

City of Lowell

Lowell, Michigan

Financial Statements

For the Year Ended June 30, 2007

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF LOWELL	County KENT
Fiscal Year End JUNE 30, 2007	Opinion Date DECEMBER 12, 2007	Date Audit Report Submitted to State DECEMBER 21, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BIGGS, HAUSSERMAN, THOMPSON & DICKINSON PC		Telephone Number 616-642-9467	
Street Address 356 EAST MAIN ST		City SARANAC	State MI
		Zip 48881	
Authorizing CPA Signature 		Printed Name STEVEN R THOMPSON	License Number 1101012375

City of Lowell

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City of Lowell

Independent Auditor's Report



Independent Auditor's Report

Honorable Mayor and
Members of the City Council
City of Lowell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2007 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lowell, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lowell Light and Power and Lowell Cable Television, which represent 56 percent, 46 percent, and 79 percent, respectively, of the assets, net assets, and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lowell Light and Power and Lowell Cable Television, is based on the report of the other auditors.

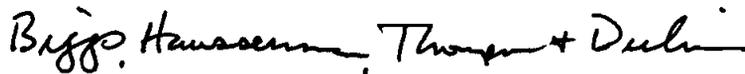
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2007 on our consideration of the City of Lowell's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Lowell's basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.



Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
December 12, 2007

Management's Discussion and Analysis

City of Lowell
Management's Discussion and Analysis
June 30, 2007

The City of Lowell maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other six governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lowell adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The City of Lowell maintains eight different proprietary funds. Six *enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City also has two internal services funds to account for those services provided internally on a cost reimbursement basis. The internal services funds are included in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, airport, cable T.V., cable T.V. sale and light and power funds, all of which are considered to be major funds of the City of Lowell.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Lowell's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discuss and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

**City of Lowell
Management's Discussion and Analysis
June 30, 2007**

Net assets of governmental activities at year-end have been restricted primarily by funding sources for Major Streets, Local Streets, Historic District Commission, and Cemetery Trust Corpus. Of the net asset balance at year end, 83% is invested in capital assets net of related debt, 19% is restricted for other purposes and (2%) is unrestricted and available for general City operations.

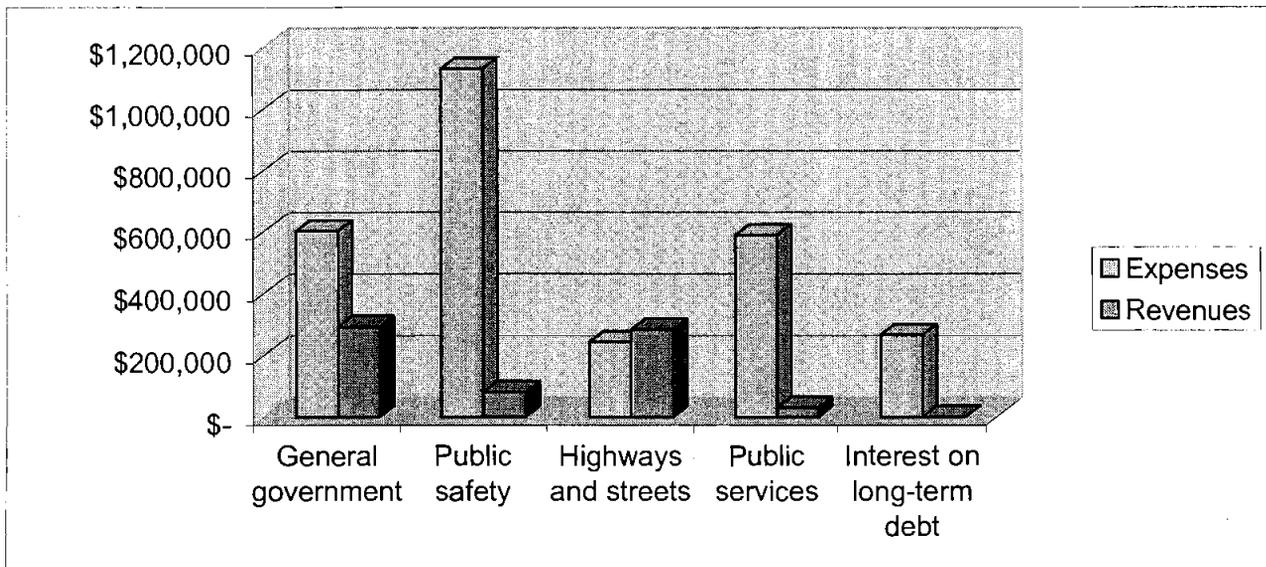
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue:						
Program revenue:						
Charges for services	\$ 390,880	\$ 387,546	\$ 8,948,683	\$ 8,471,690	\$ 9,339,563	\$ 8,859,236
Operating grants and contributions	291,951	336,696	0	0	291,951	336,696
Capital grants and contributions	137,809	0	44,000	50,513	181,809	50,513
General revenue:						
Property taxes	1,700,698	1,632,482	0	0	1,700,698	1,632,482
State shared revenue	393,143	405,384	0	0	393,143	405,384
Other	56,346	67,767	192,281	174,325	248,627	242,092
Total revenue	<u>2,970,827</u>	<u>2,829,875</u>	<u>9,184,964</u>	<u>8,696,528</u>	<u>12,155,791</u>	<u>11,526,403</u>
Governmental activities:						
General government	600,665	625,234	0	0	600,665	625,234
Public safety	1,129,150	1,109,676	0	0	1,129,150	1,109,676
Highways and streets	241,189	260,791	0	0	241,189	260,791
Public services	586,965	590,074	0	0	586,965	590,074
Interest on long-term debt	264,514	282,045	0	0	264,514	282,045
Total expenses - governmental activities	<u>2,822,484</u>	<u>2,867,820</u>	<u>0</u>	<u>0</u>	<u>2,822,484</u>	<u>2,867,820</u>
Business-type activities:						
Airport	0	0	43,923	32,585	43,923	32,585
Light & Power	0	0	6,336,966	6,076,461	6,336,966	6,076,461
Cable T.V.	0	0	1,264,430	1,201,003	1,264,430	1,201,003
Waste Water	0	0	833,022	862,725	833,022	862,725
Water	0	0	759,340	751,281	759,340	751,281
Total expenses- business-type activities	<u>0</u>	<u>0</u>	<u>9,237,681</u>	<u>8,924,055</u>	<u>9,237,681</u>	<u>8,924,055</u>
Extraordinary gain on sale of cable TV	0	0	2,698,396	0	2,698,396	0
Changes in net assets	148,343	(37,945)	2,645,679	(227,527)	2,794,022	(265,472)
Net assets - beginning of year	<u>1,456,104</u>	<u>1,494,049</u>	<u>11,821,203</u>	<u>12,048,730</u>	<u>13,277,307</u>	<u>13,542,779</u>
Net assets - end of year	<u>\$1,604,447</u>	<u>\$1,456,104</u>	<u>\$14,466,882</u>	<u>\$11,821,203</u>	<u>\$16,071,329</u>	<u>\$13,277,307</u>

City of Lowell
Management's Discussion and Analysis
June 30, 2007

Governmental activities. Governmental activities increased the City's net assets by \$148,343, accounting for 5% of the total increase in the net assets of the City. Key elements of this increase are as follows:

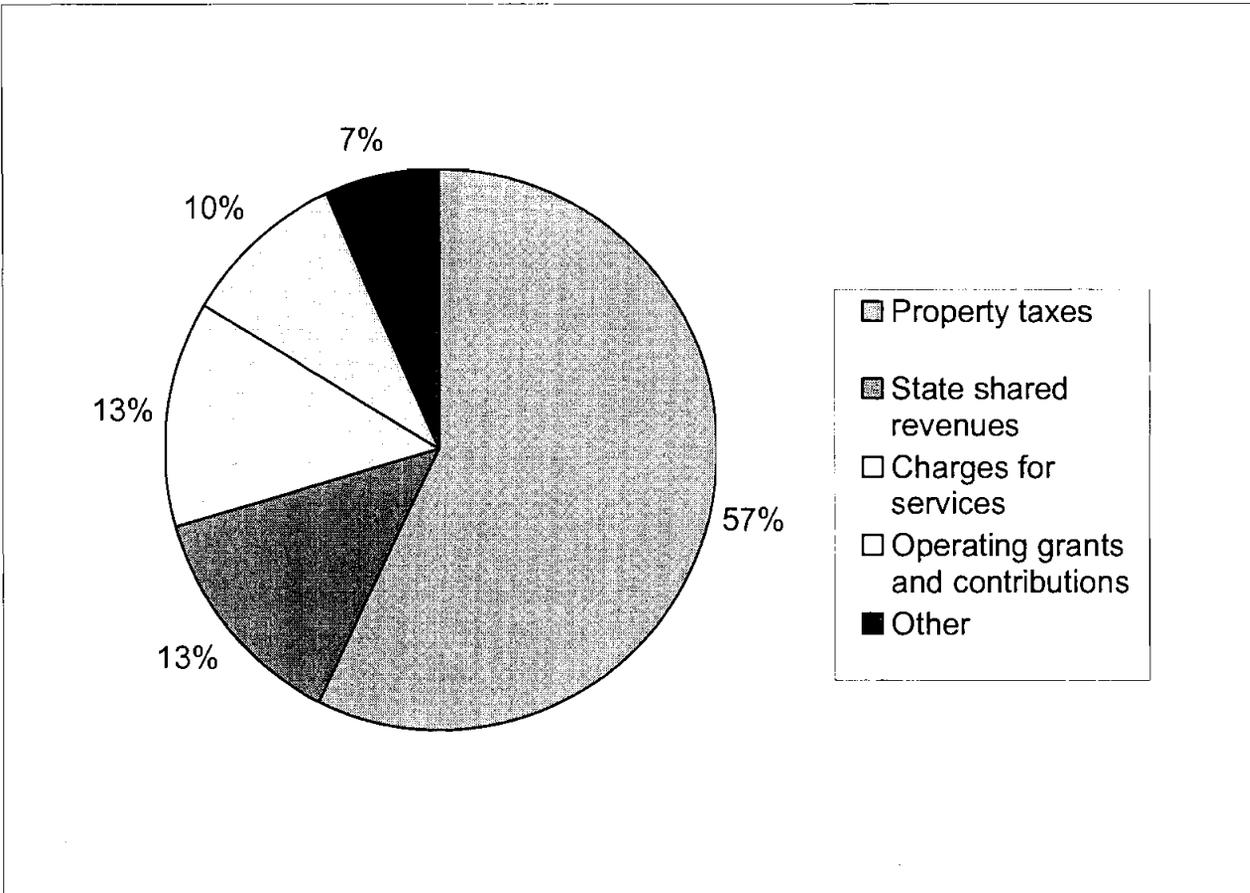
- Increases in property tax revenue.
- The timing differences between construction of capital assets and depreciation of the assets over their estimated useful lives.
- Contributions from surrounding townships, community foundations and Rockford Ambulance to cover portions of the firebarn addition.

