

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 Imlay City | County Lapeer |
| Fiscal Year End June 30, 2007 | Opinion Date November 30, 2007 | Date Audit Report Submitted to State December 18, 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) The Rehmann Group | | Telephone Number (989) 799-9580 | |
| Street Address 5800 Gratiot | | City Saginaw | State Zip MI 48605 |
| Authorizing CPA Signature | | Printed Name Gerald Desloover | License Number 1101007126 |

*City of Imlay City
Imlay City, Michigan*



Financial Statements

For the Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

CITY OF IMLAY CITY

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CITY OF IMLAY CITY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 30, 2007

To the City Commission
City of Imlay City
Imlay City, 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 ***City of Imlay City***, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of ***City of Imlay City***, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major Streets, and Lamb Steele Governmental Funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Imlay City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the transmittal letter, which begins on page 1 and the City's financial statements.

Financial Highlights

As discussed in further detail in this analysis, the following represents the most significant financial highlights for the year ended June 30, 2007:

- The City's total net assets related to governmental activities are reported as \$7,836,952 for the fiscal year ended June 30, 2007, compared to \$7,341,260 last fiscal year.
- The total cost of all of the City's programs, including governmental activities and business-type activities was \$4.37 million.
- Total net assets increased \$495,692.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The first two statements, the *Statement of Net Assets* and the *Statement of Activities*, provide information about the activities of the City of Imlay City as a whole and present a longer-term view of the City's finances. The remaining statements, including governmental funds, proprietary funds, and fiduciary funds focus on how City services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City of Imlay City's operations in more detail than the government-wide financial statements.

The financial statements include notes that explain and provide more detailed data about some of the information found in the financial statements.

In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental, business-type, internal service, and fiduciary funds, each of which are added together and presented in single columns in the basic financial statements.

Government-wide Statements

The government-wide statements report information about the City of Imlay City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's

CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the change in the difference between the City's assets and liabilities. This change in net assets is an indicator of whether the City's financial health is improving or deteriorating. In order to assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's roads and other infrastructure.

The government-wide financial statements of the City of Imlay City are divided into two categories:

- Governmental activities – Most of the City's basic services are included here, such as police, fire, public works, parks and recreation, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.
- Business-type activities – The City charges fees to customers to help cover the cost of certain services it provides. The City's business-type activities include water and sanitary sewer.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City of Imlay City has two types of funds:

- Governmental funds – Most of the City's basic services are included in governmental funds, which focus on how cash, and other financial assets that can readily be converted to cash, flow in and out. The funds also show the balances left at yearend that are available for spending.

The governmental fund statements focus on a short-term view rather than the long-term focus of the government-wide statements, so additional information is provided after the governmental fund statements that explain the relationship or differences between the fund and government-wide statements.

- Proprietary funds – Proprietary funds are used to report services where the City charges customers a fee for services rendered. Proprietary funds provide both long and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

- Enterprise funds and business-type activities are the same, but the fund statements provide more detail and additional information such as cash flows.
- Internal Service funds are used to report activities that provide supplies and services for the City's other programs. Examples of internal service funds would be Motor Equipment and Information Technology.
- Fiduciary funds – Fiduciary funds are used to report monies that are collected on behalf of other agencies. This would account for County, School, and Intermediate School taxes.

The City of Imlay City as a Whole

The City's combined total net assets for the fiscal year ended June 30, 2007 is \$15.4 million. Business-type activities comprise \$7.6 and governmental activities make up \$7.8 of the total net assets.

Combined unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, is reported as \$5.3 million, of which \$3.4 million is the amount of unrestricted net assets reported for the City of Imlay City's governmental activities.

**CITY OF IMLAY CITY, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following table shows the net assets as of June 30, 2007.

