

### 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 <b>City of Crystal Falls</b>	County <b>Iron</b>
Fiscal Year End <b>9/30/07</b>	Opinion Date <b>2/1/08</b>	Date Audit Report Submitted to State <b>2/12/08</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit
Certified Public Accountant (Firm Name) <b>Scott R. Kenney, CPA</b>	Telephone Number <b>906-875-4393</b>	
Street Address <b>1374 Commercial Avenue, Suite 1</b>	City <b>Crystal Falls</b>	State <b>MI</b> Zip <b>49920</b>
Authorizing CPA Signature 	Printed Name <b>Scott R. Kenney</b>	License Number <b>11483</b>

**CITY OF CRYSTAL FALLS**  
AUDITED FINANCIAL STATEMENTS  
CRYSTAL FALLS, MICHIGAN

Fiscal Year Ended September 30, 2007

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# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, Michigan 49920

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Crystal Falls, Michigan, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express opinions on these financial statements based on my audit.

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

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

In accordance with *Government Auditing Standards*, I have also issued my report dated February 1, 2008, on my consideration of the City of Crystal Falls, Michigan's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

The Management's Discussion and Analysis and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Crystal Falls, Michigan's basic financial statements. The introductory section, 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Crystal Falls, Michigan. The combining and individual nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied by me and other auditors in the audit of the basic financial statements and, in my opinion, based on my audit and the report of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.

  
Certified Public Accountant

February 1, 2008

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

Using this Annual Report

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

The City as a Whole

The City's combined net assets decreased 1.6% from a year ago - decreasing from \$6.240 million to \$6.138 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately \$6,000 during the year (1.0% increase). This is primarily attributed to increases in capital spending and a substantial increase in the underfunded status in the employee pension plan offset by significantly larger transfers from the utility funds than in prior years. The business-type activities experienced a decrease in net assets of \$108 thousand (1.9% decrease). The decrease is attributed to the large transfers to the general fund and the spending necessary to complete the electric system automation project. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 806	\$ 859	\$ 776	\$ 591	\$ 1,582	\$ 1,450
Noncurrent Assets	<u>585</u>	<u>655</u>	<u>13,098</u>	<u>9,382</u>	<u>13,683</u>	<u>10,037</u>
Total Assets	\$ 1,391	\$ 1,514	\$13,874	\$ 9,973	\$ 15,265	\$ 11,487
Long-Term Debt Outstanding	\$ 24	\$ 592	\$ 6,789	\$ 4,192	\$ 6,813	\$ 4,784
Other Liabilities	<u>174</u>	<u>301</u>	<u>1,190</u>	<u>264</u>	<u>1,364</u>	<u>565</u>
Total Liabilities	\$ <u>198</u>	\$ <u>893</u>	\$ <u>7,979</u>	\$ <u>4,456</u>	\$ <u>8,177</u>	\$ <u>5,349</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 585	\$ 630	\$ 5,523	\$ 4,559	\$ 6,108	\$ 5,189
Restricted	50	47	116	391	166	438
Unrestricted	<u>558</u>	<u>(56)</u>	<u>256</u>	<u>567</u>	<u>814</u>	<u>511</u>
Total Net Assets	\$ 1,193	\$ 621	\$ 5,895	\$ 5,517	\$ 7,088	\$ 6,138

Unrestricted net asset—the part of net assets that can be used to finance day to day operations,

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

increased by \$572,000 for the governmental activities. This increase can be attributed primarily to no longer recognizing the unfunded pension obligation which was \$554,000. The current level of unrestricted net assets for our governmental activities stands at \$558,000. The business type funds unrestricted net assets decreased by \$311,000. This decrease can be attributed to a transfer from the Water Fund to the General Fund of \$525,000 prior to commencing the project.

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

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Program Revenues</b>						
Charges for Services	\$ 73	\$ 159	\$ 2,885	\$ 2,517	\$ 2,958	\$2,676
Operating Grants and Contributions	238	321	263	0	501	321
Capital Grants and Contributions	11	16	0	0	11	16
<b>General Revenues</b>						
Property Taxes	\$ 355	\$ 334	\$ 0	\$ 0	\$ 355	\$ 334
State-Shared Revenues	219	224	20	0	239	224
Unrestricted Investment Earnings	53	46	37	35	90	81
Fines and forfeitures	3	1	0	0	3	1
Other	110	48	23	0	133	48
Transfers	<u>516</u>	<u>580</u>	<u>(516)</u>	<u>(580)</u>	<u>0</u>	<u>0</u>
<b>Total Revenues</b>	<b>\$ 1,578</b>	<b>\$ 1,729</b>	<b>\$ 2,712</b>	<b>\$ 1,972</b>	<b>\$ 4,290</b>	<b>\$3,701</b>
<b>Program Expenses</b>						
Legislative	\$ 17	\$ 11	\$ 0	\$ 0	\$ 17	\$ 11
General Government	343	639	0	0	343	639
Public Safety	488	428	0	0	488	428
Public Works	373	447	0	0	373	447
Recreation & Culture	69	157	0	0	69	157
Community betterment	99	41	0	0	99	41
Interest and fees on debt	2	0	0	0	2	0
Public Utilities	<u>0</u>	<u>0</u>	<u>2,777</u>	<u>2,079</u>	<u>2,777</u>	<u>2,079</u>
<b>Total Expenses</b>	<b>\$ 1,391</b>	<b>\$1,723</b>	<b>\$ 2,777</b>	<b>\$2,079</b>	<b>\$ 4,168</b>	<b>\$3,802</b>
<b>Change in Net Assets</b>	<b>\$ 187</b>	<b>\$ 6</b>	<b>\$ ( 65)</b>	<b>\$ (107)</b>	<b>\$ 122</b>	<b>\$(101)</b>

The City's net assets increased by \$223,000 during the year and remain at a mediocre level. Governmental Net Assets increased by \$181,000. This is attributed to the transfers into the General

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

fund from the Television and Water Fund. The Business Type Net Assets increased by \$42,000 even with the transfers to the General Fund. Housing and business construction within the City remained at a slow pace this past year.

Governmental Activities

The City's total governmental revenue decreased by approximately \$151,000 due to the reclassification of Golfing revenues from the General Fund to a separate business type fund. In addition, operating grants (Act 51 payments) decreased during the year.

Expenditures decreased by slightly more than \$332,000 during the year. This decrease is the result of no longer recording the increase in the unfunded pension obligation (which increased by more than \$1,000,000 during the year) and the reclassification of golf course expenditures to the newly recognized Golf Fund. The City also saw its expenditures decrease due to some early retirements and retiring employees not being replaced.

Business-Type Activities

The City's business-type activities consist of the Television, Electric, Golf, Water and Sewer Funds. The City provides cable television services to residents through its cable television system. The City also provides electric service to residents by generating hydroelectric power at its own facilities and supplements its customers needs with power purchased from WE Energies. The City owns and operates a public 9-hole golf course. The City provides water and sewer services to residents, which come from the City's own systems. The Television Fund saw its revenues increase due to a rate increase implemented to offset rising costs. The Electric Fund saw its revenues remain constant with the prior year and expenditures rise due to increasing costs to purchase power in excess of the power generated. The City completed a project to automate the power plant operations. The cost of the project is expected to have a seven year payback. The Water Fund revenues increased along with costs due to the water project being undertaken. The Sewer Fund revenues remained constant during the year and expenses increased substantially due to a large increase in depreciation. The Golf Fund was established at the beginning of the fiscal year and this is the first year of its operation as a stand alone enterprise fund.

The City's Funds

Analysis of the City's major funds begins on page 13, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a federal grant/loan. The City's major funds

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

for 2006-2007 include the General Fund, Major Street Fund, Electric Reserve and Contingency Fund and each of the business type funds.

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

General Fund Budgetary Highlights

Over the course of the year, the City Council did not amend the budget to take into account events during the year. As a result, several expenditure categories experienced more in actual expenditures than were authorized in the budget. The material excesses are listed in the Notes to the Financial Statements.

Capital Asset and Debt Administration

At the end of the 2007 fiscal year, the City had more than \$16,809,000 invested in a broad range of capital assets, including snow removal equipment, police and fire equipment, land and buildings, community television system, electric system, golf course, water and sewer systems. In addition, the City has invested significantly in roads and sidewalks within the City which are not included in the total. These roads are maintained by the City with the costs recorded in the major and local street funds.

The City has outstanding revenue bonds from prior years in its Electric and Sewer Funds. A new revenue bond was issued during the year which was purchased by Rural Development. \$2,725,000 was drawn on the bond during the year with the balance of \$1,499,000 expected to be drawn in the next fiscal year. This revenue bond is being used to upgrade the Water System and to begin obtaining water from Crystal Falls Township which will now be the primary source of water to City customers.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2007-2008 calls for an increase in property tax rates. Because of the impact of Proposal A and an insecure cash position, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

CITY OF CRYSTAL FALLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2007

Business Type Funds will continue to be scrutinized carefully to be certain that rates and/or fees for services are proportionate to the related expenses.