Expenses and Program Revenues – Governmental Activities



City of Lowell
Management's Discussion and Analysis
June 30, 2007

Revenues by Source – Governmental Activities



Business-type activities. Business-type activities increased the City's net assets by \$2,645,679, accounting for 95% of the total increase in the government's net assets for the current year. Key elements of this increase are as follows:

- Lowell cable television was sold, resulting in a gain of \$2,698,396.
- Wastewater had an increase in net assets of \$132,968. Charges for services increased by approximately \$200,000 from the previous year due to the change in rates that became effective in the spring of 2006.
- Water had an increase in net assets of \$213,706.
- Lowell Light and Power had a decrease in net assets of \$375,239.

City of Lowell
Management's Discussion and Analysis
June 30, 2007

Financial Analysis of the Government's Funds

As noted earlier, the City of Lowell uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Lowell *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Lowell financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As the end of the current fiscal year, the City of Lowell's governmental funds reported combined ending fund balance of \$344,557, a decrease of \$45,423 compared with prior year. This was due to capital expenditures during the year.

The general fund is the chief operating fund of the City of Lowell. At the end of the current fiscal year, unreserved fund balance of the general fund was \$35,102, which was the same amount as the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.5 percent of total general fund expenditures.

The fund balance of the City of Lowell's general fund decreased by \$4,364 during the current fiscal year.

Proprietary funds. The City of Lowell's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at the end of the year amounted to \$6,348,729. The total increase in net assets for the year was \$2,645,679. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Lowell's business-type activities.

General Fund Budgetary Highlights

- Significant fluctuations between the original and amended for the year included a decrease in state share revenues and an increase in property tax revenues, as well as an increase in transfers out to other funds.

**City of Lowell
Management's Discussion and Analysis
June 30, 2007**

Capital Asset and Debt Administration

Capital assets. The City of Lowell's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$21,313,109 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, road, highways, and bridges. The total decrease in the City of Lowell's investment in net capital assets for the current fiscal year was \$1,163,587. The total investment in capital assets was \$1,253,222.

Major capital asset events during the current fiscal year included the following:

- Reconstruction of portions of Gee Drive
- Construction of a new ambulance building began
- Sale of Lowell Cable TV department

**City of Lowell Capital Assets
(net of depreciation)**

	Governmental Activities	Business-type Activities	Total
Land	\$ 568,460	\$ 349,838	\$ 918,298
Construction in progress	137,809	684	138,493
Building, equipment and improvements	6,089,800	14,166,518	20,256,318
Total net assets	<u>\$ 6,796,069</u>	<u>\$ 14,517,040</u>	<u>\$ 21,313,109</u>

Additional information on the City of Lowell capital assets can be found in note 4 on pages 38 and 39 of this report.

Long-term debt.

City of Lowell Outstanding Obligations

	Governmental Activities	Business-type Activities	Total
Bonded debt net of discounts	\$ 5,450,000	\$ 7,165,961	\$ 12,615,961
Other obligations	79,921	32,550	112,471
Total net assets	<u>\$ 5,529,921</u>	<u>\$ 7,198,511</u>	<u>\$ 12,728,432</u>

During the year the City paid approximately \$608,000 of principal off on debt outstanding at July 1, 2006.

City of Lowell
Management's Discussion and Analysis
June 30, 2007

The City of Lowell has a BBB rating from Standard & Poor's.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of the entity's total State Equalized Value. The current debt outstanding for the City of Lowell is within the statutory limit.

Economic Factors and Next Year's Budgets and Rates

Revenues

Property Taxes – The General Fund's budgeted property tax, its largest revenue source, is projected to increase 3.4%. The taxable value of existing property, not affected by transfer of ownership or construction of additions, was limited by State Law to the Consumer Price Index.

State Shared Revenue – The General Fund's budgeted state shared revenues are expected to decrease 1.7% to \$402,255.

Expenditures

Although the General Fund expenditures are budgeted to remain steady at \$2,447,000, additional factors were considered in the preparation of the budget, as follows:

Compensation for City employees were estimated at a 2.5% increase in wages for each employee.

No staffing changes have been included in the budget. There were no reductions in staff or additions.

City of Lowell
Management's Discussion and Analysis
June 30, 2007

Requests for Information

This financial report is designed to provide a general overview of the City of Lowell finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Sue Olin, Treasurer, City of Lowell, 301 E. Main Street, Lowell, Michigan 49331.

Government-wide Financial Statements

CITY OF LOWELL

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
Assets				
Current assets:				
Cash and pooled investments	\$ 354,330	\$ 4,135,546	\$ 4,489,876	\$ 251,272
Investments	75,946	888,531	964,477	0
Accounts receivable	74,509	991,984	1,066,493	0
Due from other governments	194,214	0	194,214	0
Contract receivable	0	313,200	313,200	0
Other receivable	0	44,000	44,000	0
Special assessment receivable	4,381	84,916	89,297	0
Inventory	7,863	75,690	83,553	0
Internal balances	53,975	(53,975)	0	0
Prepaid items and other assets	0	38,184	38,184	0
Restricted assets				
Cash and pooled investments	0	1,260,495	1,260,495	0
Non-current assets:				
Advance receivable	0	47,190	47,190	0
Restricted assets				
Cash and pooled investments	0	367,362	367,362	0
Capital assets				
Land	568,460	349,838	918,298	67,876
Buildings, equipment and fixture, net	6,089,800	14,166,518	20,256,318	832,606
Construction in progress	137,809	684	138,493	0
Total assets	7,561,287	22,710,163	30,271,450	1,151,754
Liabilities				
Current liabilities:				
Accounts payable	274,815	595,122	869,937	476
Accrued liabilities	82,737	184,423	267,160	3,517
Accrued compensated absences	81,035	78,271	159,306	0
Due to other governmental units	36,825	0	36,825	0
Customer deposits	0	179,390	179,390	0
Deferred revenue	15,295	7,564	22,859	0
Noncurrent liabilities:				
Due within one year	156,133	446,497	602,630	150,000
Due in more than one year	5,310,000	6,752,014	12,062,014	1,070,000
Total liabilities	5,956,840	8,243,281	14,200,121	1,223,993
Net assets				
Invested in capital assets, net of related debt	1,329,936	7,318,529	8,648,465	(319,518)
Restricted for:				
Major Streets	3	0	3	0
Local Streets	2	0	2	0
Historic District Commission	29,527	0	29,527	0
Debt Service	5,028	505,624	510,652	0
Cemetery trust corpus	274,895	0	274,895	0
Unrestricted	(34,944)	6,642,729	6,607,785	247,279
Total net assets (deficit)	\$ 1,604,447	\$ 14,466,882	\$16,071,329	\$ (72,239)

