt must come from other sources, as these assets cannot be used to satisfy their related obligations.

Of the remaining Net Assets of the City, nine and six tenths percent (9.6%) are subject to external restrictions on how they may be expended (restricted assets). The balance of Net Assets, which total seventeen and one-tenths percent (17.1%), can be used to meet the City's ongoing obligations to its creditors and citizens (unrestricted assets).

**ACTIVITIES, GOVERNMENTAL AND BUSINESS-TYPE**

Net Assets in Governmental Activities showed a change (decrease) of \$20,224. However, with conversion of parks and recreation to governmental fund type in the amount of \$468,045, ending net assets at \$8,873,520, were up \$447,821 from beginning net assets of \$8,425,699. This increase is significant as it comprises about five and three tenths percent (5.3%) of the total beginning net assets.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

Net Assets for Business-type Activities decreased by a total of \$754,277 for the year ended June 30, 2007. Of this total, \$468,045 was the result of conversion of parks and recreation to the governmental fund type. Beginning net assets for Business-type Activities were \$6,555,301 and ending net assets were \$5,801,024. The decrease is significant as it comprises about eleven and one-half percent (11.5%) of the total beginning net assets. Also, the decrease is the first in three years as the previous two years showed an increase in net assets. It is important to note that the City Council has adopted a resolution calling for annual increases in the sewer rate of three and one-half percent (3.5%) on an annual basis. Finally, the City historically has not funded depreciation, and the reader should take this into account when analyzing business-type activities, as depreciation is a significant portion of expenses.

**CITY OF HARBOR BEACH'S CHANGES IN NET ASSETS  
For the year ended June 30, 2007**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	June 30, 2007 <u>Total</u>	June 30, 2006 <u>Total</u>
Revenue:				
Program revenues:				
Charges for services	\$ 117,290	\$ 1,541,769	\$ 1,659,059	\$ 1,670,937
Operating grants and contributions	41,798	55,003	96,801	98,389
Capital grants and contributions				26,600
General revenues:				
Property taxes	1,091,547	316,671	1,408,218	1,391,730
State shared revenue	368,573		368,573	351,169
Unrestricted investment earnings	96,851	94,364	191,215	137,731
Miscellaneous	14,355		14,355	56,985
Gain (Loss) on sale of capital assets	29,879		29,879	4,640
<b>Total revenue</b>	<u>1,760,293</u>	<u>2,007,809</u>	<u>3,768,101</u>	<u>3,738,181</u>
Expenses:				
General government	796,532		796,532	754,444
Public safety	425,358		425,358	414,069
Highways and public improvements	397,560		397,560	393,315
Sanitation	91,134		91,134	89,212
Parks and recreation	180,966		180,966	
Interest on long-term debt	25,799		25,799	27,661
Water		829,987	829,987	797,315
Sewer		866,387	866,387	788,086
North Park		166,774	166,774	
Marina		290,534	290,534	
Parks and recreation				707,328
<b>Total expenses</b>	<u>1,917,349</u>	<u>2,153,682</u>	<u>4,071,031</u>	<u>3,971,430</u>
Change in net assets before transfers	(157,056)	(145,873)	(302,932)	(233,249)
Transfers	136,832	(140,356)	(3,524)	(5,000)
Change in net assets	(20,224)	(286,232)	(306,456)	(238,249)
Net assets - Beginning	8,425,699	6,555,301	14,981,000	15,219,247
Conversion of parks and recreation	468,045	(468,045)		
<b>Net assets - Ending</b>	<u>\$ 8,873,520</u>	<u>\$ 5,801,024</u>	<u>\$ 14,674,544</u>	<u>\$ 14,981,000</u>

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

**FINANCIAL ANALYSIS OF CITY OF HARBOR BEACH FUNDS**

The City of Harbor Beach governmental funds provide information on short-term resource inflows and outflows and account balances at the end of the fiscal year. The total fund balance is

a measure of total available resources and the unreserved portion of this total is a measure of the available spendable resources as of June 30, 2007.

For the year ended on June 30, 2007, the City's governmental funds reported a combined fund balance of \$1,723,723, a decrease of \$25,216 from July 1, 2006 of \$1,748,939.

The General Fund is the main operating fund for the City. As of June 30, 2007, the fund balance in the General Fund is \$835,046. At the start of the fiscal year on July 1, 2006, the fund balance was \$896,795, resulting in a decrease in fund balance of \$61,749. This is due to continued outgoing operating transfers of \$57,000 to other funds. This amount increased this year following three years of decreasing transfer amounts. However, General Fund revenue increased by \$66,941 this fiscal year up to \$1,510,191 from last fiscal year revenue of \$1,443,250.

General Fund expenditures this fiscal year were \$1,535,704, an increase of \$22,289 from last fiscal year expenditures of \$1,513,415.

The City Proprietary Funds provide the same type of financial information found in the government-wide financial statements, but in more detail. Total net assets in business-type activities were \$5,801,025 and for governmental activities (Internal Service Fund) were \$941,825.

For business-type activities, the following information is provided for the appropriate enterprise fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Sewer	\$3,730,474	\$1,118,434	\$2,612,040
Water	\$7,373,996	\$5,277,272	\$2,096,725
North Park	\$ 506,617	\$ 22,205	\$ 484,412
Marina	\$ 812,239	\$ 239,525	\$ 572,804

For governmental activities (Internal Service Fund), the following information is provided for the Internal Service Fund:

<u>FUND</u>	<u>TOTAL ASSETS</u>	<u>TOTAL LIABILITIES</u>	<u>TOTAL NET ASSETS</u>
Equipment	\$943,712	\$1,887	\$941,825

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

**NON-MAJOR GOVERNMENTAL FUNDS**

The City's Non-Major Governmental Funds, which include the Special Revenue Funds of Major Street and Trunkline and Local Street and the Capital Projects funds, performed fairly well during the 2006-07 fiscal year. Although the Major Street and Trunkline Fund showed a decrease in fund balance of \$15,757, the total fund balance is at \$296,280. The Local Street Fund showed an increase in fund balance of \$49,913, going up to a total of \$412,339. The Capital Projects fund also showed an increase in fund balance of \$67,840, going up to a total of \$170,485.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Although the General Fund for the City continued to struggle in the 2006-07 fiscal year with the fund balance continuing a downward trend, revenue and expenditures during the fiscal year are more favorable. The fund balance showed a decrease of \$61,749. However, revenue in the General Fund increased by \$66,942 from the previous fiscal year. Expenditures, conversely, only increased by \$22,289 from the previous fiscal year. Operating transfers out of the General Fund to other funds in the amount of \$57,000 continued to contribute to the declining fund balance.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The City of Harbor Beach investment, net of related debt, in capital assets for its governmental and business-type activities combined totaled \$10,755,377. The type of assets in this category include land, land improvements, buildings, machinery and equipment, parks and recreation facilities, roads (including curb and gutter, sidewalks and storm drains), street lights, traffic signals, and water and wastewater distribution and collection systems and facilities. The City investment in capital assets equals over seventy-three percent (73%) of total net assets.

	Governmental Activities	Business-Type Activities	June 30, 2007 Total	June 30, 2006 Total
Land	\$ 2,727,922		\$ 2,727,922	\$ 2,727,922
Land improvements	965,704		965,704	172,621
Buildings	605,283	\$ 4,200,724	4,806,007	4,846,684
Office furnishings	11,870		11,870	11,870
Equipment	1,319,115	7,067,524	8,386,639	8,305,785
Infrastructure	7,710,138		7,710,138	7,625,190
Water system		4,847,347	4,847,347	4,847,347
Sewer system		2,254,364	2,254,364	2,254,364
Marina improvements		2,656,870	2,656,870	2,652,640
Campground improvements		366,788	366,788	1,025,975
Construction in progress		66,829	66,829	41,264
Accumulated depreciation	(5,824,574)	(11,309,223)	(17,133,797)	(16,204,113)
Net book value	<u>\$ 7,515,458</u>	<u>\$ 10,151,222</u>	<u>\$ 17,666,681</u>	<u>\$ 18,307,549</u>

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

The City of Harbor Beach debt consists of a 1993 Water Supply and Distribution System Bond (\$3,119,000), a 2000 Public Improvement Bond (\$290,000), a Harbor Beach Consolidated Drain Assessment (\$381,128), a 2003 Installment Purchase Agreement (\$450,000), a 2004 Capital Improvement Bond (\$845,000) and a 2006 General Obligation Refunding Bond (\$2,245,000). A major portion of the 2000 Public Improvement Bond was refinanced in December 2006. Normal payments of principal and interest in accordance with the associated debt service schedules were made on a timely basis during the fiscal year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

**Budget**

The current fiscal year budget (2007-08) is at \$3,882,000, which is \$112,000 less than the 2006-07 fiscal year budget of \$3,994,000. This decrease is due to projected reductions in state revenue sharing and also a general decline in revenue due to the struggling economy. The General Fund budget projects only one fund in the City budget to receive an outgoing appropriation transfer, which is the Recreation Fund, receiving only \$10,000. As noted previously, large outgoing appropriation transfers have been a major factor in a declining fund balance in the General Fund. This reduction in outgoing appropriation transfers should lead to a healthier General Fund in the current fiscal year.

The Water Fund continues to grow as additional customers are added on to the City's water distribution system. This year, operation and maintenance of the Water Plant was privatized, which will save on expenditures. The Sewer Fund is projected to begin a turn-around as there has been a substantial change in billing of industrial users, which will lead to additional revenue.

The City is also negotiating new employment agreements with all employees. The increased cost of health care continues to be a major concern of the City and is a focal point in future employment contracts. The City is taking active steps to reduce health care costs and is looking at the many options for coverage which are available.

The current fiscal year budget for the City contains few major expenditures or projects for 2007-08. Two major projects in the General Fund have been delayed. An office remodel project which is budgeted at \$20,000 and construction of additional garage/storage space at City Hall which is budgeted at \$95,000, have both been put on hold, more than likely until the next fiscal year. This is a typical experience in recent years in the budgeting process, as projects are planned for in current budgets, but are completed as prioritized in the planning process for future budgets.

Also, construction of a sanitary sewer retention basin project is on-going and scheduled for completion in June 2008. The project is being financed through a low-interest (1.6%) State Revolving Loan (SRF) received from the State Department of Environmental Quality (MDEQ). The two-million gallon storage facility is budgeted at approximately four million six hundred thousand dollars (\$4,600,000). This debt service is being paid through an increase in sewer rates for all City residential, commercial and industrial customers.

**CITY OF HARBOR BEACH  
MANAGEMENT DISCUSSION AND ANALYSIS  
FISCAL YEAR - July 1, 2006 to June 30, 2007**

The City will continue efforts to increase economic development through utilization of several State and Federal grant and loan programs, where applicable. During the current fiscal year, the City has received two grants from the Michigan Department of Natural Resources for a silt abatement project at the Municipal Marina (\$9,850) and for restoration of the City's dredge disposal site (\$22,163). The City anticipates submitting grant applications for a recreation enhancement project in association with the new sanitary sewer retention basin project. The goal is to transform the retention basin into a useable recreation facility which will be a focal point in waterfront development at the site.

Examples of grant and loan programs the City has utilized include the Community Development Block Grant (CDBG) program, Urban Land Assembly (ULA) loan program, Coastal Zone Management (CZM) grants, Natural Resources Trust Fund program, and Land and Water Conservation Fund grants. Economic Development programs the City has taken advantage of are the establishment of a Local Development Finance Authority (LDFA), a Downtown Development Authority (DDA), and a Brownfield Redevelopment Authority (BRA). The City continues efforts to attract new business and industry to the community and also to encourage existing business and industry to grow.

**Rates**

The revenue stream for the Water fund has been excellent the last few years, mainly due to annual increases in the water rate of two and one-half percent (2.5%) and also in the sewer rate of three and one-half percent (3.5%). However, the water rate has not increased for the previous two fiscal years due to excellent performance in the water fund due to additional customers from Sand Beach Township, Huron Township and the Village of Forestville. These customers are billed at 1½ times the City residential rate. Negotiations for sale of water to Forester Township in Sanilac County continue.

As stated previously, industrial customers of the City are paying a new higher rate based on their flow which will bring in additional revenue. Also, industrial fee surcharges are being modified to better reflect their unique composition of flow parameters to the Wastewater Treatment Plant.

**REQUESTS FOR INFORMATION**

This financial report is designed to give the reader a basic understanding of the finances for the City of Harbor Beach. Any questions or requests for financial information contained in this report may be obtained by contacting the Finance Officer, City of Harbor Beach, 766 State Street, Harbor Beach, Michigan 48441.