Contacting the City's Management

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

CITY OF CRYSTAL FALLS  
GOVERNMENT WIDE STATEMENT OF NET ASSETS  
September 30, 2007

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u>
ASSETS			
CURRENT ASSETS			
Cash and equivalents	\$ 519,134	\$ 343,368	\$ 862,502
Receivables - net	132,741	432,554	565,295
Prepaid expenses	50,408	0	50,408
Internal balances	<u>104,108</u>	<u>0</u>	<u>104,108</u>
TOTAL CURRENT ASSETS	\$ 806,391	\$ 775,922	\$ 1,582,313
RESTRICTED ASSETS - Cash and equivalents	\$ 0	\$ 516,377	\$ 516,377
NON-CURRENT ASSETS			
Property and equipment, net of depreciation	\$ 584,659	\$ 12,440,221	\$ 13,024,879
Other	<u>0</u>	<u>142,069</u>	<u>142,069</u>
TOTAL NON-CURRENT ASSETS	\$ 584,659	\$ 12,582,290	\$ 13,166,948
TOTAL ASSETS	\$ 1,391,050	\$ 13,874,589	\$ 15,265,638
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 82,077	\$ 820,333	\$ 902,410
Accrued and other liabilities	30,171	205,822	235,993
Interprogram payables	61,967	35,716	97,683
Current part of non-current liabilities	<u>0</u>	<u>128,000</u>	<u>128,000</u>
TOTAL CURRENT LIABILITIES	\$ 174,215	\$ 1,189,871	\$ 1,364,086
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 378,048	\$ 378,048
NON-CURRENT LIABILITIES			
Compensated absences	\$ 24,109	\$ 0	\$ 24,109
Revenue bonds payable	<u>0</u>	<u>6,410,952</u>	<u>6,410,952</u>
TOTAL NON-CURRENT LIABILITIES	\$ 24,109	\$ 6,410,952	\$ 6,435,061
TOTAL LIABILITIES	\$ 198,324	\$ 7,978,871	\$ 8,177,195
NET ASSETS			
Invested in capital assets, net of related debt	\$ 584,659	\$ 5,523,221	\$ 6,107,879
Restricted for			
Prepaid expenses	50,408	0	50,408
Bond discount	0	8,075	8,075
Construction	0	887	887
Repair and reconstruction	0	107,594	107,594
Unrestricted	<u>557,659</u>	<u>255,941</u>	<u>813,600</u>
TOTAL NET ASSETS	\$ <u>1,192,725</u>	\$ <u>5,895,718</u>	\$ <u>7,088,443</u>

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



CITY OF CRYSTAL FALLS  
GOVERNMENTAL FUNDS BALANCE SHEET  
COMBINED BALANCE SHEET  
September 30, 2007

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
Cash and equivalents	\$ 127,006	\$ 105,472	\$ 268,658	\$ 17,998	\$ 519,134
Accounts receivable	8,397	0	0	0	8,397
Due from other funds	40,248	61,967	0	1,893	104,108
Due from other governmental units	92,560	22,882	0	8,902	124,344
Prepaid expenses	<u>50,408</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>50,408</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>318,619</u></b>	<b>\$ <u>190,321</u></b>	<b>\$ <u>268,658</u></b>	<b>\$ <u>28,793</u></b>	<b>\$ <u>806,391</u></b>
<b>LIABILITIES</b>					
Accounts payable	\$ 79,143	\$ 1,666	\$ 0	\$ 1,268	\$ 82,077
Accrued payroll expense	18,485	522	0	169	19,176
Due to other funds	61,967	0	0	0	61,967
Accrued pension expense	10,995	0	0	0	10,995
Other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 170,590</b>	<b>\$ 2,188</b>	<b>\$ 0</b>	<b>\$ 1,437</b>	<b>\$ 174,215</b>
<b>FUND BALANCES</b>					
Reserved for					
Prepaid expenses	\$ 50,408	\$ 0	\$ 0	\$ 0	\$ 50,408
Drug forfeitures	0	0	0	0	0
Unreserved	<u>97,621</u>	<u>188,133</u>	<u>268,658</u>	<u>27,356</u>	<u>581,768</u>
<b>TOTAL FUND EQUITY</b>	<b>\$ <u>148,029</u></b>	<b>\$ <u>188,133</u></b>	<b>\$ <u>268,658</u></b>	<b>\$ <u>27,356</u></b>	<b>\$ <u>632,176</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>318,619</u></b>	<b>\$ <u>190,321</u></b>	<b>\$ <u>268,658</u></b>	<b>\$ <u>28,793</u></b>	<b>\$ <u>806,391</u></b>

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

CITY OF CRYSTAL FALLS  
RECONCILIATION OF BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
September 30, 2007

Total fund balance - total governmental funds	\$ 632,176
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds net of related depreciation	584,659
Long term liabilities:	
Accumulated employee vacation pay not used in current period	<u>(24,109)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$	<u><u>1,192,725</u></u>

CITY OF CRYSTAL FALLS  
 ALL GOVERNMENTAL FUND TYPES  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 Year ended September 30, 2007

	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>ELECTRIC RESERVE &amp; CONTINGENCY</u>	<u>NON-MAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUES</b>					
General property taxes	\$ 351,018	\$ 0	\$ 0	\$ 4,069	\$ 355,087
Federal grants	11,000	0	0	0	11,000
State shared revenues and grants	219,201	176,151	0	61,770	457,122
Charges for services	73,494	0	0	0	73,494
Fines and forfeitures	3,470	0	0	0	3,470
Interest and rentals	100,126	540	11,903	2,526	115,095
Sale of property/timber	29,237	0	0	0	29,237
Other	5,542	0	0	0	5,542
<b>TOTAL REVENUES</b>	<b>\$ 793,088</b>	<b>\$ 176,691</b>	<b>\$ 11,903</b>	<b>\$ 68,365</b>	<b>\$ 1,050,047</b>
<b>EXPENDITURES</b>					
Legislative	\$ 17,061	\$ 0	\$ 0	\$ 0	\$ 17,061
General government	317,573	6,834	0	7,842	332,249
Public safety	478,054	0	0	0	478,054
Public works	238,099	86,843	0	66,713	391,655
Parks and recreation	64,886	0	0	0	64,886
Community betterment	98,972	0	0	0	98,972
Debt service	202,251	0	0	18,090	220,341
Capital outlay	67,093	88,033	0	0	155,126
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,483,989</b>	<b>\$ 181,710</b>	<b>\$ 0</b>	<b>\$ 92,645</b>	<b>\$ 1,758,344</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (690,901)</b>	<b>\$ (5,019)</b>	<b>\$ 11,903</b>	<b>\$ (24,280)</b>	<b>\$ (708,297)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfer from other funds	\$ 586,459	\$ 0	\$ 0	\$ 895	\$ 587,354
Loan proceeds	200,000	0	0	0	200,000
Transfer from other governmental units	75,000	0	0	0	75,000
Transfer to other funds	(34,780)	0	0	(36,459)	(71,239)
<b>EXCESS OF REVENUES AND OTHER FINANCING USES OVER EXPENDITURES</b>	<b>\$ 135,778</b>	<b>\$ (5,019)</b>	<b>\$ 11,903</b>	<b>\$ (59,844)</b>	<b>\$ 82,818</b>
Fund balance - beginning	12,251	193,152	256,755	87,200	549,358
<b>FUND BALANCE - ENDING</b>	<b>\$ 148,029</b>	<b>\$ 188,133</b>	<b>\$ 268,658</b>	<b>\$ 27,356</b>	<b>\$ 632,176</b>

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

CITY OF CRYSTAL FALLS  
RECONCILIATION OF STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
Year ended September 30, 2007

Net change in fund balance - total governmental funds	\$	82,818
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation		87,537
Short term borrowing; this loan is reflected as a increase of liabilities on the government-wide statements and as a revenue in the the governmental fund statements		(200,000)
Payments on long term debt; these expenditures are reflected as a reduction of liabilities on government-wide statements and an expenditure in the governmental fund statements		218,090
Decreases in accumulated employee vacation are recorded when earned in the Statement of Activities		(1,459)
Rental of equipment recorded as income in the various governmental funds and eliminated in the Statement of Activities		(62,795)
Rental of equipment recorded as expenditures in the various governmental funds and eliminated in the Statement of Activities		<u>62,795</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>186,986</u></u>