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

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit Downtown Development Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
General government	\$ 600,665	\$ 287,492	\$ 3,310	\$ 0	\$ (309,863)	\$ 0	\$ (309,863)
Public safety	1,129,150	72,740	6,841	137,809	(911,760)	0	(911,760)
Highways and streets	241,189	0	281,800	0	40,611	0	40,611
Public services	586,965	30,648	0	0	(556,317)	0	(556,317)
Interest on long-term debt	264,514	0	0	0	(264,514)	0	(264,514)
Total governmental activities	<u>2,822,484</u>	<u>390,880</u>	<u>291,951</u>	<u>137,809</u>	<u>(2,001,844)</u>	<u>0</u>	<u>(2,001,844)</u>
Business-type activities:							
Airport	43,923	35,699	0	0	0	(8,224)	(8,224)
Light & Power	6,336,966	5,853,273	0	0	0	(483,693)	(483,693)
Cable T. V.	1,264,430	1,238,515	0	0	0	(25,915)	(25,915)
Wastewater	833,022	894,937	0	44,000	0	105,915	105,915
Water	759,340	926,259	0	0	0	166,919	166,919
Total business-type activities	<u>9,237,681</u>	<u>8,948,683</u>	<u>0</u>	<u>44,000</u>	<u>0</u>	<u>(244,998)</u>	<u>(244,998)</u>
Total primary government	<u>\$ 12,060,165</u>	<u>\$ 9,339,563</u>	<u>\$ 291,951</u>	<u>\$ 181,809</u>	<u>(2,001,844)</u>	<u>(244,998)</u>	<u>(2,246,842)</u>
Component unit activities:							
Downtown Development Authority	\$ 332,829	\$ 0	\$ 0	\$ 0			(332,829)
Total component units	<u>\$ 332,829</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>			<u>(332,829)</u>
General revenues:							
Property taxes			1,700,698			0	1,700,698
State shared revenues			393,143			0	393,143
Interest earnings			35,108			186,402	221,510
Contributions/other/asset disposals			21,238			5,879	27,117
Total general revenues and transfers			<u>2,150,187</u>			<u>192,281</u>	<u>2,342,468</u>
Extraordinary gain on sale of cable television			0			2,698,396	2,698,396
Changes in net assets			148,343			2,645,679	2,794,022
Net assets (deficit), beginning of year			1,456,104			11,821,203	13,277,307
Net assets (deficit), end of year	<u>\$ 1,604,447</u>	<u>\$ 14,466,882</u>	<u>\$ 16,071,329</u>	<u>\$ 16,071,329</u>			<u>\$ (72,239)</u>

Fund Financial Statements

CITY OF LOWELL
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 55,247	\$ 277,883	\$ 333,130
Investments	0	75,946	75,946
Receivables			
Accounts	68,649	0	68,649
Special assessments	4,381	0	4,381
Due from other governmental units	146,406	47,808	194,214
Due from other funds	88,207	32,074	120,281
Prepaid expenses	0	0	0
Total assets	<u>\$ 362,890</u>	<u>\$ 433,711</u>	<u>\$ 796,601</u>
Liabilities			
Accounts payable	\$ 212,264	\$ 56,609	\$ 268,873
Accrued liabilities	49,350	1,070	50,420
Due to other funds	0	66,306	66,306
Due to other governments	36,825	0	36,825
Deferred revenue	15,295	0	15,295
Accrued compensated absences	14,054	271	14,325
Total liabilities	<u>327,788</u>	<u>124,256</u>	<u>452,044</u>
Fund balances			
Reserved for:			
Permanent trust	0	279,923	279,923
Programs	0	0	0
Debt service	0	0	0
Unreserved			
Undesignated	35,102	0	35,102
Undesignated reported in special revenue funds	0	29,532	29,532
Total fund balances	<u>35,102</u>	<u>309,455</u>	<u>344,557</u>
Total liabilities and fund balances	<u>\$ 362,890</u>	<u>\$ 433,711</u>	<u>\$ 796,601</u>

CITY OF LOWELL
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances-total governmental funds	\$ 344,557
<p>Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:</p> <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Add-capital assets (net)	6,793,891
<p>An internal service fund is used by management to charge the costs of certain equipment usage and data processing to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.</p>	
Add-(loss) net assets of governmental activities accounted for in the internal service fund	25,772
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	
Deduct-compensated absences payable	(63,788)
Deduct-bonds payable and lease purchases payable	(5,466,133)
Deduct-accrued interest on bonds payable	<u>(29,852)</u>
Net assets of governmental activities	<u><u>\$ 1,604,447</u></u>

CITY OF LOWELL
GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 1,700,698	\$ 0	\$ 1,700,698
Intergovernmental revenues:			
Federal	0	0	0
State	403,294	280,040	683,334
Charges for services	148,126	0	148,126
Interest income	18,421	16,687	35,108
Charges for perpetual care	0	15,750	15,750
Miscellaneous	386,054	1,760	387,814
Total revenues	<u>2,656,593</u>	<u>314,237</u>	<u>2,970,830</u>
Expenditures			
Current:			
General government	494,125	0	494,125
Public safety	1,033,168	0	1,033,168
Highways and streets	0	220,250	220,250
Public services	513,054	27,945	540,999
Other functions	60,307	554	60,861
Debt service:			
Principal retirement	27,549	145,000	172,549
Interest and fiscal charges	1,022	264,336	265,358
Capital outlay	137,809	91,134	228,943
Total expenditures	<u>2,267,034</u>	<u>749,219</u>	<u>3,016,253</u>
Revenues over (under) expenditures	<u>389,559</u>	<u>(434,982)</u>	<u>(45,423)</u>
Other financing sources (uses)			
Transfers in	14,232	453,155	467,387
Transfers out	(408,155)	(59,232)	(467,387)
Total other financing sources (uses)	<u>(393,923)</u>	<u>393,923</u>	<u>0</u>
Net change in fund balance	(4,364)	(41,059)	(45,423)
Fund balance, beginning of year	<u>39,466</u>	<u>350,514</u>	<u>389,980</u>
Fund balance, end of year	<u>\$ 35,102</u>	<u>\$ 309,455</u>	<u>\$ 344,557</u>

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

	Enterprise Funds						TOTAL	Governmental Activities INTERNAL SERVICE FUNDS
	WASTEWATER	WATER	AIRPORT	CABLE TV SALE	CABLE TV	LIGHT & POWER		
Operating revenues								
Charges for services	\$ 894,637	\$ 924,544	\$ 35,699	\$ 0	\$ 1,238,515	\$ 5,853,273	\$ 8,946,668	\$ 160,487
Tap fees	300	1,715	0	0	0	0	2,015	0
Total operating revenues	894,937	926,259	35,699	0	1,238,515	5,853,273	8,948,683	160,487
Operating expenses								
Treatment	457,941	286,048	0	0	0	0	743,989	0
Transmission and distribution	35,674	175,206	0	0	56,892	595,768	863,540	0
Customer accounts	34,479	37,101	0	0	0	109,065	180,645	0
Administrative and general	28,757	40,669	28,954	0	532,390	677,896	1,308,666	153,819
Purchased programs and power expenses	0	0	0	0	583,022	3,821,130	4,404,152	0
Depreciation and amortization	218,423	119,072	12,821	0	72,243	669,045	1,091,604	8,155
Total operating expenses	775,274	658,096	41,775	0	1,244,547	5,872,804	8,592,596	181,974
Operating income (loss)	119,663	268,163	(6,076)	0	(6,032)	(19,531)	356,087	(1,487)
Non-operating revenues (expenses)								
Interest income	23,627	29,436	2,226	776	6,084	124,253	186,402	437
Interest expense	(57,748)	(101,244)	(2,148)	0	(19,883)	(221,889)	(402,912)	0
Gain (loss) on asset disposal	0	0	0	0	0	(15,799)	(15,799)	0
Miscellaneous revenue	3,426	17,351	901	0	0	0	21,678	0
Total non-operating revenues (expenses)	(30,695)	(54,457)	979	776	(13,799)	(113,435)	(210,631)	437
Income (loss) before contributions, transfers and extraordinary gain	88,968	213,706	(5,097)	776	(19,831)	(133,066)	145,456	(1,050)
Capital contributions	44,000	0	0	0	0	0	44,000	0
Transfers in (out)	0	0	0	2,793,646	(2,793,646)	0	0	0
Transfer-Payment in lieu of taxes	0	0	0	0	0	(242,173)	(242,173)	0
Extraordinary gain on sale of cable system	0	0	0	0	2,698,396	0	2,698,396	0
Change in net assets	132,968	213,706	(5,097)	2,794,422	(115,081)	(375,239)	2,645,679	(1,050)
Net assets, beginning of year	1,804,655	2,463,491	283,057	0	115,081	7,154,919	11,821,203	26,822
Net assets, end of year	\$ 1,937,623	\$ 2,677,197	\$ 277,960	\$ 2,794,422	\$ 0	\$ 6,779,680	\$ 14,466,882	\$ 25,772