**BASIC FINANCIAL STATEMENTS**

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF NET ASSETS  
JUNE 30, 2007

	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	<u>TOTALS</u>
<b><u>ASSETS</u></b>			
Cash	\$ 2,092,650	\$ 593,569	\$ 2,686,219
Accounts receivable	28,541	181,707	210,248
Taxes receivable	20,411		20,411
Accrued interest	56	2,189	2,245
Due from other governments	29,016		29,016
Inventory		10,725	10,725
Internal balances	208,553	(208,553)	
Nondepreciated capital assets	2,727,922		2,727,922
Capital assets	10,612,109	21,393,616	32,005,725
Less accumulated depreciation	(5,824,574)	(11,309,223)	(17,133,797)
Construction in progress		66,829	66,829
Restricted assets:			
Cash:			
Water and sewer project	170,485		170,485
Wastewater bond reserve		33,891	33,891
Wastewater treatment replacement		403,602	403,602
Water system revenue bond		93,245	93,245
Water bond reserve		299,189	299,189
Water equipment replacement		410,950	410,950
Operation and maintenance		87,502	87,502
Deferred charges		155,624	155,624
<b>TOTAL ASSETS</b>	<u>\$ 10,065,169</u>	<u>\$ 12,214,862</u>	<u>\$ 22,280,031</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF NET ASSETS  
JUNE 30, 2007**

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTALS</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 11,583	\$ 65,932	\$ 77,515
Accrued payroll and related taxes	29,578	23,331	52,909
Accrued interest payable	9,218	36,351	45,569
Accrued vacation and sick leave	97,910	39,155	137,065
Drain assessment payable	381,128		381,128
Payable from restricted assets:			
Current maturities of debt	68,214	196,103	264,317
Long-term bonds payable	594,019	6,052,966	6,646,985
<b>Total liabilities</b>	<u>1,191,649</u>	<u>6,413,838</u>	<u>7,605,487</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	6,853,224	3,902,153	10,755,377
Restricted for:			
Debt service		426,325	426,325
Capital projects	170,485	814,552	985,037
Unrestricted	1,849,811	657,994	2,507,805
<b>Total net assets</b>	<u>\$ 8,873,520</u>	<u>\$ 5,801,024</u>	<u>\$ 14,674,544</u>

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

**CITY OF HARBOR BEACH, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	PROGRAM REVENUES		NET (EXPENSE) REVENUES & CHANGES IN NET ASSETS	
	OPERATING	CAPITAL	GOVERNMENTAL	BUSINESS-TYPE
	CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	ACTIVITIES	ACTIVITIES
	EXPENSES	CONTRIBUTIONS	TOTALS	TOTALS
<b>Governmental Activities:</b>				
General government	\$ 796,532	\$ 3,148	\$ (793,384)	\$ (793,384)
Public safety	425,358		(425,358)	(425,358)
Highways and public improvements	397,560	19,395	(378,165)	(378,165)
Sanitation	91,134	84,439	(6,695)	(6,695)
Parks and recreation	180,966	\$ 41,798	(128,860)	(128,860)
Interest on long-term debt	25,799		(25,799)	(25,799)
<b>Total governmental activities</b>	<b>1,917,349</b>	<b>41,798</b>	<b>(1,758,261)</b>	<b>(1,758,261)</b>
<b>Business-Type Activities:</b>				
Water	829,987	45,030	\$ (66,311)	\$ (66,311)
Sewer	866,387		(443,250)	(443,250)
North Park	166,774	2,747	39,514	39,514
Marina	290,534	7,226	(86,864)	(86,864)
<b>Total business-type activities</b>	<b>2,153,682</b>	<b>55,003</b>	<b>(556,911)</b>	<b>(556,911)</b>
<b>Total Government</b>	<b>\$ 4,071,031</b>	<b>\$ 96,801</b>	<b>(1,758,261)</b>	<b>(2,315,172)</b>
<b>General Revenue:</b>				
Property taxes			1,091,547	1,408,218
State shared revenues			368,573	368,573
Unrestricted investment earnings			96,851	191,215
Miscellaneous			14,355	14,355
Gain on sale of capital assets			29,879	29,879
Transfers - net			(140,356)	(3,524)
<b>Total general revenues and transfers</b>			<b>1,738,037</b>	<b>2,008,716</b>
Change in net assets			(20,224)	(306,456)
Net assets - beginning			8,425,699	14,981,000
Convert parks to governmental fund type			468,045	-
Net assets - ending			<b>\$ 8,873,520</b>	<b>\$ 14,674,544</b>

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

**CITY OF HARBOR BEACH, MICHIGAN**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2007**

	<u>GENERAL</u>	<u>PARKS AND RECREATION</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b><u>ASSETS</u></b>				
Cash	\$ 575,881	\$ 41,618	\$ 857,189	\$ 1,474,688
Accounts receivable	28,235	36	270	28,541
Due from other funds	151,389			151,389
Due from other governments	4,571		24,445	29,016
Note receivable - Other funds	108,678			108,678
<b>TOTAL ASSETS</b>	<b><u>\$ 868,754</u></b>	<b><u>\$ 41,654</u></b>	<b><u>\$ 881,904</u></b>	<b><u>\$ 1,792,312</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 5,029	\$ 5,021		\$ 10,050
Accrued payroll and related taxes	21,609	6,939	\$ 676	29,224
Due to other funds	7,070	20,121	2,124	29,315
<b>Total liabilities</b>	<b><u>33,708</u></b>	<b><u>32,081</u></b>	<b><u>2,800</u></b>	<b><u>68,589</u></b>
<b>Fund balances:</b>				
Unreserved, reported in:				
General Fund	835,046			835,046
Special Revenue Funds		9,573	708,619	718,191
Capital Projects			170,485	170,485
<b>Total fund balances</b>	<b><u>835,046</u></b>	<b><u>9,573</u></b>	<b><u>879,104</u></b>	<b><u>1,723,723</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 868,754</u></b>	<b><u>\$ 41,654</u></b>	<b><u>\$ 881,904</u></b>	<b><u>\$ 1,792,312</u></b>

**CITY OF HARBOR BEACH, MICHIGAN**

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES  
TO GOVERNMENTAL ACTIVITIES NET ASSETS  
JUNE 30, 2007**

**Total governmental fund balances** \$ 1,723,723

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 in the funds. The cost of the assets is \$13,340,031 less the accumulated depreciation of \$5,824,574. 7,515,457

Interest on general obligation and lease revenue bonds are not accrued in governmental funds but rather is recognized as an expenditure when due. (9,218)

Delinquent taxes receivable are not current financial resources for the governmental fund. 20,411

Internal service fund is not included in the governmental funds. 764,418

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (1,141,271)

**Net assets - governmental activities** \$ 8,873,520

**CITY OF HARBOR BEACH, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL</u>	<u>PARKS AND RECREATION</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>				
Taxes	\$ 1,019,485			\$ 1,019,485
Licenses and permits	1,925			1,925
Intergovernmental	214,523		\$ 223,674	438,197
Charges for services	175,587	\$ 10,308	1,459	187,354
Fines and forfeitures	5,716			5,716
Sale of property	34,620			34,620
Miscellaneous	58,335	42,631	28,222	129,188
<b>TOTAL REVENUE</b>	<u>1,510,191</u>	<u>52,939</u>	<u>253,356</u>	<u>1,816,486</u>
<b>EXPENDITURES:</b>				
Current:				
Legislative	9,411			9,411
Elections	3,792			3,792
Financial and administration	271,747		6,900	278,647
General	543,166			543,166
Police department	344,539			344,539
Planning	21,709			21,709
Street lighting	58,962			58,962
Sanitation	89,313			89,313
Streets			211,527	211,527
Park and recreation		138,397		138,397
Capital outlay	134,023	86,005		220,028
Debt service:				
Principal	33,897			33,897
Interest	25,145			25,145
<b>TOTAL EXPENDITURES</b>	<u>1,535,704</u>	<u>224,402</u>	<u>218,427</u>	<u>1,978,534</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(25,513)</u>	<u>(171,463)</u>	<u>34,928</u>	<u>(162,048)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	20,764	106,000	142,946	269,710
Operating transfers (out)	(57,000)		(75,878)	(132,878)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(36,236)</u>	<u>106,000</u>	<u>67,068</u>	<u>136,832</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(61,749)</u>	<u>(65,463)</u>	<u>101,996</u>	<u>(25,216)</u>
<b>FUND BALANCE - JULY 1</b>	896,795	75,036	777,108	1,748,939
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 835,046</u>	<u>\$ 9,573</u>	<u>\$ 879,104</u>	<u>\$ 1,723,723</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

**Net change in fund balances - governmental funds** \$ (25,216)

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*, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlays	\$ 251,460	
Depreciation expense	<u>(377,778)</u>	(126,318)

Proceeds from the disposition of capital assets as reported on the governmental funds operating statement	(34,620)	
Gain on disposition reported on the statement of activities	<u>29,879</u>	(4,741)
Book value of disposed capital asset		(4,741)

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. (9,721)

The net revenue of certain activities of internal service fund is reported with governmental activities. 79,651

Delinquent property taxes are not considered "available" revenues and are not recorded in the governmental funds.

	Beginning taxes receivable	(17,974)
	Ending taxes receivable	<u>20,411</u>
		2,437

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 and does not affect the Statement of Activities. In the current period, these amounts are:

Bond repayments	89,483	
Change in accrued interest on bonds	<u>(25,799)</u>	63,684
Net effect		63,684

**Change in net assets of governmental activities** \$ (20,224)

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

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2007**

	<b>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</b>					<b>GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND</b>
	<b>SEWER</b>	<b>WATER</b>	<b>NORTH PARK</b>	<b>MARINA</b>	<b>TOTALS</b>	
<b>ASSETS</b>						
<b>Current assets:</b>						
Cash	\$ 144,473	\$ 432,239	\$ 5,945	\$ 10,913	\$ 593,569	\$ 788,447
Accounts receivable	65,850	115,857			181,707	
Accrued interest receivable	1,297	892			2,189	56
Due from other funds						12,846
Inventory				10,725	10,725	
<b>Total current assets</b>	<b>211,620</b>	<b>548,988</b>	<b>5,945</b>	<b>21,638</b>	<b>788,190</b>	<b>801,349</b>
<b>Noncurrent assets:</b>						
Capital assets	7,668,845	9,290,953	1,082,124	3,351,694	21,393,616	1,046,340
Less accumulated depreciation	(4,742,203)	(3,404,801)	(581,452)	(2,580,767)	(11,309,223)	(903,977)
Construction in progress	45,425	1,540		19,764	66,829	
Deferred charges	72,377	83,248			155,625	
<b>Total noncurrent assets</b>	<b>3,044,444</b>	<b>5,971,040</b>	<b>500,672</b>	<b>790,691</b>	<b>10,306,847</b>	<b>142,363</b>
<b>Restricted assets:</b>						
Cash:						
Wastewater treatment replacement	403,602				403,602	
Wastewater bond reserve	33,891				33,891	
Water system revenue bond		93,245			93,245	
Water bond reserve		299,189			299,189	
Water equipment replacement		410,950			410,950	
Operation and maintenance	36,917	50,585			87,502	
<b>Total restricted assets</b>	<b>474,410</b>	<b>853,969</b>			<b>1,328,379</b>	
<b>TOTAL ASSETS</b>	<b>\$ 3,730,474</b>	<b>\$ 7,373,997</b>	<b>\$ 506,617</b>	<b>\$ 812,329</b>	<b>\$ 12,423,417</b>	<b>\$ 943,712</b>
<b>LIABILITIES</b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 27,639	\$ 29,442	\$ 937	\$ 7,915	\$ 65,933	\$ 1,533
Due to other funds	959	1,421	13,852	118,688	134,919	-
Accrued payroll and related taxes	6,704	13,013	2,052	1,562	23,331	354
Accrued interest payable	5,966	30,385			36,351	
Accrued vacation and sick leave	17,874	13,234	5,364	2,682	39,155	
Current maturities of debt	42,564	153,539			196,103	
<b>Total current liabilities</b>	<b>101,706</b>	<b>241,034</b>	<b>22,205</b>	<b>130,847</b>	<b>495,792</b>	<b>1,887</b>
<b>Noncurrent liabilities:</b>						
Long-term bonds payable	1,016,728	5,036,238			6,052,966	
Notes payable - other funds				108,678	108,678	
<b>Total noncurrent liabilities</b>	<b>1,016,728</b>	<b>5,036,238</b>		<b>108,678</b>	<b>6,161,644</b>	
<b>Total liabilities</b>	<b>1,118,434</b>	<b>5,277,272</b>	<b>22,205</b>	<b>239,525</b>	<b>6,657,436</b>	<b>1,887</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	1,912,775	698,015	500,672	790,691	3,902,153	142,363
Restricted for:						
Debt service	33,891	392,434			426,325	
Capital projects	403,602	410,950			814,552	
Unrestricted	261,772	595,325	(16,260)	(217,887)	622,951	799,462
<b>Total net assets</b>	<b>\$ 2,612,040</b>	<b>\$ 2,096,725</b>	<b>\$ 484,412</b>	<b>\$ 572,804</b>	<b>5,765,981</b>	<b>\$ 941,825</b>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					35,043	
<b>Net assets of business-type activities</b>					<b>\$ 5,801,024</b>	