**CITY OF CRYSTAL FALLS**  
**STATEMENT OF NET ASSETS**  
**BUSINESS TYPE FUNDS**  
September 30, 2007

	TELEVISION UTILITY	ELECTRIC UTILITY	GOLF	WATER UTILITY	SEWER UTILITY	TOTAL
<b>ASSETS</b>						
<b>Current Assets:</b>						
Cash and equivalents	\$ 31,673	\$ 59,560	\$ 17,172	\$ 61,540	\$ 173,423	\$ 343,368
Accounts receivable	0	408,612	843	0	13,202	422,657
Due from other governmental units	0	0	0	7,510	2,387	9,897
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 31,673</b>	<b>\$ 468,172</b>	<b>\$ 18,015</b>	<b>\$ 69,050</b>	<b>\$ 189,012</b>	<b>\$ 775,922</b>
Restricted Assets	\$ 0	\$ 151,192	\$ 0	\$ 64,539	\$ 300,646	\$ 516,377
<b>Property, Plant and Equipment:</b>						
Plant and equipment	\$ 214,737	\$ 1,876,672	\$ 721,077	\$ 265,391	\$ 8,588,882	\$ 11,666,759
Construction in progress	0	0	0	3,453,142	0	3,453,142
Less accumulated depreciation	(88,385)	(482,287)	(265,148)	(184,780)	(1,659,080)	(2,679,680)
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>\$ 126,352</b>	<b>\$ 1,394,385</b>	<b>\$ 455,929</b>	<b>\$ 3,533,753</b>	<b>\$ 6,929,802</b>	<b>\$ 12,440,221</b>
<b>Other Assets:</b>						
Bond Discount	\$ 0	\$ 8,075	\$ 0	\$ 0	\$ 0	\$ 8,075
Investments	0	133,994	0	0	0	133,994
<b>TOTAL OTHER ASSETS</b>	<b>\$ 0</b>	<b>\$ 142,069</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 142,069</b>
<b>TOTAL ASSETS</b>	<b>\$ 158,025</b>	<b>\$ 2,155,818</b>	<b>\$ 473,944</b>	<b>\$ 3,667,342</b>	<b>\$ 7,419,460</b>	<b>\$ 13,874,589</b>
<b>LIABILITIES</b>						
<b>Current Liabilities:</b>						
Accounts payable	\$ 14,079	\$ 75,083	\$ 4,713	\$ 726,032	\$ 426	\$ 820,333
Salaries, wages and payroll taxes payable	971	28,540	1,598	2,138	1,274	34,521
Sales tax payable	0	3,917	0	0	0	3,917
Due to other funds	0	0	35,716	0	0	35,716
Interest payable	0	12,943	0	15,719	12,383	41,045
Notes payable	0	40,656	0	0	0	40,656
Customer deposits	0	29,683	0	0	0	29,683
Deferred revenue	56,000	0	0	0	0	56,000
Current portion of long term debt	0	35,000	0	42,000	51,000	128,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 71,050</b>	<b>\$ 225,822</b>	<b>\$ 42,027</b>	<b>\$ 785,889</b>	<b>\$ 65,083</b>	<b>\$ 1,189,871</b>
Long Term Liabilities	\$ 0	\$ 855,000	\$ 0	\$ 2,683,000	\$ 3,251,000	\$ 6,789,000
<b>TOTAL LIABILITIES</b>	<b>\$ 71,050</b>	<b>\$ 1,080,822</b>	<b>\$ 42,027</b>	<b>\$ 3,468,889</b>	<b>\$ 3,316,083</b>	<b>\$ 7,978,871</b>
<b>NET ASSETS</b>						
Invested in capital assets - net of related debt	\$ 126,352	\$ 504,385	\$ 455,929	\$ 850,753	\$ 3,627,802	\$ 5,565,221
Restricted for bond discount	0	8,075	0	0	0	8,075
Restricted for debt service	0	121,344	0	0	200,878	322,222
Restricted for future construction and improvements	0	0	0	0	99,768	99,768
Unrestricted	(39,377)	441,192	(24,012)	(652,300)	174,929	(99,568)
<b>TOTAL NET ASSETS</b>	<b>\$ 86,975</b>	<b>\$ 1,074,996</b>	<b>\$ 431,917</b>	<b>\$ 198,453</b>	<b>\$ 4,103,377</b>	<b>\$ 5,895,718</b>

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

CITY OF CRYSTAL FALLS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
BUSINESS TYPE FUNDS  
Year ended September 30, 2007

	TELEVISION UTILITY	ELECTRIC UTILITY	GOLF	WATER UTILITY	SEWER UTILITY	TOTAL
<b>OPERATING REVENUES</b>						
User charges	\$ 222,153	\$ 1,701,188	\$ 106,907	\$ 492,430	\$ 337,696	\$ 2,860,374
Other	3,397	11,394	6,622	3,266	119	24,798
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 225,550</b>	<b>\$ 1,712,582</b>	<b>\$ 113,529</b>	<b>\$ 495,696</b>	<b>\$ 337,815</b>	<b>\$ 2,885,172</b>
<b>OPERATING EXPENSES</b>						
General and administrative						
Salaries and wages	\$ 434	\$ 38,931	\$ 0	\$ 31,913	\$ 8,238	\$ 79,516
Employee benefits	308	27,793	0	25,421	6,581	60,103
Contracted services	0	0	0	1,157	945	2,102
Transmission, distribution, operations and maintenance						
Salaries and wages	12,334	148,628	56,582	45,720	23,438	286,702
Employee benefits	12,449	142,135	45,142	36,437	18,637	254,800
Supplies	2,117	42,180	16,933	35,789	9,651	106,670
Contracted services	160,173	995,406	4,877	4,721	27,162	1,192,339
Other	3,518	182,592	15,200	7,561	6,099	214,970
Power plant						
Salaries and wages	0	52,517	0	0	0	52,517
Employee benefits	0	31,366	0	0	0	31,366
Supplies	0	4,787	0	0	0	4,787
Contracted services	0	3,495	0	0	0	3,495
Other	0	1,009	0	0	0	1,009
Depreciation	9,384	59,538	20,318	5,391	91,643	186,274
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 200,717</b>	<b>\$ 1,730,377</b>	<b>\$ 159,052</b>	<b>\$ 194,110</b>	<b>\$ 192,394</b>	<b>\$ 2,476,650</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 24,833</b>	<b>\$ (17,795)</b>	<b>\$ (45,523)</b>	<b>\$ 301,586</b>	<b>\$ 145,421</b>	<b>\$ 408,522</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>						
Interest	\$ 0	\$ 24,726	\$ 617	\$ 1,317	\$ 11,154	\$ 37,814
State grant proceeds	0	0	0	0	19,750	19,750
Rent	4,000	8,173	0	0	0	12,173
Reimbursement of prior expenditures	0	156,874	0	106,132	0	263,006
Gain on sale of property and equipment	0	2,996	0	0	0	2,996
Contribution from other governmental units	0	0	0	7,510	0	7,510
Amortization of contributed capital	0	(8,800)	0	0	(84,478)	(93,278)
Interest and fees expense	0	(41,142)	0	(15,719)	(150,611)	(207,472)
<b>NON-OPERATING TRANSFERS</b>						
From other funds	\$ 0	\$ 0	\$ 33,885	\$ 0	\$ 0	\$ 33,885
To other funds	(25,000)	0	0	(525,000)	0	(550,000)
<b>NET INCOME (LOSS)</b>	<b>\$ 3,833</b>	<b>\$ 125,032</b>	<b>\$ (11,021)</b>	<b>\$ (124,174)</b>	<b>\$ (58,764)</b>	<b>\$ (65,094)</b>
Net assets - beginning	83,142	949,964	442,938	322,627	4,162,141	5,960,812
<b>NET ASSETS - ENDING</b>	<b>\$ 86,975</b>	<b>\$ 1,074,996</b>	<b>\$ 431,917</b>	<b>\$ 198,453</b>	<b>\$ 4,103,377</b>	<b>\$ 5,895,718</b>

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

**CITY OF CRYSTAL FALLS**  
**STATEMENT OF CASH FLOWS**  
**BUSINESS TYPE FUNDS**  
Year ended September 30, 2007

	TELEVISION UTILITY	ELECTRIC UTILITY	GOLF	WATER UTILITY	SEWER UTILITY	TOTAL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 225,550	\$ 1,536,871	\$ 113,457	\$ 495,696	\$ 336,478	\$ 2,708,052
Payments to suppliers	(165,198)	(1,195,822)	(109,941)	(96,473)	(44,613)	(1,612,047)
Payments to or on behalf of employees	<u>(24,990)</u>	<u>(431,666)</u>	<u>(101,830)</u>	<u>(138,047)</u>	<u>(56,559)</u>	<u>(753,092)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 35,362</b>	<b>\$ (90,617)</b>	<b>\$ (98,314)</b>	<b>\$ 261,176</b>	<b>\$ 235,306</b>	<b>\$ 342,913</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Transfer from (to) other funds	\$ (25,000)	\$ 0	\$ 33,885	\$ (525,000)	\$ 0	\$ (516,115)
State grant proceeds	0	0	0	0	19,750	19,750
Reimbursement of prior expenditures	0	156,874	0	106,132	0	263,006
Loans from (repaid to) other funds	<u>0</u>	<u>0</u>	<u>35,717</u>	<u>0</u>	<u>0</u>	<u>35,717</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ (25,000)</b>	<b>\$ 156,874</b>	<b>\$ 69,602</b>	<b>\$ (418,868)</b>	<b>\$ 19,750</b>	<b>\$ (197,642)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Payments on capital debt	\$ 0	\$ (71,017)	\$ 0	\$ 0	\$ (199,793)	\$ (270,810)
Purchases of capital assets	(62,262)	(80,656)	(44,331)	(2,548,633)	0	(2,735,882)
Proceeds from sale of assets	0	2,996	0	0	0	2,996
Bond/loan proceeds	0	40,656	0	2,725,000	0	2,765,656
Funding of restricted accounts	<u>0</u>	<u>(5,183)</u>	<u>0</u>	<u>(64,539)</u>	<u>(33,943)</u>	<u>(103,665)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (62,262)</b>	<b>\$ (113,204)</b>	<b>\$ (44,331)</b>	<b>\$ 111,828</b>	<b>\$ (233,736)</b>	<b>\$ (341,705)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest earned	\$ 0	\$ 24,726	\$ 617	\$ 1,317	\$ 11,154	\$ 37,814
Rent received	4,000	8,173	0	0	0	12,173
Deferred revenue payment received	<u>56,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>56,000</u>
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>\$ 60,000</b>	<b>\$ 32,899</b>	<b>\$ 617</b>	<b>\$ 1,317</b>	<b>\$ 11,154</b>	<b>\$ 105,987</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 8,100</b>	<b>\$ (14,048)</b>	<b>\$ (72,426)</b>	<b>\$ (44,547)</b>	<b>\$ 32,474</b>	<b>\$ (90,447)</b>
Cash and equivalents - beginning	<u>23,573</u>	<u>73,608</u>	<u>89,598</u>	<u>106,087</u>	<u>140,949</u>	<u>433,815</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>31,673</u></b>	<b>\$ <u>59,560</u></b>	<b>\$ <u>17,172</u></b>	<b>\$ <u>61,540</u></b>	<b>\$ <u>173,423</u></b>	<b>\$ <u>343,368</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>						
Operating income (loss)	\$ 24,833	\$ (17,795)	\$ (45,523)	\$ 301,586	\$ 145,421	\$ 408,522
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities						
Depreciation	9,384	59,538	20,318	5,391	91,643	186,274
Change in Assets and Liabilities						
Receivables - net	0	(175,571)	(72)	0	(13,204)	(188,847)
Due from other governmental units	0	0	0	0	11,867	11,867
Accounts payable	610	33,647	(72,931)	(47,245)	(756)	(86,675)
Accrued salaries, wages and payroll taxes	535	9,704	(106)	1,444	335	11,912
Accrued sales tax	<u>0</u>	<u>(140)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(140)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>35,362</u></b>	<b>\$ <u>(90,617)</u></b>	<b>\$ <u>(98,314)</u></b>	<b>\$ <u>261,176</u></b>	<b>\$ <u>235,306</u></b>	<b>\$ <u>342,913</u></b>