CITY OF LOWELL
PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS						GOVERNMENTAL ACTIVITIES	
	WASTEWATER	WATER	AIRPORT	CABLE T.V. SALE	CABLE T.V.	LIGHT & POWER	TOTAL	INTERNAL SERVICE FUNDS
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from interfund services provided	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 162,418
Receipts from customers and users	892,806	921,494	37,381	0	1,238,515	5,837,035	8,927,231	0
Payments to employees	(113,565)	(234,248)	0	0	(385,251)	(861,372)	(1,594,436)	(92,031)
Payments to suppliers	(406,161)	(298,791)	(18,809)	0	(793,632)	(4,382,932)	(5,900,325)	(55,898)
Net cash provided by (used in) operating activities	373,080	388,455	18,572	0	59,632	592,731	1,432,470	14,489
CASH FLOWS FROM NON-CAPITAL FINANCING								
Due to other funds	0	0	0	0	(50,666)	50,666	0	0
Due from other funds/advances receivable	0	0	0	0	0	(2,247)	(2,247)	0
Transfers in (out)	0	0	0	0	0	(242,173)	(242,173)	0
Other activities	3,426	17,351	901	0	(19,883)	0	1,795	0
Net cash provided by (used in) non-capital financing	3,426	17,351	901	0	(70,549)	(193,754)	(242,625)	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisitions of capital assets	(44,000)	(7,607)	0	0	(75,232)	(380,354)	(507,193)	0
Principal paid on long-term debt/advances	(140,000)	(149,000)	(7,106)	0	0	(140,000)	(436,106)	0
Interest paid on long-term debt/advances	(51,219)	(91,807)	(2,181)	0	0	(216,451)	(361,658)	0
Proceeds from sale of capital assets/capital contributions	0	0	0	2,980,808	0	21,465	3,002,273	0
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES	(235,219)	(248,414)	(9,287)	2,980,808	(75,232)	(715,340)	1,697,316	0
CASH FLOWS FROM INVESTING ACTIVITIES								
Interest income	23,627	29,436	2,226	776	6,084	124,253	186,402	437
Sale of investments	0	0	0	0	0	195,034	195,034	0
Purchase of investments	0	0	0	0	0	(81,068)	(81,068)	0
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	23,627	29,436	2,226	776	6,084	238,219	300,368	437
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	164,914	186,828	12,412	2,981,584	(80,065)	(78,144)	3,187,529	14,926
CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR	454,045	545,185	49,942	0	180,788	968,712	2,198,672	6,274
CASH AND POOLED INVESTMENTS, END OF YEAR	<u>\$ 618,959</u>	<u>\$ 732,013</u>	<u>\$ 62,354</u>	<u>\$ 2,981,584</u>	<u>\$ 100,723</u>	<u>\$ 890,568</u>	<u>\$ 5,386,201</u>	<u>\$ 21,200</u>
Cash and pooled investments	\$ 407,189	497,229	\$ 62,354	\$ 2,981,584	\$ 100,723	\$ 86,467	\$ 4,135,546	\$ 21,200
Restricted cash and pooled investments	211,770	234,784	0	0	0	804,101	1,250,655	0
Total	<u>\$ 618,959</u>	<u>\$ 732,013</u>	<u>\$ 62,354</u>	<u>\$ 2,981,584</u>	<u>\$ 100,723</u>	<u>\$ 890,568</u>	<u>\$ 5,386,201</u>	<u>\$ 21,200</u>
Reconciliation of operating income (loss) to net cash provided by operating activities								
Operating income (loss)	\$ 119,663	\$ 268,163	\$ (6,076)	\$ 0	\$ (6,032)	\$ (19,631)	\$ 356,087	\$ (1,487)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities								
Depreciation and amortization	218,423	119,072	12,821	0	72,243	669,045	1,091,604	8,155
Changes in operating assets and liabilities which provided (used) cash:								
Accounts receivable/assessments	(1,823)	(9,666)	9,414	0	684	16,238	14,847	1,150
Due from other governmental units	0	0	0	0	0	0	0	0
Inventory	0	1,006	0	0	0	(1,932)	(926)	189
Prepaid expenses	0	0	0	0	4,050	(1,367)	2,683	0
Accounts payable	37,125	6,991	33	0	7,224	(82,217)	(30,844)	5,701
Accrued liabilities	(199)	486	0	0	(20,758)	(1,967)	(22,438)	442
Deferred revenue	0	0	2,326	0	0	0	2,326	0
Compensated absences	(109)	(84)	0	0	3	8,879	8,689	0
Due to other governmental entities	0	0	0	0	11,003	(1,387)	9,616	0
Customer deposits	0	2,487	54	0	(8,785)	7,070	826	0
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 373,080</u>	<u>\$ 388,455</u>	<u>\$ 18,572</u>	<u>\$ 0</u>	<u>\$ 59,632</u>	<u>\$ 592,731</u>	<u>\$ 1,432,470</u>	<u>\$ 14,150</u>

CITY OF LOWELL
FIDUCIARY FUNDS
STATEMENTS OF NET ASSETS

June 30, 2007

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and pooled investments	\$ 208,802	\$ 142
Investments	1,049,009	0
Total assets	1,257,811	142
LIABILITIES		
Accounts payable	1,000	0
Due to other funds	17,000	0
Due to other governments	0	94
Total Liabilities	18,000	94
NET ASSETS		
Restricted	20,833	0
Unrestricted board designated	1,144,047	0
Unrestricted	74,931	48
Total net assets	\$ 1,239,811	\$ 48

CITY OF LOWELL
PRIVATE PURPOSE TRUSTS
STATEMENT OF CHANGES IN FIDUCIARY
NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Totals
Operating revenues	
Interest and miscellaneous	\$ 79,092
Expenses	
Other functions	68,579
Changes in net assets	10,513
Net assets, beginning of year	1,229,298
Net assets, end of year	\$ 1,239,811

Notes to Financial Statements

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lowell (the "City") was incorporated in 1960, under the provision of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles, as described below, as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the City. A separate section of the General Purpose Financial Statements provides detailed financial information on the discretely presented component unit.

Restricted Assets

Certain bond and deposit agreements require assets to be set aside for principal, interest repayment and other purposes. These assets are classified as restricted assets on the balance sheet because their use is limited by applicable agreement requirements.

Blended Component Unit

Building Authority – The Building Authority is an entity legally separated from the City. For financial reporting purposes, the Building Authority is reported as if it were part of the City's operations because its purpose is to acquire, construct and equip public buildings on behalf of the City.

The Building Authority is the only blended component unit.

Discretely Presented Component Unit

Downtown Development Authority – The Downtown Development Authority (DDA), was established pursuant to the provisions of Public Act 197 of 1975, and is governed by a nine (9) person Board of Directors appointed by the City Council. All record and minutes are open to the public and can be inspected at the City of Lowell, 301 E. Main Street, Lowell, MI 49331. Separate financial statements are not prepared for the Downtown Development Authority.

The Downtown Development Authority is the only discretely presented component unit.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund Financial Statements

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

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

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 except for agency funds which have no measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the following year, the County pays the City for any outstanding real property (excluding personal property) taxes of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be recorded when all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, landfill remediation and compensated absences expenditures are recorded only when payment is due.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City'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 City reports the following major proprietary funds:

The *Wastewater Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Water Fund* accounts for operation, maintenance and capital improvement of the wastewater system, and retirement of related debt.

The *Airport Fund* accounts for operation, maintenance and capital improvement of the airport and retirement of related debt.

The *Cable T.V. Fund* accounts for operation, maintenance and capital improvements of the cable television system, and retirement of related debt.

The *Cable T.V. Sale Fund* accounts for the proceeds and expenses related to the sale of the cable television system.

The *Light and Power Fund* accounts for operation, maintenance and capital improvements of the electrical utility system, and retirement of related debt.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The *Internal Service Funds* account for services provided internally to city departments including data processing and equipment rental and repair on a cost reimbursement basis.

The *Permanent Trust Fund* is used to account for the corpus of the cemetery trust which provides funding for cemetery maintenance activities.

The *Trust and Agency Funds* are used to account for assets held by the City in a trustee or agency capacity on behalf of outside parties, including other governments. These include a private purpose trusts and agency funds.

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

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

Amounts reported as a program revenues include: 1) charges to customers or applications 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 revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguished *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds and internal service funds include wages, supplies, contracted service and depreciation on capital assets. Operating expenses for the internal service funds also include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables

During the course of the operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Non-current portions of long-term interfund loans receivable in the funds are reported as advances.

Any residual balances outstanding between the governmental activities and business-type activity are reported in the government-wide financial statements as "internal balances."

Allowance for Doubtful Accounts

Lowell Light & Power and Cable enterprise funds have established a reserve for uncollectible customer receivables. The reserve for uncollectible accounts for Light & Power at June 30, 2007 was \$18,367. The reserve for Cable at June 30, 2007 was \$5,463.

Accounts receivables are shown net of allowance for doubtful accounts.

Inventories and Prepaid Items

Inventories are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund's fiscal year-end recorded as prepaid items in both government-wide and fund financial statements.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds which are adopted on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1: The City Manager submitted to the city Council, a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings were conducted by the City to obtain taxpayer comments.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. By June of each year, the budget is legally enacted through passage of the appropriation act.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The level of budgetary control is at the department level.
5. Formal budgetary integration is employed as a management control device during the year. Budget appropriations lapse at year-end.
6. The budgeted amounts presented in these financial statements are final budgets, after amendments on various dates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset and do not materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on the capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings.....	30-50
Equipment.....	5-50
Improvements	30-50
Public domain infrastructure.....	40

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. By June of each year, the budget is legally enacted through passage of the appropriations act.
4. The City Manager is authorized to make budget transfers to or from any one appropriation category during the fiscal year within dollar limits established by the City Council. The legal level of budgetary control is at the department level.
5. Formal budgetary integration is employed as a management control device during the year. Budget appropriations lapse at year-end.
6. The budgeted amounts presented in these financial statements are final budgets, after amendments on various dates.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on the capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimate useful lives:

	<u>Years</u>
Buildings.....	30-50
Equipment.....	5-50
Improvements.....	30-50
Public domain infrastructure.....	40

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

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

Developer advances/Restricted Funds (General Fund)	\$ 15,295
Advance rent payments (Airport)	<u>7,564</u>
	<u>\$ 22,859</u>

Net Assets/Fund Balance

Reserved fund balance/net assets represent those portions of fund balance/net assets not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the financial statements, the 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. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 debt service expenditures.