CITY OF HARBOR BEACH, MICHIGAN

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SEWER	WATER	NORTH PARK	MARINA	TOTALS	
<b>OPERATING REVENUE:</b>						
Charges for services	\$ 422,438	\$ 647,935	\$ 199,233	\$ 64,873	\$ 1,334,479	\$ 142,294
Permits	700	226			926	
Sale of materials and labor		10,485	4,308	126,571	141,364	
Fire hydrant rental		60,000			60,000	
Miscellaneous				5,000	5,000	
<b>TOTAL OPERATING REVENUE</b>	<b>423,138</b>	<b>718,646</b>	<b>203,541</b>	<b>196,444</b>	<b>1,541,769</b>	<b>142,294</b>
<b>OPERATING EXPENSES:</b>						
Salaries	181,780	158,443	45,931	32,207	418,362	7,577
Fringe benefits	86,241	105,832	17,522	19,698	229,293	3,743
Administrative cost	34,000	34,000	9,000	7,000	84,000	1,000
Cost of merchandise & petroleum sold			724	96,059	96,783	
Supplies	9,354	6,534	4,323	2,034	22,245	6,546
Office expense		683	-	919	1,603	
Postage	654		162	73	889	
Clothing	385				385	
Chemicals	18,499	29,706			48,204	
Professional services	11,611	7,309	800	700	20,420	1,400
Contracted services	68,949	12,937	2,473	900	85,258	
Community promotion			1,221	527	1,748	
Printing and publishing			279		279	
Telephone	1,117	596	1,964	1,406	5,083	907
Transportation	1,485	410	-	963	2,859	16,137
Insurance	10,043	5,822	1,410	7,435	24,710	4,735
Utilities	53,985	64,207	39,539	15,253	172,985	
Building repairs		457			457	
Equipment maintenance	10,322	3,396	5,538	8,595	27,851	2,473
Maintenance of mains	6	5,019			5,025	
Equipment replacement	1,467				1,467	
Repairs and maintenance	9,713	3,065			12,779	
Equipment rental	9,841	8,350	2,713	600	21,504	
Penalties and fines	500				500	
Licenses and fees	1,950		-	750	2,700	
Sales tax			136	5,932	6,068	
Diesel tax			-	2,482	2,482	
Education and training	1,171	365			1,535	
Dues and subscriptions	88		1,146		1,234	
Depreciation	294,869	166,000	31,770	83,485	576,124	44,238
Amortization	14,814	20,037			34,850	
Bank charges - Credit cards			1,162	3,746	4,907	
<b>TOTAL OPERATING EXPENSES</b>	<b>822,844</b>	<b>633,168</b>	<b>167,814</b>	<b>290,764</b>	<b>1,914,589</b>	<b>88,756</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(399,706)</b>	<b>85,478</b>	<b>35,728</b>	<b>(94,320)</b>	<b>(372,820)</b>	<b>53,538</b>
<b>NONOPERATING REVENUE (EXPENSES):</b>						
Interest income	35,874	58,415	51	24	94,364	34,355
Property tax levy	128,762	187,909			316,671	
Contributions		45,030	2,747	7,226	55,003	
Sale of asset					-	1,476
Bond interest expense	(47,134)	(199,646)			(246,780)	
Paying agent fees	(182)	(374)			(555)	
<b>TOTAL NONOPERATING REVENUE</b>	<b>117,320</b>	<b>91,334</b>	<b>2,798</b>	<b>7,250</b>	<b>218,703</b>	<b>35,831</b>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS</b>	<b>(282,385)</b>	<b>176,811</b>	<b>38,526</b>	<b>(87,070)</b>	<b>(154,118)</b>	<b>89,369</b>

CITY OF HARBOR BEACH, MICHIGAN

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

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL ACTIVITIES- INTERNAL SERVICE FUND
	SEWER	WATER	NORTH PARK	MARINA		
OTHER FINANCING SOURCES (USES):						
Operating transfers in	14,144	42,446			56,589	
Operating transfers out	(142,946)		(54,000)		(196,946)	(1,476)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(128,802)</u>	<u>42,446</u>	<u>(54,000)</u>		<u>(140,356)</u>	<u>(1,476)</u>
CHANGE IN NET ASSETS	(411,187)	219,257	(15,474)	(87,070)	(294,474)	87,893
TOTAL NET ASSETS - BEGINNING	3,023,227	1,877,467	499,886	659,874		853,932
TOTAL NET ASSETS - ENDING	<u>\$ 2,612,040</u>	<u>\$ 2,096,725</u>	<u>\$ 484,412</u>	<u>\$ 572,804</u>		<u>\$ 941,825</u>
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds					<u>8,242</u>	
Changes in net assets of business-type activities					<u>\$ (286,232)</u>	

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SEWER	WATER	NORTH PARK	MARINA		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Receipts from customers	\$ 405,220	\$ 680,176	\$ 207,541	\$ 196,444	\$ 1,489,381	\$ 141,675
Receipts from interfund services	(227,474)	(187,001)	(74,088)	(124,192)	(612,755)	(33,368)
Payments to suppliers of goods and services	(43,841)	(42,350)	(11,713)	(7,600)	(105,504)	(1,000)
Payments to interfund services	(181,715)	(166,047)	(42,869)	(35,464)	(426,095)	(7,431)
Payments to employees	(86,241)	(105,832)	(17,522)	(19,698)	(229,293)	(3,743)
Payments for fringe benefits						
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>(134,051)</u>	<u>238,946</u>	<u>61,349</u>	<u>9,490</u>	<u>175,734</u>	<u>96,133</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Operating transfer in	14,144	42,446			56,590	
Operating transfer out	(142,946)		(54,000)		(196,946)	(1,476)
<b>NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>(128,802)</u>	<u>42,446</u>	<u>(54,000)</u>		<u>(140,356)</u>	<u>(1,476)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition of fixed assets	(28,470)	(11,654)	(7,307)	(9,730)	(57,161)	(27,826)
Proceeds from sale of asset	(23,925)	(1,640)			(25,565)	1,476
Increase in construction in progress	(819,178)	(1,527,792)			(2,346,970)	
Bond principal payment	800,187	1,420,086			2,220,273	
Bond proceeds	(36,832)	(22,578)			(59,410)	
Bond issue costs paid	(46,544)	(199,093)			(245,637)	
Interest and fees paid on bonds	128,762	187,909			316,672	
Property tax levy received		45,030		7,226	55,003	
Contributions from customers			2,747			
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(26,000)</u>	<u>(109,731)</u>	<u>(4,560)</u>	<u>(2,504)</u>	<u>(142,795)</u>	<u>(26,350)</u>

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS				TOTALS	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
	SEWER	WATER	NORTH PARK	MARINA		
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest on investments	34,577	57,523	51	24	92,175	34,299
NET CASH PROVIDED BY INVESTING ACTIVITIES	34,577	57,523	51	24	92,175	34,299
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(254,276)	229,183	2,840	7,010	(15,242)	102,606
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	873,159	1,057,025	3,105	3,903	1,937,192	685,841
CASH AND RESTRICTED CASH - END OF THE YEAR	\$ 618,883	\$ 1,286,208	\$ 5,945	\$ 10,913	\$ 1,921,950	\$ 788,447
Cash Reconciliation:						
Cash	\$ 144,473	\$ 432,239	\$ 5,945	\$ 10,913	\$ 593,570	\$ 788,447
Restricted cash	474,410	853,969			1,328,379	
Total	\$ 618,883	\$ 1,286,208	\$ 5,945	\$ 10,913	\$ 1,921,949	\$ 788,447

CITY OF HARBOR BEACH, MICHIGAN

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2007

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL</u>
	<u>SEWER</u>	<u>WATER</u>	<u>NORTH PARK</u>	<u>MARINA</u>	<u>ACTIVITIES -</u>
				<u>TOTALS</u>	<u>INTERNAL SERVICE FUND</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ (399,706)	\$ 85,478	\$ 35,728	\$ (94,320)	\$ 53,538
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	294,869	166,000	31,770	83,485	44,238
Amortization	14,813	20,037			34,850
(Increase) decrease in current assets:					
Accounts receivable	(17,918)	21,530	4,000		
Due from other funds				1,835	(619)
Inventory					
Increase (decrease) in current liabilities:					
Accounts payable	5,357	(13,813)	937	5,572	(170)
Accrued payroll and related taxes	296	6,791	2,052	(1,586)	146
Accrued vacation and sick leave	(232)	(14,395)	1,011	(1,672)	
Due to other funds	(31,532)	(32,683)	(14,148)	16,175	(1,000)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>\$ (134,051)</u>	<u>\$ 238,946</u>	<u>\$ 61,349</u>	<u>\$ 9,490</u>	<u>\$ 96,133</u>
				<u>\$ 175,733</u>	

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

**CITY OF HARBOR BEACH, MICHIGAN**

**STATEMENT OF NET ASSETS - FIDUCIARY FUND  
JUNE 30, 2007**

	<u>EXPENDABLE TRUST</u>
<b><u>ASSETS</u></b>	
Cash	\$ 103,913
Accrued interest receivable	10
<b>TOTAL ASSETS</b>	<u>\$ 103,923</u>
<b><u>NET ASSETS</u></b>	
Reserved for sick leave	\$ 103,923
<b>TOTAL NET ASSETS</b>	<u>\$ 103,923</u>

**CITY OF HARBOR BEACH, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**FIDUCIARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<b>EXPENDABLE TRUST</b>
<b>REVENUE:</b>	
Employer contribution	\$ 3,336
Interest income	4,048
<b>TOTAL REVENUE</b>	<b>7,384</b>
 <b>EXPENDITURES:</b>	
Sick leave payments	33,275
 <b>EXCESS OF REVENUE (UNDER) EXPENDITURES</b>	 <b>(25,891)</b>
 <b>OTHER FINANCING SOURCES:</b>	
Operating transfers in	20,000
 <b>EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES</b>	 <b>(5,891)</b>
 <b>NET ASSETS - JULY 1</b>	 109,814
 <b>NET ASSETS - JUNE 30</b>	 <b>\$ 103,923</b>

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Harbor Beach operates a Council-Mayor form of government under provisions of a revised charter dated May 18, 1965, and provides the following services as authorized by its charter: public safety, (police, fire and inspection), highways and streets, sanitation, water, parks and recreation, public improvements, planning and zoning, and general administration.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the City are discussed below.

### **REPORTING ENTITY:**

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the related GASB 14 pronouncement. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

### **Excluded from the reporting entity:**

**Harbor Beach Historical Society** - This potential component unit is excluded from the reporting entity because the City does not have the ability to exercise influence or control over their daily operations, approve budgets or provide funding.

**Harbor Beach Community Fire Protection Association** - The Association is a separate entity formed by the City of Harbor Beach, Michigan and the Township of Sand Beach, both are located in Huron County, Michigan. The Association began operating February 1, 1985, under the terms of an interlocal agreement. The purpose of the Association is to provide fire protection to area property owners and residents. The governing body consists of two representatives appointed by each constituent unit. The Association is financed through assessments to the constituent units. The agreement states that the Association will operate on a calendar year and that its books will be audited annually by a certified public accounting firm chosen by the board. The Fire Department is excluded from the reporting entity because the City does not have the ability to exercise influence or control over its daily operations or approve budgets. The assessment to the City of Harbor Beach for the year ended June 30, 2007, amounted to \$52,146.

**Harbor Beach Community School District** - This potential component unit has a separate elected board and provides services to local residents of the Harbor Beach, Michigan area. The City does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

(Continued)

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police, parks and recreation, and general administrative services are classified as governmental activities. The City's water, sewer, campground and marina are classified as business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION:

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

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**  
**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT**  
**PRESENTATION (CONTINUED):**

State revenue sharing, charges for services, and earned but unreimbursed state and federal grants 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. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter (within 60 days) to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when cash is received by the City.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues, and expenditures or expenses as appropriate.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

**Parks and Recreation Fund** - The parks and recreation fund is a special revenue fund used to account for the revenues and expenditures of the City's recreation programs.