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

CITY OF CRYSTAL FALLS  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS  
September 30, 2007

	<u>PERPETUAL CEMETERY CARE</u>	<u>TAX COLLECTIONS</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and equivalents	\$ 26,438	\$ 10,424	\$ 36,862
Accounts receivable	<u>144</u>	<u>0</u>	<u>144</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>26,582</u></b>	<b>\$ <u>10,424</u></b>	<b>\$ <u>37,006</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities</b>			
Due to other funds	\$ 0	\$ 6,424	\$ 6,424
Due to other governmental units	<u>0</u>	<u>4,000</u>	<u>4,000</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 0</b>	<b>\$ 10,424</b>	<b>\$ 10,424</b>
<b>Fund Equity</b>			
Fund balance - reserved	\$ 24,434	\$ 0	\$ 24,434
Fund balance - unreserved	<u>2,148</u>	<u>0</u>	<u>2,148</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>26,582</u></b>	<b>\$ <u>10,424</u></b>	<b>\$ <u>37,006</u></b>

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

CITY OF CRYSTAL FALLS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year ended September 30, 2007

		<u>Perpetual Care Fund</u>
<b>REVENUES</b>		
Perpetual care fees	\$	4,027
Interest income		<u>830</u>
<b>TOTAL REVENUES</b>	\$	4,857
TRANSFERS - (to) other funds	\$	<u>0</u>
<b>EXCESS OF REVENUES OVER (UNDER) TRANSFERS</b>	\$	4,857
Fund balance - beginning		<u>21,725</u>
<b>FUND BALANCE - ENDING</b>	\$	<u><u>26,582</u></u>

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

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

The City is governed by an elected five member council (Council). The accompanying financial statements represent the entire government as the City does not have any component units that are required to be presented, either discretely or blended.

**Government-Wide and Fund Financial Statements**

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

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

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

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

**Taxes Receivable—Current Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1. Taxes levied on December 1 are payable in one installment by the last day of February of the ensuing year without penalty. The City bills and collects its own property taxes and also taxes for the Forest Park School District, Dickinson-Iron Intermediate School District, State of Michigan, Iron County and the Crystal Falls Community District Library. Collections and remittances of county and library taxes are accounted for in the Tax Collection Fund. City real property taxes are recognized when levied and personal property taxes are recognized when received.

The City is permitted to assess 20 mills for general governmental services according to its charter. The City actually assessed 17.50 mills generating net tax collections of \$351,018 that is recorded in the general fund and \$4,069 that is recorded in its tax incremental financing fund.

The government reports the following major governmental funds:

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

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

The Electric Reserve and Contingency Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities in the Electric Department with a cost of not less than \$25,000.00. The City Charter requires a transfer of ten percent of the net income before transfers of the Electric Fund be made annually to the Fund but not less than \$10,000 up to maximum accumulation of \$250,000.00 unless a higher maximum accumulation is approved by the City Council.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

The government reports the following major proprietary funds:

The Television Fund accounts for the activities of the community television system.

The Electric Fund accounts for the activities of the power generation and distribution system.

The Golf Fund accounts for the operation of the municipal golf course.

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

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

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

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The utility funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, depreciation on capital assets and debt costs associated with financing upgrades to the utility systems. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Net Assets or Equity**

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

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

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

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

Restricted Assets– The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. In addition, the deposits placed on account by utility customers are also classified as restricted.

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

The City has elected not to report its infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) which is in compliance with Governmental Accounting Standards Board Statement Number 34 as the City is a “tier three” entity. All future infrastructure asset additions will be recorded and reported in the government wide financial statements.

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

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Net Assets or Equity (Continued)**

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

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Television/Internet	5 to 25 years
Electric System	5 to 40 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Compensated Absences (Vacation, Compensatory and Sick Leave)– It is the government’s policy to permit employees to accumulate earned but unused vacation, compensatory and sick pay benefits. The City does not have a determinable liability for unpaid accumulated sick leave since the government has a policy to pay one-half of the accumulated sick time only upon retirement as the reason for separation from service. All vacation and compensatory leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end and for amounts used within 60 days following the year end.

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

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

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comparative Data/Reclassifications**

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

**NOTE B- STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Excess of Expenditures Over Appropriations In Budgetary Funds**

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

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

Fund/Activity	Actual	Budget	Variance	%
General-Council	\$ 12,388	\$ 8,700	\$ 3,688	42
General-Mayor	4,673	2,700	1,973	73
General-Manager	22,783	20,000	2,783	14
General-Elections	1,488	1,000	488	49
General-Clerk	23,735	13,000	10,735	83
General-Assessor	23,470	5,300	18,170	343
General-Treasurer	13,356	7,500	5,856	78
General-Cemetery	99,701	65,200	34,501	53
General-Police	354,959	204,100	150,859	74
General-Fire	123,095	110,000	13,095	12
General-Street lighting	42,628	33,000	9,628	29
General-Soccer field	22,908	0	22,908	~
General-Community Betterment-Other	56,135	32,200	23,935	74
General-Debt service	202,251	0	202,251	~
General-Capital outlay	67,093	0	67,093	~
General-Transfers out	34,780	0	34,780	~
Major Streets-Construction	88,033	0	88,033	~
Major Streets-Drainage, sweeping, flushing	3,148	2,380	768	32
Major Streets-Trees and shrubs	3,040	2,200	840	38
Major Streets-Signs and signals	723	110	613	557

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**Excess of Expenditures Over Appropriations In Budgetary Funds (Continued)**

Fund/Activity	Actual	Budget	Variance	%
Major Streets-Winter maintenance	38,395	22,000	16,395	75
Major Streets-Administration	6,834	5,950	884	15
Major Streets-Trunkline maintenance	38,469	25,060	13,409	35
Local streets-Drainage, sweeping, flushing	7,203	3,300	3,903	118
Local streets-Trees and shrubs	6,747	3,300	3,447	104
Local streets-Winter maintenance	28,181	13,700	14,481	106
Tax Incremental Finance-Development	1,386	0	1,386	~

**NOTE C-RESTATEMENT OF BEGINNING NET ASSETS**

The City had inappropriately included the unfunded accrued actuarial pension liability as a liability for the determination of net assets in the prior fiscal year. In addition, the Council approved establishing a new Golf Fund during the year. These operations were formerly accounted for in the General Fund. As a result of these changes, the beginning net assets of the City are restated as follows:

September 30, 2006 net assets as originally reported	\$ 620,382
Add: adjustment to unfunded accrued actuarial liability	554,040
adjustment for reclassification to Golf Fund	<u>(168,682)</u>
Restated September 30, 2006 Net Assets	<u>\$ 1,005,740</u>

**NOTE D - ACCUMULATED UNRESERVED/UNDESIGNATED FUND DEFICITS**

The City's funds have the following accumulated unreserved/undesignated deficits as of September 30, 2007:

Television Fund	\$ 39,377
Golf Fund	24,012
Water Fund	652,300

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE E – DEPOSITS AND INVESTMENTS**

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

The City has designated two banks for the deposit of its funds along with an investment in the Upper Peninsula Power Producers Agency, LLC. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in any of the securities allowed under the Act. The City's deposits and investment policy are in accordance with statutory authority.

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

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash & Cash Equivalents	\$ 519,134	\$ 343,368	\$ 36,862	\$ 899,364
Restricted Assets	0	516,377	0	516,377
Total	\$ 519,134	\$ 859,745	\$ 36,862	\$ 1,415,741

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The bank balance is \$1,415,741 of which \$300,000 is covered by federal depository insurance.

**Investments**

These investments that are represented by specific identifiable investment securities are classified as to credit risk by the one of three categories. The City's investment falls into Category 1 which is held by the City in the City's Name. The investment is classified as Cash in the financial statements. The investment was a membership in the Upper Peninsula Power Producers Agency, LLC (UPPPA). The City has invested \$133,994 as of the September 30, 2007, and expects to receive an ongoing return of 12% per annum.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE F - CHANGES IN CAPITAL ASSETS**

Capital asset activity for the City for the year ended September 30, 2007 was as follows:

	Beginning	Additions	Disposals	Ending
<b>Governmental Funds</b>				
Assets not depreciated - Land	\$ 0	\$ 0	\$ 0	\$ 0
Assets depreciated				
Buildings	615,000	0	0	615,000
Infrastructure	0	88,033	0	88,033
Equipment	<u>921,966</u>	<u>67,093</u>	<u>0</u>	<u>989,059</u>
Total at Historic Cost	\$ 1,536,966	\$ 155,126	\$ 0	\$ 1,692,092
Less Accumulated Depreciation for:				
Buildings	\$ 532,875	\$ 4,125	\$ 0	\$ 537,000
Infrastructure	0	1,761	0	1,761
Equipment	<u>506,970</u>	<u>61,703</u>	<u>0</u>	<u>568,673</u>
Total Accumulated Depreciation	<u>\$ 1,039,845</u>	<u>\$ 67,589</u>	<u>\$ 0</u>	<u>\$ 1,107,434</u>
Net Governmental Funds - Capital Assets	<u>\$ 497,121</u>			<u>\$ 584,658</u>
<b>Business Type Funds</b>				
Assets depreciated				
Television system	\$ 152,474	\$ 62,264	\$ 0	\$ 214,738
Electric utility system	1,796,016	80,656	0	1,876,672
Golf course	676,746	44,331	0	721,077
Water utility system	262,616	3,455,917	0	3,718,533
Sewer utility system	<u>8,585,882</u>	<u>0</u>	<u>0</u>	<u>8,585,882</u>
Total at Historic Cost	\$11,473,734	\$3,643,168	\$ 0	\$ 15,116,902
Less Accumulated Depreciation for:				
Television/internet system	\$ 79,001	\$ 9,384	\$ 0	\$ 88,385
Electric utility system	413,949	68,338	0	482,287
Golf operations	244,830	20,318	0	265,148
Water utility system	179,389	5,391	0	184,780
Sewer utility system	<u>1,482,958</u>	<u>176,121</u>	<u>0</u>	<u>1,659,079</u>
Total Accumulated Depreciation	<u>\$ 2,400,127</u>	<u>\$ 279,552</u>	<u>\$ 0</u>	<u>\$ 2,679,679</u>
Net Business Type Funds - Capital Assets	<u>\$ 9,073,607</u>			<u>\$12,437,223</u>

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE F - CHANGES IN CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to programs of the City as follows:

Governmental Activities	
General Government	\$ 8,948
Public Safety	10,601
Public Works	43,706
Parks and Recreation	<u>4,334</u>
Total Governmental Activities	<u>\$ 67,590</u>
Business-Type Activities	
Television/internet system	\$ 9,384
Electric utility system	68,338
Golf operations	20,318
Water utility system	5,391
Sewer utility system	<u>176,121</u>
Total Business-Type Activities	<u>\$ 279,552</u>

**NOTE G - GENERAL LONG TERM DEBT**

**1999 Economic Development Financing Agreement**

On January 1, 1999, the City received Community Development Block Grant money in the form of a partially forgivable loan in the amount of \$232,591. These funds were disbursed as infrastructure improvements were completed and invoiced. The City pledged \$105,000 of its Certificates of Deposit and its State Shared Revenues as collateral on this loan.

The City had previously received the maximum offset for new jobs created per the loan terms. This amounted to forgiveness of all of the accrued interest and ninety percent of the principal. The repayment of the loan began in January, 2005 with annual principal payments of \$2,584.34 over a ten year period of time with no interest charged. This loan was paid in full during the current fiscal year.

**NOTE H - PROPRIETARY FUND LONG TERM DEBT**

**1998 Sewer Utility System Revenue Bond**

A Sewer System Revenue Bond was issued for \$3,673,000 dated September 23, 1998. The bond requires annual principal payments as scheduled below and bears interest at the rate of 4.5% per annum. Interest is payable semiannually on March 1 and September 1 of each year.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE H - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**1998 Sewer Utility System Revenue Bond (Continued)**

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

The cumulative debt service schedule is below:

Payable Fiscal Year	September 1		March 1		Total
	Interest	Principal	Interest		
2007-2008	\$ 74,295	\$ 49,000	\$ 74,295	\$	199,590
2008-2009	73,147	53,000	73,148		199,295
2009-2010	71,955	56,000	71,955		199,910
2010-2011	70,695	58,000	70,695		199,390
2011-2012	69,390	61,000	69,390		199,780
2012-2017	325,148	348,000	325,147		998,295
2017-2022	282,307	433,000	282,308		997,615
2022-2027	228,960	541,000	228,960		998,920
2027-2032	162,383	673,000	162,382		997,765
2032-2037	79,492	840,000	79,492		998,985
2037-2038	4,230	188,000	4,230		196,460
<b>TOTALS</b>	<b>\$ 1,442,003</b>	<b>\$ 3,302,000</b>	<b>\$ 1,442,002</b>	<b>\$</b>	<b>6,186,005</b>

**2004 Electric Utility System Revenue Bond**

An Electric System Revenue Bond was issued for \$950,000 dated September 1, 2004 at a 1% discount. The bond requires annual principal payments as scheduled below and bears interest at rates varying from 3.5% to 5.0% per annum. Interest is payable semiannually on May 1 and November 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE H - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**2004 Electric Utility System Revenue Bond**

Payable Fiscal Year	November 1		May 1		Total
	Interest	Principal	Interest		
2007-2008	\$ 19,414	\$ 35,000	\$ 18,758	\$	73,172
2008-2009	18,757	35,000	18,101		71,858
2009-2010	18,101	35,000	17,401		70,502
2010-2011	17,401	40,000	16,601		74,002
2011-2012	16,601	40,000	15,801		72,402
2012-2017	69,644	245,000	64,625		379,269
2017-2022	40,881	310,000	33,811		384,693
2022-2024	5,588	150,000	1,875		157,463
<b>TOTALS</b>	<b>\$ 206,388</b>	<b>\$ 890,000</b>	<b>\$ 186,974</b>	<b>\$</b>	<b>1,283,361</b>

**2007 Electric Utility System Truck Loan**

The Electric department purchased a bucket truck during the year. The total cost of the truck was \$80,656. The City paid \$40,000 down on the Truck and borrowed \$40,656. This loan requires interest only payments of \$287.98 for six months with the balance of the loan payable in November, 2007. The interest rate on the loan is 8 ½%. The loan was paid in full subsequent to the end of the fiscal year.

**2007 Water Utility System Revenue Bond**

A Water System Revenue Bond was issued for \$4,224,000 with draws on the loan beginning on May 17, 2007. As of the end of the fiscal year, \$2,725,000 had been drawn on the loan and that balance is reflected on the financial statements. The bond was purchased by the Rural Development Agency of the United States Department of Agriculture. The bond requires annual principal payments as scheduled below and bears interest at rates of 4.125% per annum over the life of the issue. Interest is payable semiannually on May 1 and November 1 of each year.

The Bond is subject to redemption prior to maturity at the option of the City, either in whole or in part; on any interest payment date, at par plus accrued interest.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE H - PROPRIETARY FUND LONG TERM DEBT (CONTINUED)**

**2007 Water Utility System Revenue Bond (Continued)**

Payable Fiscal Year	May 1		November 1		Total
	Interest	Principal	Interest		
2007-2008	\$ 87,120	\$ 42,000	\$ 79,476	\$	208,596
2008-2009	86,254	44,000	86,254		216,508
2009-2010	85,346	46,000	85,346		216,693
2010-2011	84,398	48,000	84,398		216,795
2011-2012	83,408	50,000	83,408		216,815
2012-2017	400,723	282,000	400,723		1,083,446
2017-2022	369,105	346,000	369,105		1,084,210
2022-2027	330,268	427,000	330,268		1,087,536
2027-2032	282,253	526,000	282,253		1,090,506
2032-2037	223,245	647,000	223,245		1,093,490
2037-2042	150,624	797,000	150,624		1,098,249
2042-2047	61,153	969,000	61,153		1,091,306
<b>TOTALS</b>	<b>\$ 2,243,896</b>	<b>\$ 4,224,000</b>	<b>\$ 2,236,253</b>	<b>\$</b>	<b>8,704,150</b>

**NOTE I - ACCUMULATED VACATION AND SICK PAY**

Sick days can accumulate to a maximum of 100 days are paid out at one half of the accumulated balance if the employ retires. If the employ terminates his/her employment for any reason other than retirement, all accumulated sick time is forfeited. As of September 30, 2007, the accumulated sick leave liability approximates \$135,800. Annual leave can accumulate to a maximum of 24 days and may exceed this amount with City Council approval. Upon termination, a cash payout of the accumulated days at the employee's present hourly rate occurs. As of September 30, 2007, the estimated liability for unused vacation leave is \$ 34,167.

**NOTE J - INTERFUND RECEIVABLES/PAYABLES**

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

<u>Receivable</u>	<u>Payable</u>	<u>Amount</u>
General	Golf	\$ 35,717
General	Tax	4,531

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE K - INTERFUND TRANSFERS**

The following interfund transfers were recorded during the year and are reflected in the financial statements.

Transfer from	Transfer to	Amount
Major Streets	General	61,967
Tax Incremental Finance	Tax	1,893
Water	General	\$525,000
Television	General	25,000
Industrial Park	General	36,459
General	Local Streets	895
General	Golf	33,885

**NOTE L - PENSION PLAN**

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits range are 2.0% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually for beneficiaries.

**CITY OF CRYSTAL FALLS**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2007

**NOTE L - PENSION PLAN (CONTINUED)**

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:	
Retiree and beneficiaries currently receiving benefits	\$ 5,021,972
Terminated employees not yet receiving benefits	38,824
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	9,800
Employer financed	<u>2,205,151</u>
Total Actuarial Liability	\$ 7,275,747
Net assets available for benefits, at actuarial value (Market Value is \$5,784,173)	<u>5,704,374</u>
Unfunded (overfunded) actuarial accrued liability	\$ 1,571,373

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	July 1, 2008
Annual required contributions (ARC)	\$ 157,680
Amortization factor used	0.053632

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**NOTE M - CONTINGENCIES/COMMITMENT**

During the fiscal year, the City of Crystal Falls took ownership of the Crystal Manor Building. Iron County paid to the City \$75,000 to hold them harmless from any future liability pertaining to the building. The City has been successful in locating a developer for the property and has committed \$175,000 for the payment of various costs and has tentatively approved a procedure for a payment in lieu of tax rather than the developer paying traditional property taxes.

The City was awarded a Community Development Block Grant to procure and install water meters. The grant will not cover all of the costs associated with the project and the City will be required to cover approximately \$75,000 from regular Water Fund operations to complete the project.