| | Governmental Activities | Governmental Activities | Business-Type Activities | Business- Type Activities |
|---|------------------------------------|------------------------------------|-------------------------------------|--|
| | 2007 | 2006 | 2007 | 2006 |
| Assets | | | | |
| Current Assets | \$ 4,073,871 | \$ 3,990,796 | \$ 2,014,650 | \$ 1,576,389 |
| Noncurrent Assets | 5,743,815 | 5,625,675 | 9,439,034 | 10,015,238 |
| Total Assets | 9,817,686 | 9,616,471 | 11,453,684 | 11,591,627 |
| Liabilities | | | | |
| Current Liabilities | 116,244 | 213,025 | 102,921 | 61,858 |
| Long-term Liabilities | 1,864,490 | 2,027,806 | 3,705,000 | 3,910,000 |
| Total Liabilities | 1,980,734 | 2,240,831 | 3,807,921 | 3,971,858 |
| Net Assets | | | | |
| Invested in Capital Assets – Net of Related Debt | 4,100,138 | 3,850,108 | 5,734,034 | 5,831,972 |
| Restricted | 305,286 | 364,821 | | |
| Unrestricted | 3,431,528 | 3,160,711 | 1,911,729 | 1,787,797 |
| Total Net Assets | \$ 7,836,952 | \$ 7,375,640 | \$ 7,645,763 | \$ 7,619,769 |

Governmental Activities

The City of Imlay City's total governmental revenue is reported at \$2,529,801, an increase of \$144,281 from the prior year. This was primarily attributed to increased property tax revenue and investment earnings.

Expenses decreased by \$278,406 from the prior year. Expenses were reduced in the legislative and public works activities as well as interest on long-term debt.

CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Business-type Activities

The City of Imlay City's business-type activities consist of water and sanitary sewer. Water services are provided to City residents through the Detroit water system. Sewer services are provided through the City's own collection and treatment system. There was no increase in charges for the services in 2007 as the City of Detroit did not increase its rates to the City of Imlay.

Revenues for business-type activities were \$1,409,568. Items include water service charges and sanitary sewer service charges.

The City of Imlay City's Funds

Analysis of the City of Imlay City's major funds begins following the government wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City of Imlay City as a whole. Funds are created to help manage money for specific purposes, as well as to show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources. The City of Imlay City's major funds for 2007 include the General Fund, Lamb/Steele, and Water and Sanitary Sewer Fund. The General Fund pays for most of the City of Imlay City's governmental services.

General Fund Budgetary Highlights

Over the course of the year, the City Commission amended the budget to take into account events during the year. Revenues for General Fund amounted to \$54,284 more than budgeted. Expenditures for the fiscal year came in \$58,209 less than the budgeted amount. Overall expenses for the City were 2.34 percent less than the budgeted amount due to a conservative spending policy.

Capital Asset and Debt Administration

At the end of 2007, the City of Imlay City had \$15.3 million invested in a broad range of capital assets including land, buildings, police and fire equipment, water and sewer lines, roads, sidewalks, and other infrastructure. Total governmental activities capital assets were \$5,743,814. Business activities capital assets amounted to \$9,439,034. Additional information about the City's capital assets is presented in Notes to the Financial Statements.

The City of Imlay City's debt rating remains at BBB+ by Standard and Poors. The City of Imlay City's bond indebtedness totaled \$5,569,490 at June 30, 2007. Additional information about the City's long-term debt can be found in the Notes to the Financial Statements.

CITY OF IMLAY CITY, MICHIGAN MANAGEMENT'S DISCUSSION AND ANALYSIS

Current Economic Events

The City of Imlay City's budget for 2007 calls for a millage rate of 17.35. These rates have remained the same or lower since July 1, 1996. Property taxes make up approximately 55.2 percent of the General Fund budget. The budget was prepared using conservative measures to balance revenue and expenditures without using fund balance. The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or five percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City of Imlay City will grow less than inflation before considering new property additions. With conservative budget forecasting of revenues and realistic expenditure estimates, we hope to limit the use of fund balance.

State shared revenue payments are being forecasted conservatively. Based on advice in previous audit years, the 2008 budget has been prepared forecasting a 20% reduction in State shared revenues. The intent is to totally eliminate the City's dependence on these revenues over a five-year period.

The City purchases its water services from the City of Detroit. Historically, we have passed along the full water rate increases to our customers. The City's rate structure enables us to provide water service to our citizens as well as pay for operations, maintenance and improvements to the system.

Contacting the City of Imlay City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City of Imlay City's financial condition. If you have questions about this report or need additional information, we welcome you to contact the administrative offices at City Hall, 150 North Main Street, Imlay City, Michigan 48444.