For years prior to fiscal year 2007, the parks and recreation fund was one combined fund that was classified as an enterprise fund and included in the business type activities. During the year ended June 30, 2007, the parks and recreation fund was divided into three separate funds. The governmental activities portion of the parks and recreation fund was reclassified as a governmental fund and the financial activity of the fund was moved from the business type activities to the governmental activities in the government wide and fund financial statements. The North Park Fund and the Marina Fund remained classified as enterprise funds.

The City reports the following major proprietary funds:

The **Sewer Fund** accounts for the activities of the City's wastewater treatment operations.

The **Water Fund** accounts for the activities of the City's water distribution system.

The **North Park Fund** provides campground facilities for overnight and seasonal campers and recreational vehicles.

The **Marina Fund** provides sales of marine fuels, seasonal and overnight boat docking and boat launching.

# CITY OF HARBOR BEACH, MICHIGAN

## NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION: (CONTINUED)

Additionally, the City reports the following nonmajor fund types:

**Special Revenue Funds** - Special Revenue Funds account for resources legally restricted to expenditures for specified current operating purposes and for the enforcement of special services and activities. Accounting and financial reporting for General and Special Revenue Funds are identical. The City accounts for the Major Street and Local Street in special revenue funds.

**Capital Project Fund** - The Capital Project Fund of the City accounts for the cost of constructing a variety of public works projects and related debt service. Financing is provided by a general obligation bond.

**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-reimbursement basis. The Equipment Fund rents equipment to other City funds and departments at an hourly rate determined by the State of Michigan.

#### **Fiduciary Fund Types:**

**Trust Funds** - Trust funds are used to account for assets held by the City in a trustee capacity. The City is in a trustee capacity in relation to the Sick Leave Fund.

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 to the General Fund by various enterprise funds for providing administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 operation. The principal operating revenues of the Utility enterprise funds and the City's Internal Service fund are charges to customers of the system. Operating expenses for enterprise funds and the internal service fund 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 restricted resources first, then unrestricted resources as they are needed.

### **BUDGETS AND BUDGETARY ACCOUNTING:**

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

A. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds as well as for all Enterprise and Internal Service funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**  
**BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED):**

B. The City Council approves, by ordinance, the total budget appropriations only. The City Finance Officer is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (Legislative, Election, Financial and Administration, General, etc.).

C. Unused appropriations for all of the above annually budgeted funds lapse at the end of the year.

D. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Enterprise Funds, and the Capital Project Funds. In the General Fund, budgets are adopted at the functional level and budgetary control is exercised at the department level. For Special Revenue Funds, budgets are adopted and control is exercised at the level of total expenditures for each individual fund. For Capital Project Funds, budgets are adopted and control is exercised at the project level.

Annual budgets for the General Fund and all Special Revenue Funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

**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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Other receivables at June 30, 2007 consist of property taxes, state road taxes, and billings for user charged services, including trash collections and utility services. Taxes, trash and utility charges are deemed collectible in full.

**PROPERTY TAXES:**

Property taxes attach as an enforceable lien on property as of December 31. City taxes are levied on the following December 1 and are payable without penalty through February 14. The City bills and collects its own property taxes and also taxes for the county and school districts within its jurisdiction. Collections and remittances of the county and school taxes are accounted for in the current Tax Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. Delinquent taxes are expected to be fully collectible and therefore no allowance for uncollectible taxes is provided.

**INVENTORY:**

Inventory in the Marina Fund, a Proprietary Fund, is valued at the lower of cost or market on the first-in first-out method.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**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 \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	15 to 50
Buildings	25 to 50
Office equipment	5 to 15
Machinery and equipment	5 to 20
Vehicles	5 to 8
Improvements other than buildings	20

Depreciation of capital assets used by governmental funds is charged as an expense against their operations on the Statement of Activities. Accumulated depreciation is reported on the governmental fund Statement of Net Assets. Depreciation expense for the year ended June 30, 2007, was \$422,016. Capital asset acquisitions in the governmental funds totaled \$279,286 and disposals totaled \$73,197 for the year ended June 30, 2007. Also, capital assets from the parks and recreation fund in the amount of \$868,048 were reclassified from the business type capital assets to the governmental capital assets during the year ended June 30, 2007. A summary of Governmental Fund capital assets at June 30, 2007, follows:

	<u>2007</u>	<u>2006</u>
Land	\$2,727,922	\$2,661,392
Land improvements	965,704	172,621
Buildings	605,283	588,627
Office furnishings	11,870	11,870
Equipment	272,775	161,898
Internal Service Fund assets	1,046,340	1,044,298
Storm sewer	890,278	890,278
Roads	5,079,658	4,998,110
Other infrastructure	<u>1,740,202</u>	<u>1,736,802</u>
Total capital assets	13,340,032	12,265,896
Less accumulated depreciation	(5,824,574)	(4,995,530)
<b>NET GOVERNMENTAL FUND CAPITAL ASSETS</b>	<u><u>\$7,515,458</u></u>	<u><u>\$7,270,366</u></u>

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**CAPITAL ASSETS: (CONTINUED)**

Depreciation of capital assets used by business-type funds is charged as an expense against their operations. Accumulated depreciation is reported on business-type fund balance sheets. Depreciation expense for the year ended June 30, 2007, was \$576,124. Capital asset acquisitions in the business-type funds totaled \$57,162 and there were no asset disposals for the year ended June 30, 2007. Also, capital assets from the parks and recreation fund in the amount of \$868,048 were reclassified from the business type capital assets to the governmental capital assets during the year ended June 30, 2007. A summary of Business-Type Fund capital assets at June 30, 2007, follows:

	<u>2007</u>	<u>2006</u>
Land		\$ 66,530
Buildings	\$ 4,200,724	4,258,057
Water system	4,847,347	4,847,347
Sewer system	2,254,364	2,254,364
Harbor docks	799,646	799,646
Harbor and parking lot	1,857,224	1,852,994
Equipment	7,067,524	7,099,589
North Park sites and improvements	<u>366,788</u>	<u>1,025,975</u>
Total capital assets	21,393,616	22,204,502
Less accumulated depreciation	(11,309,223)	(11,208,583)
Construction in progress	<u>66,829</u>	<u>41,264</u>
<b>NET BUSINESS-TYPE FUND CAPITAL ASSETS</b>	<b><u>\$10,151,222</u></b>	<b><u>\$11,037,183</u></b>

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

Governmental activities:	
General government	\$ 16,760
Public safety	17,809
Highways and public improvement	297,384
Sanitation	1,821
Parks and recreation	44,004
Internal service fund	<u>44,238</u>
Total depreciation expense – governmental activities	<u>\$422,016</u>
Business-type activities:	
Sewer	\$294,869
Water	166,000
North Park	31,770
Marina	<u>83,485</u>
Total depreciation expense – business-type activities	<u>\$576,124</u>

**LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**LONG-TERM OBLIGATIONS: (CONTINUED)**

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.

**USE OF ESTIMATES:**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - BUDGET COMPLIANCE:**

During the year ended June 30, 2007, the City incurred expenditures in the following fund which were in excess of the amount appropriated:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General Fund:			
Debt service	\$39,800	\$59,042	\$(19,242)

The Parks and Recreation Fund did not have a balanced budget for the year ended June 30, 2007. It was prepared at a level that created a projected fund deficit. The actual results did not result in a deficit, but the original and final budgets projected a deficit.

**NOTE 3 - CASH AND DEPOSITS:**

As of June 30, 2007, the City has a carrying amount of \$4,288,997 of deposits (cash and deposits) in local banks and the bank balance was \$4,369,333. Of the bank balance \$500,000 was covered by the Federal Deposit Insurance Corporation and \$3,869,333 remained uninsured and uncollateralized.

Michigan Compiled Laws Section 129.91, authorizes the City to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority. The City's investment policy does not address interest rate risk or concentration of credit risk.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**NOTE 4 – RESTRICTED ASSETS:**

The amounts reported as restricted assets are held in separate accounts by the treasurer on behalf of the City. These amounts are restricted for debt retirement, capital asset replacement, and operation and maintenance of the City’s utility funds. The restricted assets as of June 30, 2007 are as follows:

<u>Fund</u>	<u>Amount</u>
Water and sewer construction	\$ 170,485
Sewer replacement	403,602
Sewer bond retirement	33,891
Sewer operation and maintenance	36,917
Water bond retirement	392,434
Water replacement	410,950
Water operation and maintenance	<u>50,585</u>
Total restricted assets	<u>\$1,498,864</u>

Net assets have been restricted for the above restricted assets except for the funds for operation and maintenance.

**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES:**

The balances of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$151,389	General	\$ 7,070
General-Notes Receivable	108,678	Parks and Recreation	20,121
Internal Service	12,846	Major Street and Trunkline	1,205
		Local Street	919
		Sewer	959
		Water	1,421
		North Park	13,852
		Marina	118,688
		Marina – Note Payable	<u>108,678</u>
<b>Totals</b>	<u>\$272,913</u>		<u>\$272,913</u>

**NOTE 6 – CONSTRUCTION IN PROGRESS:**

The construction in progress in the amount of \$19,764 represents engineering and related fees related to dredging project in the City’s marina. It is anticipated that 90% of the project costs will be financed by a grant from the Army Corp of Engineers. Also included in construction in progress for the Sewer Fund is the amount of \$45,425 which represents engineering fees related to the sanitary sewer overflow improvement project. The cost of this project is estimated to total approximately \$4 million and be completed by December 2008. The Water Fund also has \$1,640 included in construction in progress. This amount represents engineering fees for the filter backwash project at the water plant.

**CITY OF HARBOR BEACH, MICHIGAN  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 7 – ACCUMULATED SICK PAY:**

The City allows one day per month sick leave; not to exceed 12 days per year, with unlimited maximum accumulation. All unused sick leave will be paid at one-half the current hourly rate of pay, up to a maximum payment of \$15,000, upon retirement with the City, provided that and conditional to the employee having ten years or more employment with the City. Upon death of the employee, all unused sick leave time will be paid to the employee's beneficiary in accordance with the above mentioned formula. The City has entered into an agreement with union employees whereby the City must deposit into a special group savings account in the City's name, the total accrued unused sick leave on December 31 of each year at one half the employees' current hourly rate. Upon eligible retirement, an employee may withdraw his credited balance including interest. Should an employee exhaust his yearly allotted sick leave, he then may draw one half days wages from his banked sick leave. The City will match the one half day's wages at the employees current rate. The employee may continue to draw until his bank is exhausted or the \$15,000 maximum is reached, whichever comes first. The liability for accumulated unpaid sick leave recorded in the governmental and business-type funds at June 30, 2007, is \$73,341.

**NOTE 8 – ACCRUED VACATION PAY:**

The City's policy is to permit employees to accumulate limited amounts of earned, but unused, vacation benefits, which are vested in the employees. A long-term liability of \$62,787 of accrued vacation benefits at June 30, 2007, has been recorded in the governmental and business-type funds, representing the City's commitment to fund such costs from future operations.