Investments

Investments are stated at fair value in accordance with GASB Statement No. 31.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 31. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Payment in Lieu of Property Taxes/Franchise Fees

The Light and Power and Cable Television enterprise funds make payment in lieu of property taxes and franchise fee payments which are recorded as expenses in the enterprise funds and revenues in the general fund.

Accrued Vacation and Sick Leave

All full-time employees are allowed to earn and accumulate sick and vacation pay subject to per employee maximum accumulated hours. These hours vest and are payable upon termination (for police only), retirement or exceeding the maximum hours accrued. Accrued compensated absences are reported in the proprietary fund types and governmental fund types to the extent that they will be liquidated with expendable available financial resources, and the long-term balance payable from governmental funds is recorded on the statement of net assets.

Post-Retirement Health Care Benefits

The City provides postretirement healthcare benefits to all employees who retire from the City and qualify for benefits under the terms of the City's retirement plan. These post-retirement healthcare benefits are limited to a maximum of five years, or obtainment of age 65, whichever comes first. Currently four former employees meet these requirements and received \$27,887 in benefits for the year ended June 30, 2007. These benefits are unfunded and financed on a pay-as-you-go basis. Benefits are treated as expenditures when paid.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

Risk Management

The City 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. During the year ended June 30, 2007, the City carried commercial insurance to cover risk of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. The City has not significantly reduced insurance coverage during the past year.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, 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 and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the department level.

During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds, which were in excess of the amounts appropriated, as follows:

	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund			
City Manager	\$ 84,524	\$ 86,886	\$ (2,362)
Library	47,504	49,860	(2,356)
Cemetery	71,934	82,811	(10,877)
Attorney	15,000	22,139	(7,139)
Planning	14,824	14,944	(120)
City Hall	79,089	79,594	(505)
Engineering	6,300	6,626	(326)
Parks	106,060	118,170	(12,110)
Refuse Collection	75,000	81,863	(6,863)
Sidewalks	9,663	12,311	(2,648)
Fire	188,912	313,803	(124,891)
Police	836,639	855,174	(18,535)
Special Revenue Funds			
Local Street			
Traffic	7,001	7,540	(539)
Interest and fiscal charges	28,715	29,206	(491)
Major Street			
Capital Outlay	80,000	91,134	(11,134)

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

3. DEPOSITS AND INVESTMENTS

The city utilizes various pooled cash accounts and investments for approximately twenty funds. The City's pooled cash accounts consist of a common checking account, savings accounts, certificates of deposit, and investment trust funds.

The City's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Funds, and the Trust and Agency Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents and investments captions on the basic financial statements. The other funds of the City utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit are held separately by several of the City's funds.

Statutory Authority

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits

As of June 30, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

	Government Wide	Fiduciary
Cash and pooled investments	\$ 4,489,876	\$ 208,944
Restricted cash and pooled investments	1,260,495	0
Restricted cash and pooled investments-long term	367,362	0
Subtotal	6,117,733	208,944
 Investments	 964,477	 1,049,009
 TOTAL	 \$ 7,082,210	 \$ 1,257,953

Investments

As of June 30, 2007, the fair market value for the investments is as follows:

Investment Type	Primary Government	Fiduciary Funds	Total	Standard & Poor's Rating	Portfolio %
U.S. Government Securities	\$ 855,854	\$ 0	\$ 855,854	AAA	42.5%
Fed.Home Loan Mortgage Pool (FDMC)	34,235	475,601	509,836	AAA	25.3%
GNMA Pool	42,129	453,703	495,832	AAA	24.6%
Fed. National Mortgage Pool (FNMA)	0	119,705	119,705	AAA	5.9%
Money market accounts	32,259	0	32,259	Unrated	1.6%
 Total	 \$ 964,477	 \$ 1,049,009	 \$ 2,013,486		 100.0%

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the Kent County Investment Pool total of \$629,523 and the Michigan Public Power Agency Pool amount of \$377,202 are not rated.

Interest Rate Risk

The City has not adopted a policy that indicates how the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The City limits amounts invested in a single security type or with a single financial institution. This indicates how the City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

The City has adopted a policy that limits amounts invested with a single financial institution. This will minimize custodial credit risk, which is the risk that in the event of a failure by a counterparty, the City will not be able to recover the value of its investments of collateral securities that are in possession of an outside party. Deposits of the city are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2007, the City accounts were insured by the FDIC for \$517,230 and the amount of \$4,906,449 was uninsured and uncollateralized.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

4. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:	
General government	\$ 42,772
Public safety	102,896
Public works	19,065
Public services	46,830
Capital assets held by the government's internal service Fund are charged to the various functions based on Their usage of the assets	<u>8,155</u>
Total depreciation expense – governmental activities	<u>\$ 219,718</u>

5. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement Systems of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is from 11.04% to 11.38% of annual covered payroll depending on position. Participating employees are required to contribute from 0% to 6% to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City Council, depending on the MERS program adopted.

For the year ended June 30, 2007, the City's annual pension cost for MERS of \$316,703 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.5% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 30 years.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

7. INDIVIDUAL FUND ADVANCE RECEIVABLES AND PAYABLES

Advances between funds representing short-term receivables and payable between funds at June 30, 2007 are as follows:

<u>Fund</u>	<u>Advance Receivables</u>	<u>Advance Payables</u>
Enterprise Funds:		
Light & Power	\$ 469,457	\$ 0
Cable T.V.	<u>0</u>	<u>469,457</u>
	<u>\$ 469,457</u>	<u>\$ 469,457</u>

This loan, along with related accrued interest, is expected to be paid in full during the 2007-2008 fiscal year with the proceeds of the sale of the Cable Television System.

8. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2007 are as follows:

		Transfer in:			
		General Fund	Cable TV Sale	Nonmajor	Total
Transfer out:					
General Fund	\$ 0	\$ 0	\$ 408,155	\$ 408,155	
Cable TV	0	2,793,646	0	2,793,646	
Nonmajor	<u>14,232</u>	<u>0</u>	<u>45,000</u>	<u>59,232</u>	
	<u>\$ 14,232</u>	<u>\$ 2,793,646</u>	<u>\$ 453,155</u>	<u>\$ 3,261,033</u>	

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2007

9. LONG-TERM OBLIGATIONS

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

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Long-Term Debt					
Primary Government:					
4.20% - 5.00% Building Authority Bonds, series 1999; payable in annual amounts of \$35,000 to \$65,000 through 2010.	150,000	0	45,000	105,000	35,000
2.00% - 4.80% Transportation Fund Improvement Bonds, series, 2002; payable in annual amounts of \$25,000 to \$45,000 through 2017.	420,000	0	25,000	395,000	30,000
3.25% - 5.12% Building Authority Bonds, series 2002; payable in annual amounts of \$60,000 to \$300,000 through 2032.	4,725,000	0	60,000	4,665,000	60,000
Municipal Lease--Installment Purchase agreement for police cruisers payable in annual amounts of \$10,919 to \$11,936 through 2007.	11,416	0	11,416	0	0
3.50%-4.25% Transportation Fund Improvement Bonds, series, 2005; payable in annual amounts of \$15,000 to \$25,000 through 2019.	300,000	0	15,000	285,000	15,000
Act 99 Installment Purchase, Series 2005 for a fire vehicle in annual amounts of \$16,133 through 2008.	32,266	0	16,133	16,133	16,133
Vested Sick and Vacation pay	67,834	0	4,046	63,788	0
Total Governmental Long-Term Debt	<u>5,706,516</u>	<u>0</u>	<u>176,595</u>	<u>5,529,921</u>	<u>156,133</u>

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2007

9. LONG-TERM OBLIGATIONS (CONTINUED)

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
Proprietary Funds					
Enterprise Funds					
Wastewater Fund					
4.40% - 5.40% Sanitary Sewer Systems Revenue Refunding Bonds, series 1993; payable in annual amounts of \$30,000 to \$175,000 through 2012.	950,000	0	140,000	810,000	145,000
Light and Power Fund					
3.00% - 5.00% Electric Supply System Revenue Bonds, series 2002; payable in semi-annual amounts of \$130,000 to \$350,000 through 2027.	4,900,000	0	140,000	4,760,000	145,000
Water Fund					
6.25% Special Assessment Water Bonds, series 1993A; payable in annual amounts of \$3,000 to \$10,000 through 2008.	8,000	0	4,000	4,000	4,000
6.30% - 7.50% Special Assessment Water Bonds, series 1994A; payable in annual amounts of \$5,000 to \$10,000 through 2014.	80,000	0	10,000	70,000	10,000
3.00% - 5.00% Water Revenue Refunding Bonds, series 2002; payable in annual amount of \$100,000 to \$195,000 through 2019.	1,970,000	0	135,000	1,835,000	135,000
Airport Fund					
5.50% Michigan Aeronautics Commission Airport Loan, series 2001; payable in annual amounts of \$5,437 to \$8,800 through 2011.	39,656	0	7,106	32,550	7,497
Sub-Total Enterprise Funds	7,947,656	0	436,106	7,511,550	446,497
Unamortized discount/issuance cost	338,963	0	25,924	313,039	0
Total Enterprise Funds	7,608,693	0	410,182	7,198,511	446,497
Total Long-Term Obligations - Primary Government	13,315,209	0	586,777	12,728,432	602,630
Component Unit					
5.50% - 6.65% DDA Michigan Municipal Bond Authority, series 1994F; payable in annual amount of \$50,000 to \$100,000.	630,000	0	60,000	570,000	70,000
4.00% - 5.35% DDA General Obligation Limited Tax Development Bonds, series 1999; payable in annual payments of \$55,000 to \$110,000.	725,000	0	75,000	650,000	80,000
Total Component Unit	1,355,000	0	135,000	1,220,000	150,000
Total Long-Term Obligations - Reporting Entity	\$ 14,670,209	\$ 0	\$ 721,777	\$ 13,948,432	\$ 752,630

City of Lowell

Notes to Financial Statements For the Year Ended June 30, 2007

9. LONG-TERM OBLIGATIONS (CONTINUED)

The governmental long-term debt is serviced by the general fund except for the transportation bonds which are serviced by the Major Street Fund. Remaining debt is serviced by the funds indicated above.