Additional information can be obtained at the City of Imlay City's web site, www.imlaycity.org

CITY OF IMLAY CITY
STATEMENT OF NET ASSETS

JUNE 30, 2007

| | Governmental Activities | Business-type Activities | Total | Component Unit |
|---|----------------------------|-----------------------------|----------------------|-------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 542,223 | \$ 106,237 | \$ 648,460 | \$ 121,602 |
| Investments | 3,276,235 | 1,389,161 | 4,665,396 | 100,640 |
| Receivables | 240,878 | 195,882 | 436,760 | 15 |
| Internal balances | 9,001 | (9,001) | - | - |
| Prepays and other assets | 5,535 | 45,564 | 51,099 | - |
| Restricted assets - cash and cash equivalents | - | 286,807 | 286,807 | - |
| Capital assets, net | | | | |
| Assets not being depreciated | 1,874,920 | 55,798 | 1,930,718 | - |
| Assets being depreciated | <u>3,868,894</u> | <u>9,383,236</u> | <u>13,252,130</u> | <u>917,189</u> |
| Total assets | <u>9,817,686</u> | <u>11,453,684</u> | <u>21,271,370</u> | <u>1,139,446</u> |
| Liabilities | | | | |
| Accounts payable | 84,822 | 86,933 | 171,755 | 13,395 |
| Deposits | 31,422 | 15,988 | 47,410 | - |
| Non-current liabilities: | | | | |
| Due within one year | 323,667 | 210,000 | 533,667 | 67,397 |
| Due in more than one year | <u>1,540,823</u> | <u>3,495,000</u> | <u>5,035,823</u> | <u>512,101</u> |
| Total liabilities | <u>1,980,734</u> | <u>3,807,921</u> | <u>5,788,655</u> | <u>592,893</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 4,100,138 | 5,734,034 | 9,834,172 | 337,691 |
| Restricted for: | | | | |
| Capital projects | 305,286 | - | 305,286 | - |
| Unrestricted | <u>3,431,528</u> | <u>1,911,729</u> | <u>5,343,257</u> | <u>208,862</u> |
| Total net assets | <u>\$ 7,836,952</u> | <u>\$ 7,645,763</u> | <u>\$ 15,482,715</u> | <u>\$ 546,553</u> |

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

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

| <u>Functions / Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue</u> |
|--------------------------------|---------------------|---------------------------------|---|---|----------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Primary government | | | | | |
| Governmental activities: | | | | | |
| Legislative | \$ 281,634 | \$ - | \$ - | \$ - | \$ (281,634) |
| General government | 421,718 | 129,424 | 299,127 | - | 6,833 |
| Public safety | 1,016,355 | 46,750 | 46,300 | - | (923,305) |
| Public works | 650,613 | 108,308 | 278,090 | 28,184 | (236,031) |
| Culture and recreation | 169,769 | 21,496 | - | - | (148,273) |
| Interest on long-term debt | 68,039 | - | - | - | (68,039) |
| Total governmental activities | 2,608,128 | 305,978 | 623,517 | 28,184 | (1,650,449) |
| Business-type activities: | | | | | |
| Water / Sewer | 1,762,597 | 1,404,931 | - | - | (357,666) |
| Total primary government | <u>\$ 4,370,725</u> | <u>\$ 1,710,909</u> | <u>\$ 623,517</u> | <u>\$ 28,184</u> | <u>\$ (2,008,115)</u> |
| Component unit | | | | | |
| Downtown Development Authority | <u>\$ 241,887</u> | <u>\$ 11,609</u> | <u>\$ 1,613</u> | <u>\$ 79,507</u> | <u>\$ (149,158)</u> |

continued...

CITY OF IMLAY CITY

STATEMENT OF ACTIVITIES (CONCLUDED)

FOR THE YEAR ENDED JUNE 30, 2007

| Functions/Programs | Governmental Activities | Business-type Activities | Total | Component Unit |
|---|----------------------------|-----------------------------|----------------|-------------------|
| Change in net assets | | | | |
| Net (expense) revenue | \$ (1,650,449) | \$ (357,666) | \$ (2,008,115) | \$ (149,158) |
| General revenues: | | | | |
| Property taxes | 1,408,853 | 387,353 | 1,796,206 | 328,626 |
| Grants and contributions not restricted to specific programs | 403,947 | - | 403,947 | - |
| Unrestricted investment earnings | 237,616 | 86,977 | 324,593 | 11,430 |
| Miscellaneous general revenues | 418 | 4,637 | 5,055 | - |
| Transfers - internal activities | 95,307 | (95,307) | - | - |
| Total general revenues | 2,146,141 | 383,660 | 2,529,801 | 340,056 |
| Change in net assets | 495,692 | 25,994 | 521,686 | 190,898 |
| Net assets, beginning of the year, as restated | 7,341,260 | 7,619,769 | 14,961,029 | 355,655 |
| Net assets, end of year | \$ 7,836,952 | \$ 7,645,763 | \$ 15,482,715 | \$ 546,553 |