CITY OF CRYSTAL FALLS  
NOTES TO FINANCIAL STATEMENTS  
September 30, 2007

**NOTE N - RISK MANAGEMENT**

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

REQUIRED  
SUPPLEMENTAL  
INFORMATION

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
Year ended September 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 12,251	\$ 12,251	\$ 12,251	\$ 0
Resources (Inflows)				
Property taxes	362,300	362,300	351,018	(11,282)
Federal grants	0	0	11,000	11,000
State shared revenues and grants	239,000	239,000	219,201	(19,799)
Fines and forfeitures	1,000	1,000	3,470	2,470
Charges for services	182,500	182,500	73,494	(109,006)
Interest and rentals	39,500	39,500	100,126	60,626
Sale of property/timber	52,600	52,600	29,237	(23,363)
Other	3,000	3,000	5,542	2,542
Loan proceeds	0	0	200,000	200,000
Transfer from other governmental unit	0	0	75,000	75,000
Transfer from other funds	<u>965,130</u>	<u>965,130</u>	<u>586,459</u>	<u>(378,671)</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ <u>1,857,281</u>	\$ <u>1,857,281</u>	\$ <u>1,666,798</u>	\$ <u>(190,483)</u>
Charges to Appropriations (Outflows)				
Legislative				
City council	\$ 8,700	\$ 8,700	\$ 12,388	\$ (3,688)
Mayor	2,700	2,700	4,673	(1,973)
General Government				
City manager	20,000	20,000	22,783	(2,783)
Elections	1,000	1,000	1,488	(488)
Administration	494,400	494,400	34,094	460,306
Clerk	13,000	13,000	23,735	(10,735)
Assessor	5,300	5,300	23,470	(18,170)
Audit/attorney	13,000	13,000	12,371	629
Board of review	4,200	4,200	3,561	639
Treasurer	7,500	7,500	13,356	(5,856)
Buildings and other property	317,300	317,300	83,014	234,286
Cemetery	65,200	65,200	99,701	(34,501)
Public Safety				
Police	204,100	204,100	354,959	(150,859)
Fire	110,000	110,000	123,095	(13,095)
Public Works				
Maintenance	264,150	264,150	195,471	68,679
Street lighting	33,000	33,000	42,628	(9,628)
Parks and Recreation				
Parks	238,230	238,230	37,253	200,977
Softball field	0	0	780	(780)
Soccer field	0	0	22,908	(22,908)
Ski hill	11,050	11,050	3,945	7,105
Community betterment				
Crystal Manor	0	0	42,837	(42,837)
Other	32,200	32,200	56,135	(23,935)
Debt service	0	0	202,251	(202,251)
Capital outlay	0	0	67,093	(67,093)
Transfers to other funds	<u>0</u>	<u>0</u>	<u>34,780</u>	<u>(34,780)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>1,845,030</u>	\$ <u>1,845,030</u>	\$ <u>1,518,769</u>	\$ <u>326,261</u>
BUDGETARY FUND BALANCE--ENDING	<u>12,251</u>	<u>12,251</u>	<u>148,029</u>	<u>135,778</u>

CITY OF CRYSTAL FALLS  
 BUDGETARY COMPARISON SCHEDULE  
 MAJOR STREET FUND  
 Year ended September 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 193,152	\$ 193,152	\$ 193,152	\$ 0
Resources (Inflows)				
State shared revenues and grants	165,000	165,000	176,151	11,151
Interest	<u>0</u>	<u>0</u>	<u>540</u>	<u>540</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 358,152	 \$ 358,152	 \$ 369,843	 \$ 11,691
 Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 88,033	\$ (88,033)
Route maintenance	107,080	107,080	3,068	104,012
Drainage, sweeping and flushing	2,380	2,380	3,148	(768)
Trees and shrubs	2,200	2,200	3,040	(840)
Roadside betterment	220	220	0	220
Signs and signals	110	110	723	(613)
Winter maintenance	22,000	22,000	38,395	(16,395)
Administration and engineering	5,950	5,950	6,834	(884)
Trunk line maintenance:				0
Route maintenance	4,230	4,230	1,836	2,394
Drainage, sweeping and flushing	1,870	1,870	3,017	(1,147)
Trees and shrubs	880	880	1,080	(200)
Roadside betterment	560	560	442	118
Signs and signals	220	220	0	220
Winter maintenance	17,300	17,300	32,094	(14,794)
Administration and engineering	0	0	0	0
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 TOTAL CHARGES TO APPROPRIATIONS	 \$ <u>165,000</u>	 \$ <u>165,000</u>	 \$ <u>181,710</u>	 \$ <u>(16,710)</u>
 BUDGETARY FUND BALANCE--ENDING	 \$ <u><u>193,152</u></u>	 \$ <u><u>193,152</u></u>	 \$ <u><u>188,133</u></u>	 \$ <u><u>(5,019)</u></u>

CITY OF CRYSTAL FALLS  
 BUDGETARY COMPARISON SCHEDULE  
 ELECTRIC RESERVE AND CONTINGENCY FUND  
 Year ended September 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 256,755	\$ 256,755	\$ 256,755	\$ 0
Resources (Inflows)				
Interest earned	3,000	3,000	11,903	8,903
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 259,755	\$ 259,755	\$ 268,658	\$ 8,903
Charges to Appropriations (Outflows)				
Capital outlay	\$ 0	\$ 0	\$ 0	\$ 0
Transfers to other funds	<u>3,000</u>	<u>3,000</u>	<u>0</u>	<u>3,000</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>3,000</u>	\$ <u>3,000</u>	\$ <u>0</u>	\$ <u>3,000</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>256,755</u></u>	\$ <u><u>256,755</u></u>	\$ <u><u>268,658</u></u>	\$ <u><u>11,903</u></u>

CITY OF CRYSTAL FALLS  
MERS PENSION FUNDING AND STATISTICS  
SEPTEMBER 30, 2007

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-04	5,343,291	5,812,422	469,131	92%	1,014,620	46%
31-Dec-05	5,512,922	6,066,962	554,040	91%	948,425	58%
31-Dec-06	5,704,374	7,275,747	1,571,373	78%	906,137	173%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-04	76,899	100%
31-Dec-05	81,543	100%
31-Dec-06	108,406	100%

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

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	ADJUSTED 5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 8.66%
*INCLUDES MERIT/LONGEVITY INCREASES	0% - 4.16%
INFLATION	3% - 4%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
September 30, 2007

	<u>LOCAL STREET</u>	<u>INDUSTRIAL PARK</u>	<u>TAX INCREMENTAL FINANCING</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and equivalents	\$ 15,957	\$ 0	\$ 2,041	\$ 17,998
Accounts receivable	0	0	0	0
Due from other funds	0	0	1,893	1,893
Due from other governmental units	8,902	0	0	8,902
Other assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>24,859</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>3,934</u></b>	<b>\$ <u>28,793</u></b>
<b>LIABILITIES AND FUND EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 1,268	\$ 0	\$ 0	\$ 1,268
Salaries and wages payable	169	0	0	169
Accrued taxes and withholdings	0	0	0	0
Accrued interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>\$ 1,437</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,437</b>
<b>FUND EQUITY</b>				
Fund balance:				
Unreserved-undesignated	\$ <u>23,422</u>	\$ <u>0</u>	\$ <u>3,934</u>	\$ <u>27,356</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ <u>24,859</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>3,934</u></b>	<b>\$ <u>28,793</u></b>