The annual requirements, excluding accrued employee benefits, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	Governmental Long-Term Debt		Enterprise Long-Term Debt		Component Unit Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 156,133	\$ 259,025	\$ 446,497	\$ 342,783	\$ 150,000	\$ 66,165
2009	145,000	253,237	462,909	324,399	155,000	57,767
2010	145,000	247,367	488,344	304,554	165,000	48,795
2011	110,000	241,302	498,800	282,798	170,000	39,178
2012	175,000	236,847	515,000	259,844	175,000	29,139
2013-2017	1,035,000	1,062,331	1,705,000	1,001,509	405,000	24,551
2018-2022	1,200,000	812,543	1,545,000	641,745	0	0
2023-2027	1,000,000	534,375	1,500,000	282,331	0	0
2028-2032	1,500,000	230,625	350,000	8,750	0	0
	<u>\$ 5,466,133</u>	<u>\$ 3,877,652</u>	<u>\$ 7,511,550</u>	<u>\$ 3,448,713</u>	<u>\$ 1,220,000</u>	<u>\$ 265,595</u>

The City is a party to certain agreements relating to Industrial Revenue and Economic Development bond issues. The agreements provide that the bonds are self-liquidating revenue bonds and are no obligation to the City. The bonds are collateralized by the assets constructed with bond proceeds and are guaranteed by the recipient corporations. The amount of such bonds outstanding at June 30, 2007, was approximately \$1,570,000.

10. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

11. JOINT VENTURE

The City entered into a joint venture, the Michigan Public Power Agency (MPPA), with 13 other municipal electric systems. The MPPA was formed to undertake the planning financing, development, acquisition, construction, improvement, operation and maintenance of projects to supply electric power and energy for present or future needs of its members. Each MPPA member is a municipal corporation organized under the laws of the State of Michigan and owns and operates a municipal electric system. Effective in October 2005, the members of the power pool (one of MPPA's programs) gave their required five year notice of withdrawal from the pool which will cease on December 31, 2010. Lowell Light and Power is currently in negotiations along with other members of the pool to form a new contract for the sale and purchase of power. Complete financial statements for the Michigan Public Power Agency can be obtained from the administrative offices at 809 Centennial Way, Lansing, Michigan 48917.

Under the joint venture, the City has entered into Power Sales Contracts and Project Support Contracts. These contracts provide for the City to purchase from MPPA 1.24% of the energy generated by MPPA's 37.22% ownership in Detroit Edison's Belle River Unit No.1, which became operational in August 1984, 11.86% of MPPA's 4.80% ownership in Consumers Energy's Campbell Unit No. 3, which became operational in September 1980 and 5.63% of the energy generated by MPPA's 100% ownership in CT Project No. 1 (50 mw rated simple cycle combustion turbine generating unit and ancillary support facilities located in Kalkaska, Michigan) which became operational in 2004. These contracts required the City to purchase approximately 3, 4.5 and 2.8 megawatts of power, respectively.

For the year ended June 30, 2007, the City recognized expenses totaling \$3,137,680 under the terms of the contract which represented approximately \$564,356 for fixed operating costs, \$921,689 for debt service and \$1,651,635 for the purchase of power. Accounts payable to MPPA totaled \$324,082 at June 30, 2007. Under the terms of its contracts, the City must make minimum annual payments equal to its share of debt service and its share of the fixed operating costs of Detroit Edison's Belle River No. 1, Consumers Energy's Campbell Unit No. 3 and CT Project No. 1. Future operating costs are estimated based on 2006 costs adjusted for inflation.

City of Lowell

Notes to Financial Statements
For the Year Ended June 30, 2007

11. JOINT VENTURE (CONTINUED)

A summary of future contract payments with MPPA is as follows:

	Belle River		Campbell		Combustion Turbine		Total
	Debt Service	Fixed Operating	Debt Service	Fixed Operating	Debt Service	Fixed Operating	
2008	340,948	198,427	493,183	293,494	143,776	89,366	1,559,194
2009	340,905	204,380	493,080	302,298	143,634	92,047	1,576,344
2010	340,911	210,511	411,877	311,367	143,672	94,808	1,513,146
2011	340,962	216,827	413,917	320,708	143,877	97,653	1,533,944
2012	340,960	223,332	415,069	330,330	143,675	100,582	1,553,948
2013-2017	1,704,639	1,221,268	1,589,777	690,686	718,612	550,024	6,475,006
2018-2022	340,957	541,339	0	0	718,705	637,629	2,238,630
2023-2027	0	0	0	0	718,536	739,187	1,457,723
	<u>\$ 3,750,282</u>	<u>\$ 2,816,084</u>	<u>\$ 3,816,903</u>	<u>\$ 2,248,883</u>	<u>\$ 2,874,487</u>	<u>\$ 2,401,296</u>	<u>\$ 17,907,935</u>

Debt Service requirements expire in the years 2013, 2018 and 2027 for the Campbell, Belle River and Combustion Turbine Projects, respectively. The above amounts include estimated fixed operating costs for the same period as the Debt Service. The contracts for the City's commitment for fixed operating costs to extend beyond these dates are dependent upon the use of the facilities.

The joint venture is a result of an ongoing financial responsibility. The City did not have an initial equity interest and does not participate in net income or losses.

Combining and Individual Fund Financial Statements and Schedules

General Fund

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	AMENDED BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES			
TAXES			
Property taxes	\$ 1,441,446	\$ 1,434,149	\$ (7,297)
Payment in lieu of taxes	245,549	242,173	(3,376)
Penalties and interest	5,000	11,483	6,483
Trailer fees	900	638	(262)
Industrial facility tax	12,300	12,247	(53)
TOTAL TAXES	1,705,195	1,700,690	(4,505)
INTERGOVERNMENTAL			
STATE REVENUE			
Sales tax	405,000	393,143	(11,857)
Liquor licenses	3,300	3,310	10
Other	1,100	6,841	5,741
TOTAL STATE REVENUE	409,400	403,294	(6,106)
CHARGES FOR SERVICES			
Fire protection	70,000	72,740	2,740
Cemetery openings	8,500	14,898	6,398
Other charges and fees	44,467	60,489	16,022
TOTAL CHARGES FOR SERVICES	122,967	148,127	25,160
INVESTMENT INCOME	16,200	18,421	2,221
OTHER INCOME			
Sales-other	46,000	57,525	11,525
Contributions/local grants	7,741	159,047	151,306
Miscellaneous	158,287	169,483	11,196
TOTAL OTHER INCOME	212,028	386,055	174,027
TOTAL REVENUES	2,465,790	2,656,587	190,797
EXPENDITURES			
General Government			
Legislative Council	13,820	11,925	1,895
Administrative			
City Manager	84,524	86,886	(2,362)
Elections	6,070	5,498	572
Attorney	15,000	22,139	(7,139)
Assessor	42,432	38,976	3,456
General office	142,828	133,813	9,015
Treasurer	130,110	130,084	26
Library	47,504	49,860	(2,356)
Planning	14,824	14,944	(120)
TOTAL ADMINISTRATIVE	483,292	482,200	1,092
TOTAL GENERAL GOVERNMENT	497,112	494,125	2,987