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

CITY OF IMLAY CITY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2007

| | GENERAL | LAMB STEELE | OTHER GOVERNMENTAL FUNDS | TOTALS |
|--|----------------------------|----------------------------|--------------------------------|----------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 96,154 | \$ 60,864 | \$ 373,912 | \$ 530,930 |
| Investments | 1,280,434 | 1,363,715 | 587,086 | 3,231,235 |
| Accounts receivable | 23,235 | 1,195 | 28,184 | 52,614 |
| Prepays | 5,534 | - | - | 5,534 |
| Due from other funds | 1,528 | - | - | 1,528 |
| Due from other governmental units | 167,205 | - | 21,059 | 188,264 |
| | <u>\$ 1,574,090</u> | <u>\$ 1,425,774</u> | <u>\$ 1,010,241</u> | <u>\$ 4,010,105</u> |
| LIABILITIES AND FUND EQUITY | | | | |
| LIABILITIES | | | | |
| Accounts payable | \$ 73,271 | \$ 253 | \$ 9,421 | \$ 82,945 |
| Due to other funds | - | - | 1,528 | 1,528 |
| Deferred revenue | - | - | 28,184 | 28,184 |
| Deposits | 31,422 | - | - | 31,422 |
| | <u>104,693</u> | <u>253</u> | <u>39,133</u> | <u>144,079</u> |
| FUND EQUITY | | | | |
| Fund balances | | | | |
| Unreserved: | | | | |
| Designated for: | | | | |
| Industrial park loan | 115,000 | - | - | 115,000 |
| Pedestrian path match | 150,000 | - | - | 150,000 |
| Environmental remediation | 30,000 | - | - | 30,000 |
| Capital improvements | 700,000 | - | - | 700,000 |
| Undesignated, reported in: | | | | |
| General fund | 474,397 | - | - | 474,397 |
| Special revenue funds | - | 1,425,521 | 665,815 | 2,091,336 |
| Capital projects funds | - | - | 305,286 | 305,286 |
| Debt service funds | - | - | 7 | 7 |
| | <u>1,469,397</u> | <u>1,425,521</u> | <u>971,108</u> | <u>3,866,026</u> |
| TOTAL LIABILITIES AND FUND EQUITY | <u><u>\$ 1,574,090</u></u> | <u><u>\$ 1,425,774</u></u> | <u><u>\$ 1,010,241</u></u> | <u><u>\$ 4,010,105</u></u> |

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

CITY OF IMLAY CITY

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2007

| | |
|--|--------------|
| Fund balances - total governmental funds | \$ 3,866,026 |
|--|--------------|

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | |
|-----------------------------------|-------------|
| Add - capital assets | 7,593,980 |
| Deduct - accumulated depreciation | (2,084,273) |

Because the focus of governmental funds is on short-term financing, some assets will not be available to

| | |
|---|--------|
| Add: deferred revenues for loans receivable | 28,184 |
|---|--------|

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

| | |
|---|-------------|
| Deduct - long term debt; general obligation bonds | (1,390,000) |
| Deduct - long term debt; installment purchase contracts | (194,117) |
| Deduct - environmental remediation | (18,937) |
| Deduct - compensated absences | (201,877) |

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

| | |
|---|----------------|
| Add - net assets of governmental activities accounted for in the internal service funds | <u>237,966</u> |
|---|----------------|

| | |
|---------------------------------------|----------------------------|
| Net assets of governmental activities | <u><u>\$ 7,836,952</u></u> |
|---------------------------------------|----------------------------|