CITY OF CRYSTAL FALLS  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE

Year ended September 30, 2007

	<u>LOCAL STREET</u>	<u>INDUSTRIAL PARK</u>	<u>TAX INCREMENTAL FINANCING</u>	<u>TOTAL</u>
<b>REVENUES</b>				
Property taxes	\$ 0	\$ 0	\$ 4,069	\$ 4,069
State shared revenues	61,770	0	0	61,770
Interest	<u>172</u>	<u>2,354</u>	<u>0</u>	<u>2,526</u>
<b>TOTAL REVENUES</b>	<b>\$ 61,942</b>	<b>\$ 2,354</b>	<b>\$ 4,069</b>	<b>\$ 68,365</b>
<b>EXPENDITURES</b>				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Maintenance	24,582	0	0	24,582
Drainage, sweeping and flushing	7,203	0	0	7,203
Trees and shrubs	6,747	0	0	6,747
Roadside betterment	0	0	0	0
Winter maintenance	28,181	0	0	28,181
Administration and engineering	6,456	0	1,386	7,842
Debt service	0	18,090	0	18,090
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<b>\$ <u>73,169</u></b>	<b>\$ <u>18,090</u></b>	<b>\$ <u>1,386</u></b>	<b>\$ <u>92,645</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ (11,227)</b>	<b>\$ (15,736)</b>	<b>\$ 2,683</b>	<b>\$ (24,280)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer from other funds	\$ 895	\$ 0	\$ 0	\$ 895
Transfer to other funds	<u>0</u>	<u>(36,459)</u>	<u>0</u>	<u>(36,459)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER (UNDER) EXPENDITURES</b>	<b>\$ (10,332)</b>	<b>\$ (52,195)</b>	<b>\$ 2,683</b>	<b>\$ (59,844)</b>
Fund balance - beginning	<u>33,754</u>	<u>52,195</u>	<u>1,251</u>	<u>87,200</u>
<b>FUND BALANCE - ENDING</b>	<b>\$ <u><u>23,422</u></u></b>	<b>\$ <u><u>0</u></u></b>	<b>\$ <u><u>3,934</u></u></b>	<b>\$ <u><u>27,356</u></u></b>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
BALANCE SHEET  
September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and equivalents	\$ 173,423	\$ 140,949
Accounts receivable	13,204	0
Due from other governmental units	<u>2,387</u>	<u>14,254</u>
TOTAL CURRENT ASSETS	\$ 189,014	\$ 155,203
Restricted Assets:		
Bond interest and redemption	\$ 200,878	\$ 176,593
Repair and replacement	<u>99,768</u>	<u>90,110</u>
TOTAL RESTRICTED ASSETS	\$ 300,646	\$ 266,703
Property, Plant and Equipment:		
Sewage plant, lines and vehicles	\$ 8,588,882	\$ 8,588,882
Less accumulated depreciation	<u>(1,659,080)</u>	<u>(1,482,958)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ <u>6,929,802</u>	\$ <u>7,105,924</u>
TOTAL ASSETS	\$ <u><u>7,419,462</u></u>	\$ <u><u>7,527,830</u></u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 426	\$ 1,182
Salaries and wages payable	1,275	940
Due to other funds	0	0
Interest payable	12,383	12,566
Current portion of long term debt	<u>51,000</u>	<u>49,000</u>
TOTAL LIABILITIES	\$ 65,084	\$ 63,688
LONG TERM LIABILITIES - Bonds payable	\$ 3,251,000	\$ 3,302,000
FUND EQUITY		
Contributed capital	\$ 3,860,291	\$ 3,944,769
Retained earnings:		
Restricted	300,646	266,703
Unrestricted, undesignated	<u>(57,559)</u>	<u>(49,330)</u>
TOTAL FUND EQUITY	\$ <u>4,103,378</u>	\$ <u>4,162,142</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>7,419,462</u></u>	\$ <u><u>7,527,830</u></u>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
ACTUAL AND BUDGET  
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
User charges	\$ 337,696	\$ 347,157
Other	<u>119</u>	<u>1,831</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 337,815</b>	<b>\$ 348,988</b>
<b>OPERATING EXPENSES</b>		
General and administrative	\$ 15,764	\$ 21,428
Transmission, distribution and maintenance	84,987	83,847
Depreciation	<u>91,643</u>	<u>91,643</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>192,394</u></b>	<b>\$ <u>196,918</u></b>
<b>OPERATING INCOME</b>	<b>\$ 145,421</b>	<b>\$ 152,070</b>
<b>NON-OPERATING INCOME - Interest</b>		
Interest income	\$ 11,154	\$ 8,354
State grant proceeds	19,750	0
Interest expense	<u>(150,611)</u>	<u>(152,734)</u>
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<b>\$ <u>(119,707)</u></b>	<b>\$ <u>(144,380)</u></b>
<b>NET INCOME</b>	<b>\$ 25,714</b>	<b>\$ 7,690</b>
Retained earnings - Beginning of period	<u>217,373</u>	<u>209,683</u>
<b>RETAINED EARNINGS - END OF PERIOD</b>	<b>\$ <u><u>243,087</u></u></b>	<b>\$ <u><u>217,373</u></u></b>

CITY OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
SEWER UTILITY FUND  
Year ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 336,478	\$ 349,575
Payments to suppliers	(44,613)	(30,645)
Payments to or on behalf of employees	<u>(56,559)</u>	<u>(75,899)</u>
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>\$ 235,306</b>	<b>\$ 243,031</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer (to) other funds	\$ 0	\$ 0
State grant proceeds	<u>19,750</u>	<u>0</u>
<b>TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	<b>\$ 19,750</b>	<b>\$ 0</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of capital assets	\$ 0	\$ 0
Payments on capital debt	(199,793)	(199,911)
Funding of restricted accounts	<u>(33,943)</u>	<u>(31,797)</u>
<b>TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (233,736)</b>	<b>\$ (231,708)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ <u>11,154</u>	\$ <u>8,354</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ 32,474</b>	<b>\$ 19,677</b>
Cash and equivalents - beginning	<u>140,949</u>	<u>121,272</u>
<b>CASH AND EQUIVALENTS - ENDING</b>	<b>\$ <u>173,423</u></b>	<b>\$ <u>140,949</u></b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 145,421	\$ 152,070
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	91,643	91,643
Change in Assets and Liabilities		
Receivables - net	(13,204)	14,839
Due from other governmental units	11,867	(14,252)
Accounts payable	(756)	(1,399)
Accrued salaries and wages	<u>335</u>	<u>130</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>235,306</u></b>	<b>\$ <u>243,031</u></b>

CITY OF CRYSTAL FALLS  
SEWER UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
General and Administrative:		
Salaries and wages	\$ 8,238	\$ 12,655
Employee benefits	6,581	7,988
Other	<u>945</u>	<u>785</u>
Total General and Administrative	\$ 15,764	\$ 21,428
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 23,438	\$ 34,569
Employee benefits	18,637	20,817
Supplies and other	<u>42,912</u>	<u>28,461</u>
Total Transmission, Distribution & Maintenance	\$ 84,987	\$ 83,847
Depreciation	<u>91,643</u>	<u>91,643</u>
TOTAL OPERATING EXPENSE	\$ <u><u>192,394</u></u>	\$ <u><u>196,918</u></u>

CITY OF CRYSTAL FALLS  
WATER UTILITY FUND  
BALANCE SHEET  
September 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash and equivalents	\$ 61,540	\$ 106,087
Accounts receivable	0	0
Due from other governmental units	<u>7,510</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 69,050	\$ 106,087
Restricted Assets:		
Construction	\$ 887	\$ 0
Bond interest and redemption	55,826	0
Repair and replacement	<u>7,826</u>	<u>0</u>
TOTAL RESTRICTED ASSETS	\$ 64,539	\$ 0
Property, Plant and Equipment:		
Construction in progress	\$ 3,453,142	\$ 185,765
Plant, lines and equipment	265,391	262,616
Less accumulated depreciation	<u>(184,780)</u>	<u>(179,389)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ <u>3,533,753</u>	\$ <u>268,992</u>
TOTAL ASSETS	\$ <u><u>3,667,342</u></u>	\$ <u><u>375,079</u></u>
LIABILITIES AND FUND EQUITY		
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 726,032	\$ 51,758
Salaries and wages payable	2,138	694
Due to other funds	0	0
Interest payable	15,719	0
Current portion of long term debt	<u>42,000</u>	<u>0</u>
TOTAL LIABILITIES	\$ 785,889	\$ 52,452
LONG TERM LIABILITIES - Bonds payable	\$ 2,683,000	\$ 0
FUND EQUITY		
Contributed capital	\$ 120,963	\$ 113,453
Retained earnings:		
Restricted	64,539	0
Unrestricted, undesignated	<u>12,951</u>	<u>209,174</u>
TOTAL FUND EQUITY	\$ <u>198,453</u>	\$ <u>322,627</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>3,667,342</u></u>	\$ <u><u>375,079</u></u>

CITY OF CRYSTAL FALLS  
WATER UTILITY FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
Years ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>		
User charges	\$ 492,430	\$ 323,435
Other	<u>3,266</u>	<u>0</u>
<b>TOTAL OPERATING REVENUES</b>	<b>\$ 495,696</b>	<b>\$ 323,435</b>
<b>OPERATING EXPENSES</b>		
General and administrative	\$ 58,491	\$ 21,615
Transmission, distribution and maintenance	130,228	106,647
Depreciation	<u>5,391</u>	<u>2,335</u>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ <u>194,110</u></b>	<b>\$ <u>130,597</u></b>
<b>OPERATING INCOME</b>	<b>\$ 301,586</b>	<b>\$ 192,838</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>		
Interest income	\$ 1,317	\$ 2,859
Reimbursements	106,132	0
Interest expense	(15,719)	0
Transfers to other funds	<u>(525,000)</u>	<u>(100,000)</u>
<b>TOTAL NON-OPERATING INCOME (EXPENSE)</b>	<b>\$ <u>(433,270)</u></b>	<b>\$ <u>(97,141)</u></b>
<b>NET INCOME</b>	<b>\$ (131,684)</b>	<b>\$ 95,697</b>
Retained earnings - Beginning of period	<u>209,174</u>	<u>113,477</u>
<b>RETAINED EARNINGS - END OF PERIOD</b>	<b>\$ <u><u>77,490</u></u></b>	<b>\$ <u><u>209,174</u></u></b>

CITY OF CRYSTAL FALLS  
STATEMENT OF CASH FLOWS  
WATER UTILITY FUND  
Year ended September 30, 2007 and 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 495,696	\$ 324,066
Payments to suppliers	(96,473)	(584)
Payments to or on behalf of employees	(138,047)	(84,086)
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 261,176	\$ 239,396
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Transfer (to) other funds	\$ (525,000)	\$ (100,000)
Reimbursement of prior year expenditures	106,132	0
Loans received from (repaid to) other funds	0	0
TOTAL CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	\$ (418,868)	\$ (100,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase and construction of capital assets	\$ (2,548,633)	\$ (185,766)
Revenue bond proceeds	2,725,000	0
Payments on revenue bonds	0	0
Funding of restricted accounts	(64,539)	0
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ 111,828	\$ (185,766)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned	\$ 1,317	\$ 2,861
NET INCREASE (DECREASE) IN CASH	\$ (44,547)	\$ (43,509)
Cash and equivalents - beginning	106,087	149,596
CASH AND EQUIVALENTS - ENDING	\$ 61,540	\$ 106,087
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating income	\$ 301,586	\$ 192,838
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	5,391	2,335
Change in Assets and Liabilities		
Receivables - net	0	631
Accounts payable	(47,245)	43,957
Accrued salaries and wages	1,444	(365)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 261,176	\$ 239,396