**NOTE 9 - LONG-TERM DEBT:**

The City of Harbor Beach has issued 1993 Water Supply and Distribution System Revenue Bonds to aid in the construction of a new water plant. The bond issue totaled \$4.345 million dollars. Twenty-two and twenty seven-hundredths percent (22.27%) of the issue is guaranteed through payments, by contract with an industrial water user. A surety bond has been issued by an insurance company securing the industrial water user's share of this project. The issue matures on November 1, 2032. The City has also issued 2000 General Obligation Public Improvement Bonds to aid in the replacement of the City's water and sewer lines. The bond issue totaled \$2.75 million dollars. The bond issue will mature on May 1, 2020. The City has also issued 2004 Capital Improvement Bonds. The bond issue totaled \$950,000 and will mature on May 1, 2024. During the year ended June 30, 2007, the City issued 2006 General Obligation Refunding Bonds in the amount of \$2,250,000 to advance refund the 2000 Public Improvement Bonds. The 2006 Refunding Bonds mature on May 1, 2020. Bonds and other long-term debt currently outstanding are as follows:

	<u>JUNE 30, 2006</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30, 2007</u>	<u>DUE WITHIN ONE YEAR</u>
<b>Governmental activities:</b>					
County drain assessment	\$ 410,445		\$ 29,318	\$ 381,127	\$ 29,317
Installment purchase Agreement	475,000		25,000	450,000	30,000
Accrued vacation and sick leave	88,585	\$ 9,325		97,910	
<b>Total governmental activities</b>	<u>\$974,030</u>	<u>\$ 9,325</u>	<u>\$ 54,318</u>	<u>\$ 929,037</u>	<u>\$ 59,317</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 9 - LONG-TERM DEBT: (CONTINUED)**

	<u>JUNE 30, 2006</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>JUNE 30, 2007</u>	<u>DUE WITHIN ONE YEAR</u>
<b>Business-type activities:</b>					
Bonds payable:					
Capital improvement	\$ 880,000		\$ 35,000	\$ 845,000	\$ 35,000
Water supply and distribution	3,185,000		66,000	3,119,000	70,000
Public improvement	2,435,000		2,145,000	290,000	85,000
Refunding bonds		\$2,250,000	5,000	2,245,000	15,000
Accrued vacation and sick leave	54,442		15,287	39,155	
<b>Total bonds payable – business-type activities</b>	<u>\$6,554,442</u>	<u>\$2,250,000</u>	<u>\$2,266,287</u>	<u>\$6,538,155</u>	<u>\$205,000</u>

The long-term debt, excluding accrued vacation and sick leave, principal and interest, maturing in the next five years is as follows:

<u>JUNE 30,</u>	<u>CAPITAL IMPROVEMENT</u>	<u>WATER SUPPLY AND DISTRIBUTION</u>	<u>PUBLIC IMPROVEMENT</u>	<u>REFUNDING BONDS</u>	<u>TOTAL LONG- TERM DEBT</u>
2008	\$ 74,392	\$ 231,910	\$ 99,862	\$ 104,963	\$ 511,127
2009	78,080	232,130	105,506	109,400	525,116
2010	76,520	231,167	115,638	108,650	531,975
2011	74,920	231,019		232,900	538,839
2012	73,260	231,635		242,100	546,995
2013-2017	372,356	1,154,863		1,333,700	2,860,919
2018-2022	358,196	1,150,972		925,700	2,434,868
2023-2027	145,559	1,145,511			1,291,070
2028-2031		822,181			822,181
Totals	<u>1,253,283</u>	<u>5,431,388</u>	<u>321,006</u>	<u>3,057,413</u>	<u>10,063,090</u>
Less interest	<u>408,283</u>	<u>2,312,388</u>	<u>31,006</u>	<u>812,413</u>	<u>3,564,090</u>
Outstanding principal	<u>\$ 845,000</u>	<u>\$3,119,000</u>	<u>\$290,000</u>	<u>\$2,245,000</u>	<u>\$6,499,000</u>

In 1996, the City approved a resolution that authorized a County Drain Assessment in the amount of \$586,350. The annual principal payments total \$29,317 plus interest at 6%. The assessment matures in 2019. The City has also issued a 2003 Installment Purchase Agreement for the purchase of land. The agreement totaled \$525,000 and will mature on April 1, 2019. The drain assessment and the purchase agreement are recorded in the Governmental Activities. The long-term debt, principal and interest, maturing in the next five years is as follows:

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 9 - LONG-TERM DEBT: (CONTINUED)**

<u>JUNE 30,</u>	<u>INSTALLMENT PURCHASE AGREEMENT</u>	<u>COUNTY DRAIN ASSESSMENT</u>
2008	\$ 43,877	\$53,710
2009	42,919	51,833
2010	41,963	49,957
2011	41,005	48,081
2012	44,969	46,205
2013-2017	231,740	202,877
2018-2019	<u>98,111</u>	<u>99,200</u>
Totals	544,584	551,863
Less interest	<u>94,584</u>	<u>170,735</u>
Outstanding principal	<u>\$450,000</u>	<u>\$381,128</u>

Total interest costs incurred and charged to expense for the governmental activities and the business-type activities for the year ended June 30, 2007 amounted to \$41,023 and \$246,780, respectively.

On December 21, 2006, the City issued \$2,250,000 in general obligation bonds with an average interest rate of 3.94 percent to advance refund \$2,070,000 of outstanding bonds with an average interest rate of 5.32 percent. The net amount paid to the escrow was \$2,174,867, which was used to pay off \$2,070,000 of the old general obligation bonds leaving an outstanding balance of \$365,000. As a result, \$2,070,000 of the old bonds are considered to be defeased and the liability for those bonds has been removed from these financial statements. The cash flow requirements on the refunded bonds prior to the advance refunding were \$3,654,820 from 2007 through 2020. The cash flow requirements on the 2006 refunding bonds are \$3,094,967 from 2007 through 2020. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$506,713. The deferred loss on the advance refunding was \$104,867.

**NOTE 10 – PROPERTY TAXES:**

Property taxes are levied based on the taxable value of property located in the City. Assessed value is established annually and equalized by the State at an estimated 50% of current market value. A comparison of the assessed and taxable property values for the 2006 tax levy is as follows:

	<u>ASSESSED VALUE</u>	<u>TAXABLE VALUE</u>
Real property-Regular roll	\$53,252,500	\$44,049,779
Personal property-Regular roll	<u>9,090,700</u>	<u>9,010,100</u>
<b>TOTAL</b>	<u>\$62,343,200</u>	<u>\$53,059,879</u>

The City is permitted, by charter, to levy up to \$20 (20 mills) per \$1,000 of taxable value for general governmental services including debt service. For the year ended June 30, 2007, the City levied 14.91 mills for general governmental services and 4.60 mills for debt service. Total millage levied was 19.51.

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 11 – INTERFUND TRANSFERS:**

Interfund transfers for the year ended June 30, 2007 were as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Capital Project Fund	Construction costs	\$ 19,288
General Fund	Equipment rental	Proceeds of equipment sale	1,476
Parks and recreation	General Fund	Operations	52,000
Parks and recreation	North Park Fund	Operations	54,000
Capital Project	Sewer Fund	Construction costs	142,946
Sick Leave Fund	General Fund	Set aside funds for sick leave	20,000
Sewer Fund	Capital Project	Construction costs	14,144
Water Fund	Capital Project	Construction costs	42,446
			<u>\$346,300</u>

The City also transferred capital assets, net of accumulated depreciation, of \$468,045 from its business-type activities to its governmental activities. This transfer reclassified the governmental portion of the parks and recreation fund capital assets from the Parks and Recreation enterprise fund to a governmental fund.

**NOTE 12 – PENSION PLAN:**

**1. Plan Description** - The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

**2. Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiation with the City’s collective bargaining units and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

**3. Annual Pension Cost** – For the year ended June 30, 2007, the City’s annual pension cost of \$31,193 for the plan was equal to the City’s required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, (b) projected salary increases of 4.5% per year, and (c) 2% per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 37,976	\$ 32,121	\$ 31,193
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	4,042,777	4,336,715	4,697,755
Actuarial Accrued Liability (entry age)	3,986,975	4,345,077	4,647,940
Unfunded (overfunded) AAL	(55,802)	8,362	(49,815)
Funded ratio	101%	100%	101%
Covered payroll	889,480	912,796	923,848
UAAL as a percentage of covered payroll	0%	1%	0%

(Continued)

**CITY OF HARBOR BEACH, MICHIGAN**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 13 – UNEMPLOYMENT BENEFITS:**

The City has elected to be treated as a reimbursing employer for unemployment purposes. Any unemployment benefits paid to City employees by the Michigan unemployment fund must be reimbursed by the City on a dollar for dollar basis. The contingent liability for unemployment benefits is not recognized in the accompanying financial statements. The expense is recognized at the time the City becomes liable to the State of Michigan for unemployment benefits paid.

**NOTE 14 – RISK MANAGEMENT:**

Property, liability and worker's compensation insurance and health and disability benefits are contracted by the City with commercial insurance providers. For the year ended June 30, 2007, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

**REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Taxes:</b>				
Current property taxes	\$ 1,040,000	\$ 1,021,000	\$ 1,018,696	\$ (2,304)
Delinquent taxes	-	-	477	477
Trailer park taxes	<u>500</u>	<u>300</u>	<u>312</u>	<u>12</u>
<b>Total taxes</b>	<u>1,040,500</u>	<u>1,021,300</u>	<u>1,019,485</u>	<u>(1,815)</u>
<b>Licenses and permits:</b>				
Building permits	<u>4,000</u>	<u>1,900</u>	<u>1,925</u>	<u>25</u>
<b>Intergovernmental:</b>				
State revenue sharing:				
Sales tax - Constitutional	115,000	124,500	124,969	469
Sales tax - Statutory	80,000	87,000	87,383	383
Liquor license	<u>500</u>	<u>-</u>	<u>2,171</u>	<u>2,171</u>
<b>Total intergovernmental</b>	<u>195,500</u>	<u>211,500</u>	<u>214,523</u>	<u>3,023</u>
<b>Charges for services:</b>				
Trash pickup collections	95,000	84,000	84,439	439
Charges for fees and services	<u>100,000</u>	<u>91,000</u>	<u>91,148</u>	<u>148</u>
<b>Total charges for services</b>	<u>195,000</u>	<u>175,000</u>	<u>175,587</u>	<u>587</u>
<b>Fines and forfeitures</b>	<u>11,000</u>	<u>5,300</u>	<u>5,716</u>	<u>416</u>
<b>Miscellaneous:</b>				
Interest income	35,000	33,000	33,440	440
Sale of property	50,000	36,000	34,620	(1,380)
Contributions	6,000	6,500	6,960	460
Rents and leases	<u>10,000</u>	<u>17,500</u>	<u>17,935</u>	<u>435</u>
<b>Total miscellaneous</b>	<u>101,000</u>	<u>93,000</u>	<u>92,955</u>	<u>(45)</u>
<b>TOTAL REVENUE</b>	<u>1,547,000</u>	<u>1,508,000</u>	<u>1,510,191</u>	<u>2,191</u>
<b>EXPENDITURES:</b>				
<b>Legislative:</b>				
Council and mayor salaries	7,000	7,500	7,265	235
Fringe benefits	500	600	594	6
Conferences and workshops	500	800	717	83
Supplies	4,000	600	561	39
Community promotion	<u>1,000</u>	<u>500</u>	<u>274</u>	<u>226</u>
<b>Total legislative</b>	<u>13,000</u>	<u>10,000</u>	<u>9,411</u>	<u>589</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Elections:</b>				
Salaries	4,000	2,600	2,595	5
Fringe benefits	500	200	179	21
Office supplies	500	700	608	92
Postage	200	200	170	30
Printing and publishing	500			
Contracted services	300	300	240	60
<b>Total elections</b>	<u>6,000</u>	<u>4,000</u>	<u>3,792</u>	<u>208</u>
<b>Financial and administration:</b>				
Salaries	156,000	163,000	162,990	10
Fringe benefits	64,000	73,500	73,222	278
Postage	1,000	1,000	833	167
Professional services	6,000	4,500	4,274	226
Contracted services	2,000	1,300	1,173	127
Office supplies	1,000	2,500	2,246	254
Telephone	3,000	3,000	2,892	108
Transportation	1,000	2,000	1,907	93
Conferences and workshops	4,000	2,300	2,239	61
Community promotion	2,000	200	144	56
Insurance	1,000	700	693	7
Assessor	21,000	20,000	18,476	1,524
Board of review	2,000	1,000	658	342
<b>Total financial and administration</b>	<u>264,000</u>	<u>275,000</u>	<u>271,747</u>	<u>3,253</u>
<b>General:</b>				
Salaries	122,000	140,000	139,160	840
Fringe benefits	85,000	113,500	113,281	219
Supplies	12,000	10,000	9,690	310
Postage	1,000	300	283	17
Clothing	2,000	1,000	848	152
Professional services	15,000	11,400	11,203	197
Contracted services	70,000	72,000	71,589	411
Engineering fees	1,000	300	239	61
Transportation	1,000			
Community promotion	5,000	2,300	2,296	4
Printing & publishing	3,000	2,500	2,429	71
Insurance	40,000	34,000	33,754	246
Utilities	22,000	15,000	14,529	471
Repairs and maintenance	10,000	12,000	11,908	92
Equipment rental	45,000	59,000	58,716	284
Dues and subscriptions	1,000	1,100	1,056	44
Building lease		1,800	1,800	-
Sidewalk maintenance	8,000	10,000	9,993	7
Hydrant rental	60,000	60,000	60,000	
Education	1,000	500	392	108
<b>Total general</b>	<u>504,000</u>	<u>546,700</u>	<u>543,166</u>	<u>3,534</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Police department:</b>				
Salaries	220,000	225,500	225,356	144
Fringe benefits	70,000	77,000	76,914	86
Postage	200	200	156	44
Supplies	2,500	3,000	2,573	427
Dues and subscriptions	500	700	636	64
Uniforms	1,000	100	20	80
Cleaning allowance	400	600	505	95
Professional services	9,300	7,600	7,590	10
Telephone	3,600	3,800	3,715	85
Police car maintenance	13,500	14,900	14,627	273
Insurance	14,000	12,000	11,901	99
Education and training	2,000	600	546	54
<b>Total police department</b>	<u>337,000</u>	<u>346,000</u>	<u>344,539</u>	<u>1,461</u>
<b>Planning:</b>				
Salaries	13,500	19,000	18,624	376
Fringe benefits	1,000	1,800	1,421	379
Professional services	5,000	1,000	716	284
Printing and publishing	500			
Telephone	1,000			
Supplies and tools	500	1,000	878	122
Conferences	500	100	70	30
<b>Total planning</b>	<u>22,000</u>	<u>22,900</u>	<u>21,709</u>	<u>1,191</u>
<b>Street lighting</b>	<u>65,000</u>	<u>59,000</u>	<u>58,962</u>	<u>38</u>
<b>Sanitation:</b>				
Contracted services	<u>95,000</u>	<u>90,000</u>	<u>89,313</u>	<u>687</u>
<b>Capital Outlay:</b>				
Land improvements	64,000	67,500	67,449	51
Financial and administration	20,000	2,000	1,652	348
Planning		1,100	1,030	70
General	20,000	32,000	31,644	356
Police	25,000	32,000	32,248	(248)
<b>Total Capital Outlay</b>	<u>129,000</u>	<u>134,600</u>	<u>134,023</u>	<u>577</u>
<b>Debt Service:</b>				
Principal	40,000	25,000	33,897	(8,897)
Interest expense	10,000	14,800	25,145	(10,345)
<b>Total Debt Service</b>	<u>50,000</u>	<u>39,800</u>	<u>59,042</u>	<u>(19,242)</u>
<b>TOTAL EXPENDITURES</b>	<u>1,485,000</u>	<u>1,528,000</u>	<u>1,535,704</u>	<u>(7,704)</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>62,000</u>	<u>(20,000)</u>	<u>(25,513)</u>	<u>(5,513)</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**GENERAL FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	25,000		20,764	20,764
Operating transfers out	(87,000)	(57,000)	(57,000)	
<b>TOTAL OTHER FINANCING (USES)</b>	<u>(62,000)</u>	<u>(57,000)</u>	<u>(36,236)</u>	<u>20,764</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER USES</b>	<u>-</u>	<u>(77,000)</u>	<u>(61,749)</u>	<u>15,251</u>
<b>FUND BALANCE - JULY 1</b>	896,795	896,795	896,795	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 896,795</u>	<u>\$ 819,795</u>	<u>\$ 835,046</u>	<u>\$ 15,251</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**PARKS AND RECREATION FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Rentals	\$ 2,000	\$ 500	\$ 1,000	\$ 500
Recreation fees	5,000	3,000	3,975	975
Trip and entrance fees	6,000	2,500	2,833	333
Storage fees	3,000	2,500	2,500	-
Interest income	500	500	833	333
Contributions	32,500	39,000	41,798	2,798
<b>TOTAL REVENUE</b>	<u>49,000</u>	<u>48,000</u>	<u>52,939</u>	<u>4,939</u>
<b>EXPENDITURES:</b>				
Salaries	29,200	40,900	42,700	(1,800)
Fringe benefits	6,100	8,200	7,241	959
Office expense		300	229	71
Supplies and tools	11,700	17,100	16,443	657
Professional services	1,500	800	800	-
Contracted services	700	1,500	1,270	230
Engineering fees		3,500	3,476	24
Transportation	1,000	300	220	80
Community promotion	500	100	100	
Sanctioning fees	1,300	1,300	1,208	92
Printing & publishing	2,000	1,800	1,753	47
Postage	100	400	210	190
Insurance	3,000	2,100	2,040	60
Utilities	10,800	12,700	12,007	693
Repairs and maintenance	6,400	18,900	19,132	(232)
Equipment rental	2,400	4,500	4,140	360
Dues and subscriptions	500	600	546	54
State sales tax		100	64	36
Depreciation	84,000	45,000		45,000
Event charges		500	450	50
Entertainment	4,000	6,000	5,543	457
Special event expenses	10,700	17,500	17,221	279
Umpire fees	700	1,500	1,350	150
Bank Charge - Credit cards		300	254	46
Capital outlay	60,400	86,100	86,005	95
<b>TOTAL EXPENDITURES</b>	<u>237,000</u>	<u>272,000</u>	<u>224,402</u>	<u>47,598</u>
<b>EXCESS OF REVENUE (UNDER) EXPENDITURES</b>	<u>(188,000)</u>	<u>(224,000)</u>	<u>(171,463)</u>	<u>52,537</u>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in	106,000	106,000	106,000	
Operating transfers out	(2,000)			
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>104,000</u>	<u>106,000</u>	<u>106,000</u>	
<b>EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES</b>	<u>(84,000)</u>	<u>(118,000)</u>	<u>(65,463)</u>	<u>52,537</u>
<b>FUND BALANCE - JULY 1</b>	75,036	75,036	75,036	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ (8,964)</u>	<u>\$ (42,964)</u>	<u>\$ 9,573</u>	<u>\$ 52,537</u>

**SUPPLEMENTAL INFORMATION**

**CITY OF HARBOR BEACH, MICHIGAN**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2007**

	SPECIAL REVENUE		CAPITAL	TOTALS	
	MAJOR STREET & TRUNKLINE	LOCAL STREET	PROJECTS	JUNE 30, 2007	2006
<b><u>ASSETS</u></b>					
Cash	\$ 278,785	\$ 407,919	\$ 170,485	\$ 857,189	\$ 752,183
Accounts receivable		270		270	
Due from other governments	19,083	5,362		24,445	34,199
<b>TOTAL ASSETS</b>	<b>\$ 297,868</b>	<b>\$ 413,551</b>	<b>\$ 170,485</b>	<b>\$ 881,904</b>	<b>\$ 786,382</b>
<b><u>LIABILITIES AND FUND EQUITY</u></b>					
<b>Liabilities:</b>					
Accounts payable				\$ 676	\$ 78
Accrued payroll and related taxes	\$ 383	\$ 293			1,975
Due to other funds	1,205	919		2,124	7,221
<b>Total liabilities</b>	<b>1,588</b>	<b>1,212</b>		<b>2,800</b>	<b>9,274</b>
<b>Fund balance - unreserved</b>	296,280	412,339	\$ 170,485	879,104	777,108
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 297,868</b>	<b>\$ 413,551</b>	<b>\$ 170,485</b>	<b>\$ 881,904</b>	<b>\$ 786,382</b>

CITY OF HARBOR BEACH, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING STATEMENT OF REVENUE, EXPENDITURES  
 AND CHANGE IN FUND BALANCE  
 FOR THE YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE		CAPITAL PROJECTS		TOTALS	
	MAJOR STREET & TRUNKLINE	LOCAL STREET			JUNE 30, 2007	JUNE 30, 2006
<b>REVENUE:</b>						
Intergovernmental	\$ 117,900	\$ 105,774			\$ 223,674	\$ 228,504
Charges for services	678	781			1,459	
Miscellaneous	12,023	15,427	\$ 772		28,222	28,627
<b>TOTAL REVENUE</b>	<u>130,601</u>	<u>121,982</u>	<u>772</u>		<u>253,355</u>	<u>257,131</u>
<b>EXPENDITURES:</b>						
Streets	142,258	69,269			211,527	124,509
Administrative	4,100	2,800			6,900	6,750
<b>TOTAL EXPENDITURES</b>	<u>146,358</u>	<u>72,069</u>			<u>218,427</u>	<u>131,259</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(15,757)</u>	<u>49,913</u>	<u>772</u>		<u>34,928</u>	<u>125,872</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Operating transfers in			142,946		142,946	
Operating transfers (out)			(75,878)		(75,878)	(311,693)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>			<u>67,068</u>		<u>67,068</u>	<u>(311,693)</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>(15,757)</u>	<u>49,913</u>	<u>67,840</u>		<u>101,996</u>	<u>(185,821)</u>
<b>FUND BALANCE - JULY 1</b>	312,037	362,426	102,645		777,108	962,929
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 296,280</u>	<u>\$ 412,339</u>	<u>\$ 170,485</u>		<u>\$ 879,104</u>	<u>\$ 777,108</u>

**CITY OF HARBOR BEACH, MICHIGAN**  
**MAJOR STREET AND TRUNKLINE FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Intergovernmental:</b>				
Gas and weight tax	\$ 85,000	\$ 88,000	\$ 96,063	\$ 8,063
State trunkline maintenance	30,000	18,500	21,837	3,337
<b>Total intergovernmental</b>	<u>115,000</u>	<u>106,500</u>	<u>117,900</u>	<u>11,400</u>
<b>Miscellaneous:</b>				
Charges for services		500	678	178
Interest	5,000	12,000	12,023	23
<b>TOTAL REVENUE</b>	<u>120,000</u>	<u>119,000</u>	<u>130,601</u>	<u>11,601</u>
<b>EXPENDITURES:</b>				
<b>Construction:</b>				
Salaries	2,000	100	15	85
Fringe benefits	1,000	100	6	94
Contracted services	60,000	70,800	70,428	372
<b>Total construction</b>	<u>63,000</u>	<u>71,000</u>	<u>70,449</u>	<u>551</u>
<b>Routine maintenance:</b>				
Labor	5,000	7,200	7,203	(3)
Fringe benefits	2,500	4,500	4,391	109
Materials	2,500	700	687	13
Contracted services		200	130	70
Repairs and maintenance	13,000	8,100	8,047	53
Equipment rental	5,000	7,300	7,283	17
<b>Total routine maintenance</b>	<u>28,000</u>	<u>28,000</u>	<u>27,741</u>	<u>259</u>
<b>Traffic services:</b>				
Labor	1,000	500	236	264
Fringe benefits	100	300	126	174
Materials	400			
Equipment rental	500	200	39	161
<b>Total traffic services</b>	<u>2,000</u>	<u>1,000</u>	<u>401</u>	<u>599</u>
<b>Winter maintenance:</b>				
Labor	10,000	6,700	6,690	10
Fringe benefits	4,000	3,000	2,980	20
Materials	3,000	1,300	1,210	90
Equipment rental	10,000	10,000	9,250	750
<b>Total winter maintenance</b>	<u>27,000</u>	<u>21,000</u>	<u>20,130</u>	<u>870</u>
<b>Administrative:</b>				
Administrative cost	2,000	2,000	2,000	
Professional services	2,000	3,000	2,100	900
<b>Total administrative</b>	<u>4,000</u>	<u>5,000</u>	<u>4,100</u>	<u>900</u>