CITY OF LOWELL
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
EXPENDITURES (continued)			
Public Safety			
Police	836,639	855,174	(18,535)
Fire	188,912	313,803	(124,891)
Ambulance	<u>2,000</u>	<u>2,000</u>	<u>0</u>
TOTAL PUBLIC SAFETY	1,027,551	1,170,977	(143,426)
Public Services			
City Hall	79,089	79,594	(505)
Public works	166,772	131,679	35,093
Cemetery	71,934	82,811	(10,877)
Engineering	6,300	6,626	(326)
Parks	106,060	118,170	(12,110)
Refuse collection	75,000	81,863	(6,863)
Sidewalks	<u>9,663</u>	<u>12,311</u>	<u>(2,648)</u>
TOTAL PUBLIC SERVICES	514,818	513,054	1,764
Debt Service			
Principal	29,376	27,549	1,827
Interest	<u>0</u>	<u>1,022</u>	<u>(1,022)</u>
TOTAL DEBT SERVICE	29,376	28,571	805
Other functions			
Other services and charges	<u>71,089</u>	<u>60,307</u>	<u>10,782</u>
TOTAL EXPENDITURES	<u>2,139,946</u>	<u>2,267,034</u>	<u>(127,088)</u>
REVENUES OVER (UNDER) EXPENDITURES	325,844	389,553	63,709
OTHER FINANCING SOURCES (USES)			
Transfers in	5,000	14,232	9,232
Transfers (out)	<u>(390,660)</u>	<u>(408,155)</u>	<u>(17,495)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(385,660)</u>	<u>(393,923)</u>	<u>(8,263)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (59,816)</u>	(4,370)	<u>\$ 55,446</u>
FUND BALANCES, BEGINNING OF YEAR		<u>39,466</u>	
FUND BALANCES, END OF YEAR		<u>\$ 35,096</u>	

Nonmajor Governmental Funds

CITY OF LOWELL

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

June 30, 2007

ASSETS	SPECIAL REVENUE			DEBT	PERMANENT	Total
	Major Streets	Local Streets	Historic District Commission	Debt Service	Cemetery Perpetual Care	
Cash and pooled investments	\$ 0	\$ 30,147	\$ 29,527	\$ 5,028	\$ 213,181	\$ 277,883
Investments	0	0	0	0	75,946	75,946
Due from other funds	26,210	5,864	0	0	0	32,074
Due from other governments	36,119	11,689	0	0	0	47,808
Prepaid expenses				0		
Total Assets	\$ 62,329	\$ 47,700	\$ 29,527	\$ 5,028	\$ 289,127	\$ 433,711
LIABILITIES & FUND BALANCE						
Liabilities						
Accounts payable	56,319	\$ 290	\$ 0	\$ 0	\$ 0	\$ 56,609
Accrued liabilities	0	1,070	0	0	0	1,070
Due to other funds	5,864	46,210	0	0	14,232	66,306
Accrued compensated absences	143	128	0	0	0	271
Total liabilities	62,326	47,698	0	0	14,232	124,256
Fund balance						
Reserved	0	0	0	5,028	274,895	279,923
Unreserved - undesignated	3	2	29,527	0	0	29,532
Total fund balance	3	2	29,527	5,028	274,895	309,455
Total liabilities and fund equity	\$ 62,329	\$ 47,700	\$ 29,527	\$ 5,028	\$ 289,127	\$ 433,711

CITY OF LOWELL

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2007

	SPECIAL REVENUE			DEBT SERVICE	PERMANENT	Total
	Major Streets	Local Streets	Historic District Commission	Debt Service	Cemetery Perpetual Care	
Revenues						
Intergovernmental revenues						
State	\$ 197,132	\$ 82,908	\$ 0	\$ 0	\$ 0	\$ 280,040
Investment income	650	45	1,666	270	14,056	16,687
Charges for perpetual care	0	0	0	0	15,750	15,750
Miscellaneous/Contributions	1,478	282	0	0	0	1,760
Total revenues	199,260	83,235	1,666	270	29,806	314,237
Expenditures						
Current						
Highways and streets	104,094	116,156	0	0	0	220,250
Public service	0	0	27,945	0	0	27,945
Other functions	0	0	0	2	552	554
Debt service:						
Principal	0	40,000	0	105,000	0	145,000
Interest and fiscal charges	0	29,206	0	235,130	0	264,336
Capital outlay	91,134	0	0	0	0	91,134
Total expenditures	195,228	185,362	27,945	340,132	552	749,219
Revenues over (under) expenditures	4,032	(102,127)	(26,279)	(339,862)	29,254	(434,982)
Other financing sources (uses)						
Proceeds from loan	0	0	0	0	0	0
Transfers in	11,120	101,375	0	340,660	0	453,155
Transfers out	(45,000)	0	0	0	(14,232)	(59,232)
Total other financing sources (uses)	(33,880)	101,375	0	340,660	(14,232)	393,923
Net changes in fund balances	(29,848)	(752)	(26,279)	798	15,022	(41,059)
Fund balances, beginning of year	29,851	754	55,806	4,230	259,873	350,514
Fund balances, end of year	\$ 3	\$ 2	\$ 29,527	\$ 5,028	\$ 274,895	\$ 309,455

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Intergovernmental revenues:			
State	\$ 212,890	\$ 197,132	\$ (15,758)
Investment income	2,000	650	(1,350)
Miscellaneous	0	1,478	1,478
	<u>214,890</u>	<u>199,260</u>	<u>(15,630)</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Administration	17,300	16,915	385
Winter maintenance	31,788	25,116	6,672
Traffic	16,436	14,489	1,947
Maintenance	66,968	47,574	19,394
Capital outlay	80,000	91,134	(11,134)
	<u>212,492</u>	<u>195,228</u>	<u>17,264</u>
TOTAL EXPENDITURES			
REVENUES OVER (UNDER) EXPENDITURES	2,398	4,032	1,634
OTHER FINANCING SOURCES (USES)			
Transfers in	40,000	11,120	28,880
Transfers out	<u>(45,000)</u>	<u>(45,000)</u>	<u>0</u>
NET CHANGES IN FUND BALANCES	<u>\$ (2,602)</u>	(29,848)	<u>\$ 1,634</u>
FUND BALANCES, BEGINNING OF YEAR		<u>29,851</u>	
FUND BALANCES, END OF YEAR		<u>\$ 3</u>	

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Intergovernmental revenues:			
State	\$ 73,582	\$ 82,908	\$ 9,326
Investment income	100	45	(55)
Miscellaneous	0	282	282
	<u>73,682</u>	<u>83,235</u>	<u>9,553</u>
TOTAL REVENUES			
EXPENDITURES			
Current			
Administration	17,130	16,576	554
Winter maintenance	36,046	34,190	1,856
Traffic	7,699	8,035	(336)
Maintenance	63,766	57,355	6,411
Debt service:			
Principal	40,000	40,000	0
Interest and fiscal charges	28,715	29,206	(491)
	<u>193,356</u>	<u>185,362</u>	<u>7,994</u>
TOTAL EXPENDITURES			
REVENUES OVER (UNDER) EXPENDITURES	(119,674)	(102,127)	17,547
OTHER FINANCING SOURCES (USES)			
Proceeds from loan	10,000	0	(10,000)
Transfers in	55,000	101,375	46,375
	<u>65,000</u>	<u>101,375</u>	<u>36,375</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGES IN FUND BALANCES	<u>\$ (54,674)</u>	(752)	<u>\$ 53,922</u>
FUND BALANCES, BEGINNING OF YEAR		<u>754</u>	
FUND BALANCES, END OF YEAR		<u>\$ 2</u>	

CITY OF LOWELL
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
HISTORIC DISTRICT COMMISSION FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE POSITIVE (NEGATIVE)</u>
REVENUES			
Investment income	\$ 0	\$ 1,665	\$ 1,665
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	<u>0</u>	<u>1,665</u>	<u>1,665</u>
EXPENDITURES			
Current			
Public services	<u>0</u>	<u>27,945</u>	<u>(27,945)</u>
TOTAL EXPENDITURES	<u>0</u>	<u>27,945</u>	<u>(27,945)</u>
NET CHANGES IN FUND BALANCES	<u>\$ 0</u>	(26,280)	<u>\$ (26,280)</u>
FUND BALANCES, BEGINNING OF YEAR		<u>55,806</u>	
FUND BALANCES, END OF YEAR		<u>\$ 29,526</u>	

Internal Service Funds

CITY OF LOWELL
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF NET ASSETS

June 30, 2007

ASSETS	Data Processing	Equipment	Total
Current assets			
Cash and pooled investments	\$ 4,038	\$ 17,162	\$ 21,200
Accounts receivable	0	5,860	5,860
Inventory	0	7,863	7,863
Total current assets	4,038	30,885	34,923
Capital assets			
Machinery and equipment	145,227	663,468	808,695
Less:			
Accumulated depreciation	(145,227)	(661,290)	(806,517)
Net capital assets	0	2,178	2,178
Total assets	4,038	33,063	37,101
LIABILITIES			
Current liabilities			
Accounts payable	1,012	4,930	5,942
Accrued liabilities	0	2,465	2,465
Accrued compensated absences	0	2,922	2,922
Total liabilities	1,012	10,317	11,329
NET ASSETS			
Invested in capital assets, net of related debt	0	2,178	2,178
Unrestricted	3,026	20,568	23,594
Total net assets	\$ 3,026	\$ 22,746	\$ 25,772

CITY OF LOWELL

INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Data Processing	Equipment	Total
Operating revenues			
Charges for services	\$ 15,040	\$ 145,019	\$ 160,059
Miscellaneous income	0	428	428
Total operating revenues	15,040	145,447	160,487
Operating expenses			
Personnel services	0	82,532	82,532
Supplies	2,136	29,861	31,997
Services and other charges	16,040	23,241	39,281
Depreciation and amortization	1,463	6,692	8,155
Miscellaneous	9	0	9
Total operating expenses	19,648	142,326	161,974
Operating income (loss)	(4,608)	3,121	(1,487)
Non-operating revenues (expenses)			
Interest income	138	299	437
Income (loss) before transfers	(4,470)	3,420	(1,050)
Transfers to other funds	0	0	0
Change in net assets	(4,470)	3,420	(1,050)
Net assets, beginning of year	7,496	19,326	26,822
Net assets, end of year	\$ 3,026	\$ 22,746	\$ 25,772