CITY OF CRYSTAL FALLS  
WATER UTILITY FUND  
 SCHEDULE OF OPERATING EXPENSES  
 Year ended September 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
General and Administrative:		
Salaries and wages	\$ 31,913	\$ 19,400
Employee benefits	25,421	1,430
Other	<u>1,157</u>	<u>785</u>
Total General and Administrative	\$ 58,491	\$ 21,615
Transmission, Distribution & Maintenance:		
Salaries and wages	\$ 45,720	\$ 32,851
Employee benefits	36,437	30,040
Supplies and other	<u>48,071</u>	<u>43,756</u>
Total Transmission, Distribution & Maintenance	\$ 130,228	\$ 106,647
Depreciation	\$ <u>5,391</u>	\$ <u>2,335</u>
TOTAL OPERATING EXPENSE	\$ <u><u>194,110</u></u>	\$ <u><u>130,597</u></u>

CITY OF CRYSTAL FALLS  
 BUDGETARY COMPARISON SCHEDULE  
 LOCAL STREET FUND  
 Year ended September 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 33,754	\$ 33,754	\$ 33,754	\$ 0
Resources (Inflows)				
State shared revenues and grants	55,000	55,000	61,770	6,770
Interest	0	0	172	172
Transfer from other funds	<u>0</u>	<u>0</u>	<u>895</u>	<u>895</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 88,754	\$ 88,754	\$ 96,591	\$ 7,837
Charges to Appropriations (Outflows)				
Construction	\$ 0	\$ 0	\$ 0	\$ 0
Route maintenance	25,450	25,450	24,582	868
Drainage, sweeping and flushing	3,300	3,300	7,203	(3,903)
Trees and shrubs	3,300	3,300	6,747	(3,447)
Roadside betterment	550	550	0	550
Winter maintenance	13,700	13,700	28,181	(14,481)
Administration and engineering	8,700	8,700	6,456	2,244
Transfer to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>55,000</u>	\$ <u>55,000</u>	\$ <u>73,169</u>	\$ <u>(18,169)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>33,754</u></u>	\$ <u><u>33,754</u></u>	\$ <u><u>23,422</u></u>	\$ <u><u>(10,332)</u></u>

CITY OF CRYSTAL FALLS  
 BUDGETARY COMPARISON SCHEDULE  
 TAX INCREMENTAL FINANCING FUND  
 Year ended September 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 1,251	\$ 1,251	\$ 1,251	\$ 0
Resources (Inflows)				
Property taxes	0	0	4,069	4,069
Interest	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 1,251	 \$ 1,251	 \$ 5,320	 \$ 4,069
Charges to Appropriations (Outflows)				
Downtown development	\$ 0	\$ 0	\$ 1,386	\$ (1,386)
Transfers to other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 TOTAL CHARGES TO APPROPRIATIONS	 <u>0</u>	 <u>0</u>	 <u>1,386</u>	 <u>(1,386)</u>
 BUDGETARY FUND BALANCE--ENDING	 <u><u>1,251</u></u>	 <u><u>1,251</u></u>	 <u><u>3,934</u></u>	 <u><u>2,683</u></u>

CITY OF CRYSTAL FALLS  
 BUDGETARY COMPARISON SCHEDULE  
 INDUSTRIAL PARK FUND  
 Year ended September 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 52,195	\$ 52,195	\$ 52,195	\$ 0
Resources (Inflows)				
Interest earned	1,000	1,000	2,354	1,354
Land sales	20,000	20,000	0	(20,000)
Transfers from other funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 73,195	\$ 73,195	\$ 54,549	\$ (18,646)
Charges to Appropriations (Outflows)				
Site improvements	\$ 21,000	\$ 21,000	\$ 0	\$ 21,000
Debt service	0	0	18,090	(18,090)
Transfers to other funds	<u>0</u>	<u>0</u>	<u>36,459</u>	<u>(36,459)</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>21,000</u>	\$ <u>21,000</u>	\$ <u>54,549</u>	\$ <u>(33,549)</u>
BUDGETARY FUND BALANCE--ENDING	\$ <u><u>52,195</u></u>	\$ <u><u>52,195</u></u>	\$ <u><u>0</u></u>	\$ <u><u>(52,195)</u></u>

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

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

The Honorable Mayor and City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, MI 49920

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Crystal Falls, Michigan (City) as of and for the year ended September 30, 2007, which collectively comprise the City of Crystal Falls, Michigan's basic financial statements and have issued my report thereon dated February 1, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States.

## COMPLIANCE

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

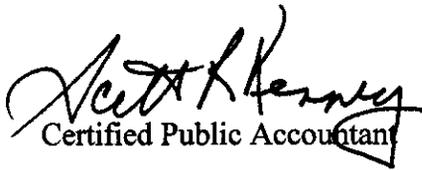
## INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to the management of the City in a separate letter dated February 1, 2008.

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



Scott R. Kenney  
Certified Public Accountant

February 1, 2008

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

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

The Honorable Mayor and City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, Michigan 49920

## **Compliance**

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

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

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

## **Internal Control Over Compliance**

The elected officials and management are responsible for establishing and maintaining effective

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

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

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

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

#### **Schedule of Expenditures of Federal Awards**

I 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 as of and for the year ended September 30, 2007 and have issued my report thereon dated February 1, 2008. My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

  
Certified Public Accountant

February 1, 2008

**CITY OF CRYSTAL FALLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year ended September 30, 2007

	<u>CFDA NUMBER</u>	<u>FEDERAL/ PASS-THROUGH GRANTOR NUMBER</u>		<u>FEDERAL EXPENDITURES</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>				
Passed through Michigan Strategic Fund:				
Community Development Block Grant - 9th Avenue	14.228	MSC 206013-ICE	\$	7,510
TOTAL HOUSING AND URBAN DEVELOPMENT			\$	7,510
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Direct Program:				
Water and Waste Disposal Systems for Rural Communities	10.760			2,725,000
Community Facilities Loan and Grants - Police Vehicle	10.766			11,000
TOTAL DEPARTMENT OF AGRICULTURE				2,736,000
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				2,743,510

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
September 30, 2007

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the City of Crystal Falls, Michigan (City). Federal awards received directly for federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City's reporting entity is defined in Note 1 of the City's basic financial statements.

**NOTE B - BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified basis of accounting, which is described in Note 1 of the City's basic financial statements.

CITY OF CRYSTAL FALLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2007

**SECTION 1 - SUMMARY OF AUDITOR'S RESULTS**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes     X  no

Significant deficiency(ies) identified  
not considered to be material weaknesses?  X  yes    \_\_\_\_\_ none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes     X  no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes     X  no

Significant deficiency(ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes     X  none reported

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

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes     X  no

Identification of major programs

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loan and Grants



CITY OF CRYSTAL FALLS  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2007

**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

Management's  
response:                    statements and notes prior to approving them and accepting responsibility for  
   their content and presentation.

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

None.

**SECTION IV - PRIOR YEAR FINDINGS**

No matters were reported.

# SCOTT R. KENNEY

*Certified Public Accountant*

1374 Commercial Ave., Suite #1  
Crystal Falls, Michigan 49920  
(906) 875-4393 Fax: (906) 875-3879

City Council  
City of Crystal Falls  
401 Superior Avenue  
Crystal Falls, MI 49920

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

## **SIGNIFICANT DEFICIENCIES**

1. **OBSERVATION** - During the year, various projects and equipment were purchased without being placed on competitive bid.

**RECOMMENDATION** - I recommend that, while not required in all instances, equipment and projects procured on a non-emergent basis have specifications developed and that they be competitively bid. Further, the results of the bid or the reason for not bidding an item be included in the minutes of the Council meetings.

2. **OBSERVATION** - As is the case with many smaller and medium-sized entities, the City has relied on its independent external auditors to assist in the preparation of the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

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2. The City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

**RECOMMENDATION** - I recommend that the City continue to outsource the preparation of its financial statements in conformance with the findings stated above.

3. **OBSERVATION** - During the year, the City approved development of a soccer field with a limitation on the cost to be incurred. To date, the City has not budgeted for operating costs that will be incurred for operating the soccer field.

**RECOMMENDATION** - I recommend that the City develop an expenditure budget that will be required to operate the soccer field and then develop a plan to pay for the ongoing costs of watering, mowing, and the like.

4. **OBSERVATION** - The City did not amend its budget during the year and as a result has incurred costs in excess of authorized amounts in several instances. This is a violation of state statute.

**RECOMMENDATION** - I recommend that interim financial reports be reviewed and budgets amended on a quarterly basis. This will assist in allowing the Council to make appropriate financial decisions and compare various anticipated purchases.

5. **OBSERVATION** - During the year the City began a substantial project to replace the source of its water and to upgrade its water utility system. The various costs and related borrowing were not entered in the City's financial records prior to this recommendation as part of the audit process.

**RECOMMENDATION** - I recommend that all financial activities including those relating to the water project be timely and properly reflected in the City's financial records.

6. **OBSERVATION** - The City has been having difficulty in collecting an invoice for camping fees at Runkle Lake Park.

**RECOMMENDATION** - I recommend that the City develop and implement a system of collecting camping fees prior to or on the day of arrival of each camper.

7. **OBSERVATION** - As part of the water project, the City is in the process of installing water meters that are read electronically. The present electric meters, however, are still required to be read, recorded and entered into the utility billing system manually.

**RECOMMENDATION** - I recommend that the City undertake a cost/benefit evaluation of replacing electric meters to allow them to be read electronically. This would save time not only in reading the meters and entering the readings into the utility billing system but also strengthen internal control.

**MATERIAL WEAKNESSES** - None.

I would like to thank the City Council for allowing me to conduct the audit of the financial statements and I would especially like to thank Chuck, Dorothea, Mark, Tara and the Department Heads for their assistance during the audit.

  
Certified Public Accountant

February 1, 2008