**CITY OF HARBOR BEACH, MICHIGAN**  
**MAJOR STREET AND TRUNKLINE FUND**  
**SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>Trunkline Maintenance:</b>				
Labor	9,000	6,100	6,082	18
Fringe benefits	5,000	3,400	3,389	11
Materials	1,000	3,500	3,465	35
Contracted services		1,000	900	100
Equipment rental	<u>11,000</u>	<u>10,000</u>	<u>9,701</u>	<u>299</u>
<b>Total trunkline maintenance</b>	<u>26,000</u>	<u>24,000</u>	<u>23,537</u>	<u>463</u>
<b>TOTAL EXPENDITURES</b>	150,000	150,000	146,358	3,642
<b>EXCESS OF REVENUE (UNDER) EXPENDITURES</b>	<u>(30,000)</u>	<u>(31,000)</u>	<u>(15,757)</u>	<u>15,243</u>
<b>OTHER FINANCING SOURCES:</b>				
Operating transfers in	30,000			
<b>EXCESS OF REVENUE (UNDER) EXPENDITURES AND OTHER USES</b>	<u>-</u>	<u>(31,000)</u>	<u>(15,757)</u>	<u>15,243</u>
<b>FUND BALANCE - JULY 1</b>	<u>312,037</u>	<u>312,037</u>	<u>312,037</u>	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 312,037</u>	<u>\$ 281,037</u>	<u>\$ 296,280</u>	<u>\$ 15,243</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**LOCAL STREET FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
<b>Intergovernmental:</b>				
Gas and weight tax	\$ 30,000	\$ 33,000	\$ 36,150	\$ 3,150
County road millage	70,000	69,500	69,624	124
<b>Total intergovernmental</b>	<u>100,000</u>	<u>102,500</u>	<u>105,774</u>	<u>3,274</u>
<b>Miscellaneous:</b>				
Interest	5,000	15,000	15,427	427
Charges for services	5,000	500	781	281
<b>Total miscellaneous</b>	<u>10,000</u>	<u>15,500</u>	<u>16,208</u>	<u>708</u>
<b>TOTAL REVENUE</b>	<u>110,000</u>	<u>118,000</u>	<u>121,982</u>	<u>3,982</u>
<b>EXPENDITURES:</b>				
<b>Construction:</b>				
Labor	2,000			
Fringe benefits	1,000	100	12	88
Materials		1,700	1,459	241
Contracted services	12,000	11,200	11,120	80
<b>Total construction</b>	<u>15,000</u>	<u>13,000</u>	<u>12,591</u>	<u>409</u>
<b>Routine maintenance:</b>				
Labor	6,000	8,600	8,546	54
Fringe benefits	3,000	5,200	5,126	74
Materials	2,000	2,600	2,561	39
Repairs & maintenance	12,000	8,100	8,044	56
Equipment rental	6,000	10,000	9,947	53
<b>Total routine maintenance</b>	<u>29,000</u>	<u>34,500</u>	<u>34,224</u>	<u>276</u>
<b>Traffic services:</b>				
Labor	1,000	500	315	185
Fringe benefits	500	300	174	126
Equipment rental	500	200	123	77
<b>Total traffic services</b>	<u>2,000</u>	<u>1,000</u>	<u>612</u>	<u>388</u>
<b>Winter maintenance:</b>				
Labor	10,000	7,300	7,273	27
Fringe benefits	5,000	3,300	3,257	43
Materials	1,000	1,300	1,300	
Equipment rental	10,000	10,100	10,012	88
<b>Total winter maintenance</b>	<u>26,000</u>	<u>22,000</u>	<u>21,842</u>	<u>157</u>
<b>Administrative:</b>				
Administration cost	1,000	1,000	1,000	
Professional services	2,000	2,000	1,800	200
<b>Total administrative</b>	<u>3,000</u>	<u>3,000</u>	<u>2,800</u>	<u>200</u>
<b>TOTAL EXPENDITURES</b>	<u>75,000</u>	<u>73,500</u>	<u>72,069</u>	<u>1,431</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	<u>35,000</u>	<u>44,500</u>	<u>49,913</u>	<u>5,413</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**LOCAL STREET FUND  
SCHEDULE OF REVENUE, EXPENDITURES AND CHANGE IN FUND BALANCE -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>OTHER FINANCING (USES):</b>				
Operating transfers out	(35,000)			
<b>EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES</b>	<u>-</u>	<u>44,500</u>	<u>49,913</u>	<u>5,413</u>
<b>FUND BALANCE - JULY 1</b>	362,426	362,426	362,426	
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 362,426</u>	<u>\$ 406,926</u>	<u>\$ 412,339</u>	<u>\$ 5,413</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SEWER FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Sewer service charge	\$ 422,000	\$ 422,438	\$ 438
Sewer permits	500	700	200
<b>TOTAL OPERATING REVENUE</b>	<u>422,500</u>	<u>423,138</u>	<u>638</u>
<b>OPERATING EXPENSES:</b>			
Salaries	182,500	181,780	720
Fringe benefits	86,300	86,241	59
Administrative cost	34,000	34,000	
Dues and subscriptions	100	88	12
Supplies	9,400	9,354	47
Postage	700	654	46
Clothing	400	385	15
Chemicals	18,500	18,499	1
Education and training	1,200	1,171	29
Professional services	35,800	11,611	24,189
Contracted services	67,700	68,949	(1,249)
Penalties and fines	500	500	
Licenses and fees	2,000	1,950	50
Telephone	1,200	1,117	83
Transportation	1,500	1,485	15
Insurance	10,100	10,043	57
Utilities	54,000	53,985	15
Equipment maintenance	19,100	10,322	8,778
Repairs and maintenance	12,800	9,713	3,087
Equipment rental	9,900	9,841	59
Sewer main maintenance	100	6	94
Equipment replacement	18,200	1,467	16,733
Capital outlay	3,000	-	3,000
Depreciation	295,000	294,869	131
Amortization	-	14,814	(14,814)
<b>TOTAL OPERATING EXPENSES</b>	<u>864,000</u>	<u>822,844</u>	<u>41,156</u>
<b>OPERATING LOSS</b>	<u>(441,500)</u>	<u>(399,706)</u>	<u>41,794</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest income	33,000	35,874	2,874
Property tax levy	55,500	128,762	73,262
Bond interest expense		(47,134)	(47,134)
Paying agent fees		(182)	(182)
<b>TOTAL NONOPERATING REVENUE</b>	<u>88,500</u>	<u>117,320</u>	<u>28,820</u>
<b>(LOSS) BEFORE OPERATING TRANSFERS</b>	<u>(353,000)</u>	<u>(282,385)</u>	<u>70,614</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Operating transfers in		14,144	14,144
Operating transfers out	(143,000)	(142,946)	55
<b>TOTAL OTHER FINANCING (USES)</b>	<u>(143,000)</u>	<u>(128,802)</u>	<u>14,198</u>
<b>NET (LOSS)</b>	<u>\$ (496,000)</u>	<u>\$ (411,187)</u>	<u>\$ 84,812</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**WATER SUPPLY FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Water sales	\$ 647,500	\$ 647,935	\$ 435
Sale of material and labor	10,000	10,485	485
Water permits	-	226	226
Fire hydrant rental	<u>60,000</u>	<u>60,000</u>	
<b>TOTAL OPERATING REVENUE</b>	<u>717,500</u>	<u>718,646</u>	<u>1,146</u>
<b>OPERATING EXPENSES:</b>			
Salaries	173,500	158,443	15,057
Fringe benefits	105,900	105,832	68
Administrative cost	34,000	34,000	
Supplies	11,200	6,534	4,666
Postage	700	683	17
Chemicals	29,800	29,706	94
Professional services	7,400	7,309	91
Contracted services	2,600	12,937	(10,337)
Telephone	600	596	4
Transportation	500	410	90
Insurance	5,900	5,822	78
Utilities	62,800	64,207	(1,407)
Equipment maintenance	3,400	3,396	4
Repairs and maintenance	10,300	3,065	7,235
Maintenance of mains	5,100	5,019	81
Maintenance of grounds	500	457	43
Equipment rental	8,400	8,350	50
Education and training	400	365	35
Depreciation	165,000	166,000	(1,000)
Amortization		<u>20,037</u>	<u>(20,037)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>628,000</u>	<u>633,168</u>	<u>(5,168)</u>
<b>OPERATING INCOME</b>	<u>89,500</u>	<u>85,478</u>	<u>(4,022)</u>
<b>NONOPERATING REVENUE (EXPENSES):</b>			
Interest income	57,500	58,415	915
Property taxes	58,000	187,909	129,909
Contributions from customers	45,000	45,030	30
Interest expense	(87,000)	(199,646)	(112,646)
Paying agent fees		<u>(374)</u>	<u>(374)</u>
<b>TOTAL NONOPERATING REVENUE</b>	<u>73,500</u>	<u>91,334</u>	<u>17,834</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>163,000</u>	<u>176,811</u>	<u>13,812</u>
<b>OTHER FINANCING SOURCES:</b>			
Operating transfers in	-	42,446	42,446
<b>NET INCOME</b>	<u>\$ 163,000</u>	<u>\$ 219,257</u>	<u>\$ 56,258</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**NORTH PARK FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Charges for services	\$ 197,500	\$ 199,233	\$ 1,733
Sale of materials	4,000	4,308	308
<b>TOTAL OPERATING REVENUE</b>	<u>201,500</u>	<u>203,541</u>	<u>2,041</u>
<b>OPERATING EXPENSES:</b>			
Salaries	45,500	45,931	(431)
Fringe benefits	17,600	17,522	78
Administrative cost	9,000	9,000	
Supplies and tools	4,400	4,323	77
Merchandise	1,000	724	276
Professional services	800	800	
Contracted services	2,500	2,473	27
Telephone	2,000	1,964	36
Community promotion	1,300	1,221	79
Printing & publishing	400	279	121
Postage	200	162	38
Insurance	1,500	1,410	90
Utilities	39,700	39,539	161
Repairs and maintenance	10,500	5,538	4,962
Equipment rental	2,800	2,713	87
Dues and subscriptions	1,200	1,146	54
State sales tax	200	136	64
Depreciation	32,000	31,770	230
Bank Charge - Credit cards	1,200	1,162	38
<b>TOTAL OPERATING EXPENSES</b>	<u>173,800</u>	<u>167,813</u>	<u>5,987</u>
<b>OPERATING INCOME</b>	<u>27,700</u>	<u>35,728</u>	<u>8,028</u>
<b>NONOPERATING REVENUE:</b>			
Interest income	-	51	51
Contributions	500	2,747	2,247
<b>TOTAL NONOPERATING REVENUE</b>	<u>500</u>	<u>2,798</u>	<u>2,298</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>28,200</u>	<u>38,526</u>	<u>10,326</u>
<b>OTHER FINANCING (USES):</b>			
Operating transfers out	(54,000)	(54,000)	
<b>NET LOSS</b>	<u>\$ (25,800)</u>	<u>\$ (15,474)</u>	<u>\$ 10,326</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**MARINA FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Charges for marina services	\$ 63,500	\$ 64,873	\$ 1,373
Sale of marina material and labor	125,500	126,571	1,071
Miscellaneous		5,000	5,000
<b>TOTAL OPERATING REVENUE</b>	<u>189,000</u>	<u>196,444</u>	<u>7,444</u>
<b>OPERATING EXPENSES:</b>			
Salaries	34,000	32,207	1,793
Fringe benefits	20,100	19,698	402
Administrative cost	7,000	7,000	
Office expense	1,100	919	181
Supplies and tools	2,100	2,034	66
Merchandise	94,400	96,059	(1,659)
Professional services	700	700	
Engineering fees	900	900	
Telephone	1,500	1,406	94
Transportation	1,000	963	37
Community promotion	600	527	73
Postage	100	73	27
Insurance	7,500	7,435	65
Utilities	15,400	15,253	147
Repairs and maintenance	13,400	8,595	4,805
Equipment rental	1,000	600	400
License	800	750	50
Diesel tax	2,500	2,482	18
State sales tax	6,000	5,932	68
Depreciation	84,000	83,485	515
Bank Charge - Credit cards	3,900	3,746	154
<b>TOTAL OPERATING EXPENSES</b>	<u>298,000</u>	<u>290,764</u>	<u>7,236</u>
<b>OPERATING LOSS</b>	<u>(109,000)</u>	<u>(94,320)</u>	<u>14,680</u>
<b>NONOPERATING REVENUE:</b>			
Interest income		24	24
Contributions	7,000	7,226	226
<b>TOTAL NONOPERATING REVENUE</b>	<u>7,000</u>	<u>7,250</u>	<u>250</u>
<b>NET LOSS</b>	<u>\$ (102,000)</u>	<u>\$ (87,070)</u>	<u>\$ 14,930</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**INTERNAL SERVICE FUND  
SCHEDULE OF REVENUE AND EXPENSES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>OPERATING REVENUE:</b>			
Rental of equipment	\$ 142,000	\$ 142,294	\$ 294
<b>OPERATING EXPENSES:</b>			
Salaries	7,600	7,577	23
Fringe benefits	3,800	3,743	57
Administrative cost	1,000	1,000	
Supplies and tools	2,100	2,099	1
Repair parts	4,500	4,448	52
Professional services	1,400	1,400	
Telephone	1,000	907	93
Gas and oil	16,200	16,137	63
Insurance	4,800	4,735	65
Equipment maintenance	2,500	2,472	28
Capital Outlay	28,000		28,000
Depreciation	42,100	44,238	(2,138)
<b>TOTAL OPERATING EXPENSES</b>	<u>115,000</u>	<u>88,756</u>	<u>26,244</u>
<b>OPERATING INCOME</b>	<u>27,000</u>	<u>53,538</u>	<u>26,538</u>
<b>NONOPERATING REVENUE:</b>			
Interest income	34,000	34,355	355
Sale of assets	-	1,476	1,476
<b>TOTAL NONOPERATING REVENUE</b>	<u>34,000</u>	<u>35,831</u>	<u>1,831</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>61,000</u>	<u>89,369</u>	<u>28,369</u>
<b>OTHER FINANCING (USES)</b>			
Operating transfers out		(1,476)	(1,476)
<b>NET INCOME</b>	<u>\$ 61,000</u>	<u>\$ 87,893</u>	<u>\$ 26,893</u>