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

	DATA PROCESSING	EQUIPMENT	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 15,040	\$ 147,378	\$ 162,418
Payments to employees	0	(55,898)	(55,898)
Payments to suppliers	(17,414)	(74,617)	(92,031)
Net cash provided by (used in) operating activities	(2,374)	16,863	14,489
CASH FLOWS FROM NON-CAPITAL FINANCING			
Due to other funds	0	0	0
Transfer to other funds	0	0	0
Due from other funds	0	0	0
Net cash provided by (used in) non-capital financing	0	0	0
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	138	299	437
NET INCREASE (DECREASE) IN CASH AND POOLED INVESTMENTS	(2,236)	17,162	14,926
CASH AND POOLED INVESTMENTS, BEGINNING OF YEAR	6,274	0	6,274
CASH AND POOLED INVESTMENTS, END OF YEAR	\$ 4,038	\$ 17,162	\$ 21,200
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ (4,608)	\$ 3,121	\$ (1,487)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	1,463	6,692	8,155
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	0	1,150	1,150
Inventory	0	189	189
Accounts payable	771	4,930	5,701
Accrued liabilities	0	442	442
Compensated absences	0	339	339
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ (2,374)	\$ 16,863	\$ 14,489

Fiduciary Funds

CITY OF LOWELL

**PRIVATE PURPOSE TRUSTS
COMBINING STATEMENTS OF NET ASSETS**

June 30, 2007

ASSETS	Carr	Lee	Look - Daley	Carr II	Total
Cash and pooled investments	\$ 23,243	\$ 12,941	\$ 98,909	\$ 73,709	\$ 208,802
Investments	0	206,903	842,106	0	1,049,009
Total assets	23,243	219,844	941,015	73,709	1,257,811
LIABILITIES					
Accounts payable	0	0	1,000	0	1,000
Due to other funds	0	0	17,000	0	17,000
Total Liabilities	0	0	18,000	0	18,000
NET ASSETS					
Restricted	20,833	0	0	0	20,833
Unrestricted board designated	0	205,642	864,696	73,709	1,144,047
Unrestricted	2,410	14,202	58,319	0	74,931
Total net assets	\$ 23,243	\$ 219,844	\$ 923,015	\$ 73,709	\$ 1,239,811

CITY OF LOWELL

**PRIVATE PURPOSE TRUSTS
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES**

FOR THE YEAR ENDED JUNE 30, 2007

	Carr	Lee	Look - Daley	Carr II	Total
Operating revenues					
Interest and miscellaneous	\$ 918	\$ 15,103	\$ 60,127	\$ 2,944	\$ 79,092
Expenses					
Other functions	701	6,811	60,919	148	68,579
Changes in net assets	<u>217</u>	<u>8,292</u>	<u>(792)</u>	<u>2,796</u>	<u>10,513</u>
Net assets, beginning of year	23,026	211,552	923,807	70,913	1,229,298
Net assets, end of year	<u>\$ 23,243</u>	<u>\$ 219,844</u>	<u>\$ 923,015</u>	<u>\$ 73,709</u>	<u>\$ 1,239,811</u>

CITY OF LOWELL

**AGENCY FUNDS
COMBINING STATEMENTS OF NET ASSETS**

June 30, 2007

ASSETS	Current Tax	Trailways	Total
Cash and pooled investments	<u>\$ 94</u>	<u>\$ 48</u>	<u>\$ 142</u>
Total assets	<u>94</u>	<u>48</u>	<u>142</u>
LIABILITIES			
Due to other governments	<u>94</u>	<u>0</u>	<u>94</u>
Total Liabilities	<u>94</u>	<u>0</u>	<u>94</u>
NET ASSETS			
Unrestricted	<u>0</u>	<u>48</u>	<u>48</u>
Total net assets	<u><u>\$ 0</u></u>	<u><u>\$ 48</u></u>	<u><u>\$ 48</u></u>

See accompanying notes to financial statements.

Downtown Development Authority

CITY OF LOWELL

**DOWNTOWN DEVELOPMENT AUTHORITY
COMBINING STATEMENTS OF NET ASSETS**

June 30, 2007

ASSETS	General Fund	Adjustments	Statement of Net Assets
Cash and pooled investments	251,272	\$ 0	\$ 251,272
Capital assets			
Land	0	67,876	67,876
Property, Plant, Equipment	0	832,606	832,606
Total Assets	\$ 251,272	900,482	1,151,754
LIABILITIES & FUND BALANCE			
Liabilities			
Accounts payable	\$ 476	0	476
Accrued liabilities	602	2,915	3,517
Bonds payable short-term	0	150,000	150,000
Bonds payable long-term	0	1,070,000	1,070,000
Total liabilities	1,078	1,222,915	1,223,993
Fund balance			
Fund balance - undesignated	250,194	(250,194)	0
Total liabilities and fund equity	\$ 251,272	972,721	1,223,993
NET ASSETS			
Invested in capital assets, net of related debt		(319,518)	(319,518)
Unrestricted		247,279	247,279
Total net assets (deficit)		\$ (72,239)	\$ (72,239)

CITY OF LOWELL
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	<u>GENERAL FUND</u>	<u>ADJUSTMENTS</u>	<u>STATEMENT OF NET ASSETS</u>
REVENUES			
Taxes	\$ 531,330	\$ 0	\$ 531,330
Interest	13,935	0	13,935
Other	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL REVENUES	<u>545,265</u>	<u>0</u>	<u>545,265</u>
EXPENDITURES			
General Government	228,422	30,579	259,001
Debt service:			
Principal retirement	135,000	(135,000)	0
Interest and fiscal charges	74,161	(333)	73,828
Capital outlay	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	<u>437,583</u>	<u>(104,754)</u>	<u>332,829</u>
REVENUES OVER (UNDER) EXPENDITURES	107,682	(107,682)	0
NET CHANGE IN FUND BALANCE NET ASSETS	0	212,436	212,436
FUND BALANCE/NET ASSETS, BEGINNING OF YEAR	<u>142,512</u>	<u>(427,187)</u>	<u>(284,675)</u>
FUND BALANCE/NET ASSETS, END OF YEAR	<u>\$ 250,194</u>	<u>\$ (322,433)</u>	<u>\$ (72,239)</u>

Internal Control and Compliance



**Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Honorable Mayor and
Members of the City Council
Lowell, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Lowell, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Lowell, Michigan's basic financial statements and have issued our report thereon dated December 12, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

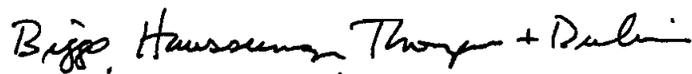
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lowell, Michigan's internal control.

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

Compliance and Other Matters

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

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



Biggs, Hausserman, Thompson & Dickinson, P.C.
Certified Public Accountants
December 12, 2007



December 12, 2007

City of Lowell
Lowell, Michigan 48849

We have audited the financial statements of the City of Lowell for the year-ended June 30, 2007, and have issued our report thereon dated December 12, 2007.

We conducted our audit in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit of the general purpose financial statements, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Lowell. Such considerations were for the purpose of determining our audit procedures and to report on internal control in accordance with Government Auditing Standards and not to provide an assurance concerning such internal control system.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Lowell's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on overall compliance with such provisions.

The following comments and recommendations relate to certain of the City's accounting, financial and administrative policies and procedures that we observed during the course of our audit. These matters are not considered significant deficiencies or material weaknesses as defined by professional standards.

RECONCILIATION PROCESSES

1. The reconciliation processes were improved over prior years. However, some accruals and insurance allocations were not recorded until audit time. These items should be recorded sooner.

Standard journal entries should continue to be reviewed to determine if accurate amounts are being used.

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REPORTING STANDARDS

1. Beginning with the year ended June 30, 2008, the City will be required to disclose the actuarially determined liability for Other Post Employment Benefits (OPEB). These are benefits such as insurance paid outside of the pension plan for retirees of the City.

In the following year, the liability will be required to be recognized in the Government-Wide and Enterprise Fund financial statements.

The City needs to begin preparing for this as soon as possible to insure that the data is available next year. We understand that MERS is available to perform these calculations and to set up a funding plan, if desired.

There is no requirement to fund these liabilities. The City should evaluate from time to time whether it wants to begin funding this benefit.

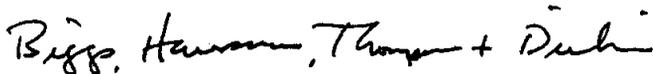
NEW AUDIT STANDARDS

1. Recently, 10 new auditing standards have been released and will become effective for the City's June 30, 2008 year end. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. The new standards will emphasize the City's internal controls.

This report is intended for the information and use of the City of Lowell of Lowell, management and others within the organization.

We appreciate the cooperation received from the finance director during our engagement and the opportunity to be of service to the City. We would be happy to answer questions or discuss any of the above comments and recommendations. If we can be of any further assistance in implementing any recommendations, please let us know.

Very truly yours,



BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Certified Public Accountants