**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS  
AT JUNE 30, 2007**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/07	\$ 70,000	5.25%	\$ 81,874	\$ 151,874
05/01/08			80,036	80,036
11/01/08	74,000	5.25	80,036	154,036
05/01/09			78,094	78,094
11/01/09	77,000	5.25	78,094	155,094
05/01/10			76,073	76,073
11/01/10	81,000	5.25	76,073	157,073
05/01/11			73,946	73,946
11/01/11	86,000	5.25	73,946	159,946
05/01/12			71,689	71,689
11/01/12	90,000	5.25	71,689	161,689
05/01/13			69,326	69,326
11/01/13	95,000	5.25	69,326	164,326
05/01/14			66,833	66,833
11/01/14	100,000	5.25	66,833	166,833
05/01/15			64,208	64,208
11/01/15	105,000	5.25	64,208	169,208
05/01/16			61,451	61,451
11/01/16	111,000	5.25	61,451	172,451
05/01/17			58,538	58,538
11/01/17	116,000	5.25	58,538	174,538
05/01/18			55,492	55,492
11/01/18	123,000	5.25	55,492	178,492
05/01/19			52,264	52,264
11/01/19	129,000	5.25	52,264	181,264
05/01/20			48,877	48,877
11/01/20	136,000	5.25	48,877	184,877
05/01/21			45,307	45,307
11/01/21	143,000	5.25	45,307	188,307
05/01/22			41,554	41,554
11/01/22	150,000	5.25	41,554	191,554
05/01/23			37,616	37,616
11/01/23	158,000	5.25	37,616	195,616
05/01/24			33,469	33,469
11/01/24	167,000	5.25	33,469	200,469
05/01/25			29,085	29,085
11/01/25	175,000	5.25	29,085	204,085
05/01/26			24,491	24,491
11/01/26	185,000	5.25	24,491	209,491
05/01/27			19,635	19,635
11/01/27	194,000	5.25	19,635	213,635

(Continued)

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
1993 WATER SUPPLY AND DISTRIBUTION SYSTEM REVENUE BONDS  
AT JUNE 30, 2007**

<b>MATURITY</b>	<b>DATE</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>		<b>TOTAL</b>
			<b>RATE</b>	<b>AMOUNT</b>	
	05/01/28			14,542	14,542
	11/01/28	204,000	5.25	14,542	218,542
	05/01/29			9,187	9,187
	11/01/29	215,000	5.25	9,187	224,187
	05/01/30			3,544	3,544
	11/01/30	135,000	5.25	3,544	138,544
<b>TOTALS</b>		<u>\$ 3,119,000</u>		<u>\$ 2,312,388</u>	<u>\$ 5,431,388</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2000 GENERAL OBLIGATION PUBLIC IMPROVEMENT BONDS  
AT JUNE 30, 2007**

<b>MATURITY</b>	<b><u>DATE</u></b>	<b><u>PRINCIPAL</u></b>	<b><u>INTEREST</u></b>		<b><u>TOTAL</u></b>
			<b><u>RATE</u></b>	<b><u>AMOUNT</u></b>	
	11/01/07			\$ 7,431	\$ 7,431
	05/01/08	\$ 85,000	5.125%	7,431	92,431
	11/01/08			5,253	5,253
	05/01/09	95,000	5.125	5,253	100,253
	11/01/09			2,819	2,819
	05/01/10	110,000	5.125	2,819	112,819
<b>TOTALS</b>		<b>\$ 290,000</b>		<b>\$ 31,006</b>	<b>\$ 321,006</b>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2004 GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS  
AT JUNE 30, 2007**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/07			\$ 19,696	\$ 19,696
05/01/08	\$ 35,000	3.750%	19,696	54,696
11/01/08			19,040	19,040
05/01/09	40,000	3.900	19,040	59,040
11/01/09			18,260	18,260
05/01/10	40,000	4.000	18,260	58,260
11/01/10			17,460	17,460
05/01/11	40,000	4.150	17,460	57,460
11/01/11			16,630	16,630
05/01/12	40,000	4.300	16,630	56,630
11/01/12			15,770	15,770
05/01/13	45,000	4.400	15,770	60,770
11/01/13			14,780	14,780
05/01/14	45,000	4.500	14,780	59,780
11/01/14			13,768	13,768
05/01/15	45,000	4.500	13,768	58,768
11/01/15			12,755	12,755
05/01/16	50,000	4.600	12,755	62,755
11/01/16			11,605	11,605
05/01/17	50,000	4.700	11,605	61,605
11/01/17			10,430	10,430
05/01/18	50,000	4.800	10,430	60,430
11/01/18			9,230	9,230
05/01/19	55,000	4.850	9,230	64,230
11/01/19			7,896	7,896
05/01/20	55,000	5.000	7,896	62,896
11/01/20			6,521	6,521
05/01/21	60,000	5.000	6,521	66,521
11/01/21			5,021	5,021
05/01/22	60,000	5.150	5,021	65,021
11/01/22			3,476	3,476
05/01/23	65,000	5.150	3,476	68,476
11/01/23			1,803	1,803
05/01/24	70,000	5.150	1,803	71,803
<b>TOTALS</b>	<b>\$ 845,000</b>		<b>\$ 408,283</b>	<b>\$ 1,253,283</b>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2003 INSTALLMENT PURCHASE AGREEMENT  
AT JUNE 30, 2007**

<b>MATURITY DATE</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>		<b>TOTAL</b>
		<b>RATE</b>	<b>AMOUNT</b>	
10/01/07	\$ 30,000	3.190%	\$ 7,178	\$ 37,178
04/01/08			6,699	6,699
10/01/08	30,000	3.190	6,699	36,699
04/01/09			6,221	6,221
10/01/09	30,000	3.190	6,221	36,221
04/01/10			5,742	5,742
10/01/10	30,000	3.190	5,742	35,742
04/01/11			5,264	5,264
10/01/11	35,000	3.190	5,264	40,264
04/01/12			4,705	4,705
10/01/12	35,000	3.190	4,705	39,705
04/01/13			4,147	4,147
10/01/13	40,000	3.190	4,147	44,147
04/01/14			3,509	3,509
10/01/14	40,000	3.190	3,509	43,509
04/01/15			2,871	2,871
10/01/15	40,000	3.190	2,871	42,871
04/01/16			2,233	2,233
10/01/16	45,000	3.190	2,233	47,233
04/01/17			1,515	1,515
10/01/17	45,000	3.190	1,515	46,515
04/01/18			798	798
10/01/18	50,000	3.190	798	50,798
<b>TOTALS</b>	<u>\$ 450,000</u>		<u>\$ 94,584</u>	<u>\$ 544,584</u>

**CITY OF HARBOR BEACH, MICHIGAN**

**SCHEDULE OF PRINCIPAL AND INTEREST REQUIREMENTS  
2006 GENERAL OBLIGATION REFUNDING BONDS  
AT JUNE 30, 2007**

<u>MATURITY</u> <u>DATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>		<u>TOTAL</u>
		<u>RATE</u>	<u>AMOUNT</u>	
11/01/07			\$ 44,981	\$ 44,981
05/01/08	\$ 15,000	3.750%	44,981	59,981
11/01/08			44,700	44,700
05/01/09	20,000	3.750	44,700	64,700
11/01/09			44,325	44,325
05/01/10	20,000	3.750	44,325	64,325
11/01/10			43,950	43,950
05/01/11	145,000	4.000	43,950	188,950
11/01/11			41,050	41,050
05/01/12	160,000	4.000	41,050	201,050
11/01/12			37,850	37,850
05/01/13	170,000	4.000	37,850	207,850
11/01/13			34,450	34,450
05/01/14	185,000	4.000	34,450	219,450
11/01/14			30,750	30,750
05/01/15	205,000	4.000	30,750	235,750
11/01/15			26,650	26,650
05/01/16	225,000	4.000	26,650	251,650
11/01/16			22,150	22,150
05/01/17	245,000	4.000	22,150	267,150
11/01/17			17,250	17,250
05/01/18	265,000	4.000	17,250	282,250
11/01/18			11,950	11,950
05/01/19	290,000	4.000	11,950	301,950
11/01/19			6,150	6,150
05/01/20	300,000	4.100	6,150	306,150
	<u>\$ 2,245,000</u>		<u>\$ 812,413</u>	<u>\$ 3,057,413</u>



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CPA's On Your Team

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

To the City Council  
City of Harbor Beach, Michigan

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

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Harbor Beach, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harbor Beach, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harbor Beach, 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 Harbor Beach, 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 Harbor Beach, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Harbor Beach, Michigan's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. (2007-1)

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 Harbor Beach, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items (2007-1) to be a material weakness.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harbor Beach, 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 other matters that we reported to management of the City of Harbor Beach, Michigan in a separate letter dated November 27, 2007.

This report is intended solely for the information and use of management, the City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nietzke & Faupel, PC*

NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

November 27, 2007

**CITY OF HARBOR BEACH**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2007**

**FINDINGS:**

Significant Deficiencies

2007-1        The personnel of the City of Harbor Beach, Michigan have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of the City of Harbor Beach, Michigan do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standard #112.

**RESPONSE:**

The management of the City does not believe that it would be cost effective to obtain or hire the expertise necessary to prepare the City's external audit report in accordance with generally accepted accounting principles.

To the City Council  
 City of Harbor Beach  
 Harbor Beach, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the City of Harbor Beach for the year ended June 30, 2007 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all inclusive.

### Expenditures in Excess of Appropriations

The City's budget for the 2006-2007 fiscal year was prepared in accordance with P.A. #621 with the following exceptions.

The Act provides that a local unit of government shall not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts budgeted as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General Fund:			
Debt service	\$39,800	\$59,042	\$(19,242)

### Balanced Budget

The City's budget for the 2006-2007 Parks and Recreation Fund was prepared at a level that created a projected deficit for the fund. One of the requirements of the State Budget Act is that a balanced budget be prepared for the general fund and all special revenue funds. In order to prepare a balanced budget, the budgeted expenditures of the fund cannot exceed the expected revenue for the year plus the available fund balance carried forward from the previous fiscal year. When preparing its budgets and the subsequent budget amendments, the City Administration should review the budgets to make sure that the budget does not create a projected fund balance deficit.

### Deficit Elimination Plan

During the fiscal year ended June 30, 2007, the City's Recreation Fund was reorganized into three different funds; the Parks and Recreation Fund (a governmental fund), the North Park Fund, and the Marina Fund (both are enterprise funds). As a result of the reorganization of the funds and the financial activity of the North Park and Marina Funds, both the North Park and the Marina Funds ended the fiscal with deficit unrestricted net assets. Therefore, the City's deficit elimination plan should be updated to include both of the recreation enterprise funds and the revised plan submitted to the State of Michigan for approval.

**New Auditing Standards**

The American Institute of Certified Public Accountants has issued eight new auditing standards that will require the auditors of non-public entities to focus more on evaluating the internal controls related to an entity's financial reporting process. Non-public entities include (but are not limited to) privately-held companies and governmental units. The new auditing standards, Statements on Auditing Standards 104 through 111, are effective for the audits of financial statements for entities with fiscal years beginning after December 15, 2006. Accordingly, the Standards will be applicable for your financial statement audit for the year ending June 30, 2008 and subsequent fiscal year ends.

In connection with the requirements of the Standards, the auditors will be required to spend more up-front time evaluating the internal controls of an entity and planning for the financial statement audit. This up-front time will include procedures performed by the auditors at an interim period before the end of an entity's fiscal year-end. These interim procedures will include more time spent on reviewing processes and procedures and reviewing detailed transactions. Management should expect the auditors to ask more detailed questions concerning internal controls than they may have asked in the past. Management should also expect the auditors to request documentation that demonstrates control procedures that are being performed, as well as the auditors observing those controls that cannot be verified through the inspection of supporting documentation.

The principal information that the auditors are going to require from management in the assessment of internal controls is formal documentation of how the policies and procedures of an entity and its financial reporting process are performed. This documentation is best provided in a narrative format. The auditors will then use this information to plan and conduct the audit under the new auditing standards.

The above recommendations are being made in an effort to improve the City's system of record keeping and to aid the City in conforming to State requirements. Each of the items noted above were discussed with the City's administration. If you have any questions regarding these recommendations, please contact us.

*Nietzke & Faupel, P.C.*

Nietzke & Faupel, P.C.  
Pigeon, Michigan

November 27, 2007