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

CITY OF IMLAY CITY

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

FOR THE YEAR ENDED JUNE 30, 2007

| | GENERAL | LAMB STEELE | OTHER GOVERNMENTAL FUNDS | TOTALS |
|---|---------------------|---------------------|--------------------------------|---------------------|
| Revenues | | | | |
| Taxes | \$ 1,408,853 | \$ - | \$ - | \$ 1,408,853 |
| Intergovernmental revenue | | | | |
| Federal | 157,197 | - | - | 157,197 |
| State | 551,801 | - | 278,090 | 829,891 |
| Charges for services | 275,897 | - | - | 275,897 |
| Fines and forfeits | 6,226 | - | - | 6,226 |
| Licenses and permits | 740 | - | - | 740 |
| Loan repayments | - | - | 3,351 | 3,351 |
| Rent | - | 4,500 | - | 4,500 |
| Interest | 92,761 | 86,416 | 53,325 | 232,502 |
| Other revenues | 56,051 | - | 7 | 56,058 |
| | <u>2,549,526</u> | <u>90,916</u> | <u>334,773</u> | <u>2,975,215</u> |
| Total revenues | | | | |
| Expenditures | | | | |
| Legislative | 281,552 | - | - | 281,552 |
| General government | 398,277 | - | - | 398,277 |
| Public safety | 974,699 | - | - | 974,699 |
| Public works | 388,350 | 30,263 | 145,394 | 564,007 |
| Recreation and cultural | 337,339 | - | - | 337,339 |
| Insurance | 17,000 | - | - | 17,000 |
| Capital outlay | - | - | 66,252 | 66,252 |
| Debt service | 34,210 | - | 206,678 | 240,888 |
| | <u>2,431,427</u> | <u>30,263</u> | <u>418,324</u> | <u>2,880,014</u> |
| Total expenditures | | | | |
| Revenues over (under) expenditures | <u>118,099</u> | <u>60,653</u> | <u>(83,551)</u> | <u>95,201</u> |
| Other financing sources (uses) | | | | |
| Transfer in | 19,500 | - | 234,740 | 254,240 |
| Transfer out | (35,690) | (10,000) | (113,243) | (158,933) |
| | <u>(16,190)</u> | <u>(10,000)</u> | <u>121,497</u> | <u>95,307</u> |
| Total other financing sources (uses) | | | | |
| Net changes in fund balances | 101,909 | 50,653 | 37,946 | 190,508 |
| Fund balances, beginning of year, as restated | <u>1,367,488</u> | <u>1,374,868</u> | <u>933,162</u> | <u>3,675,518</u> |
| Fund balances, end of year | <u>\$ 1,469,397</u> | <u>\$ 1,425,521</u> | <u>\$ 971,108</u> | <u>\$ 3,866,026</u> |

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

CITY OF IMLAY CITY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
OF THE GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2007

| | |
|--|------------|
| Net change in fund balances - total governmental funds | \$ 190,508 |
|--|------------|

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-------------------------------|-----------|
| Add - capital additions | 353,756 |
| Deduct - depreciation expense | (235,375) |

Certain revenues reported in the statement of activities do not provide current financial resources and

| | |
|------------------------------------|--------|
| Add - decrease in deferred revenue | 27,125 |
|------------------------------------|--------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|---|---------|
| Add - principal payments on long-term liabilities; general obligation bonds | 120,000 |
| Add - principal payments on long-term liabilities; installment purchase contracts | 51,461 |
| Deduct - increase in compensated absences | (532) |
| Add - decrease in environmental liability | 31,957 |

Internal service funds are used by management to charge the costs of certain equipment usage to individual funds. The net revenue attributable to those funds is reported with governmental activities.

| | |
|--|-----------------|
| Add - interest revenue from governmental internal service fund | 5,114 |
| Deduct - net operating loss from governmental activities in internal service funds | <u>(48,322)</u> |

| | |
|---|--------------------------|
| Change in net assets of governmental activities | <u><u>\$ 495,692</u></u> |
|---|--------------------------|

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

CITY OF IMLAY CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2007

| | Original Budget | Amended Budget | Actual | OVER (UNDER) BUDGET |
|---|----------------------------|----------------------------|----------------------------|---------------------------|
| Revenues | | | | |
| Taxes | \$ 1,524,071 | \$ 1,445,182 | \$ 1,408,853 | \$ (36,329) |
| Federal | 55,000 | 157,325 | 157,197 | (128) |
| Intergovernmental revenue - | | | | |
| State of Michigan | 439,200 | 465,201 | 551,801 | 86,600 |
| Charges for services | 269,925 | 260,125 | 275,897 | 15,772 |
| Fines and forfeits | 2,600 | 5,629 | 6,226 | 597 |
| Licenses and permits | 600 | 200 | 740 | 540 |
| Interest | 45,000 | 100,200 | 92,761 | (7,439) |
| Other revenues | 52,830 | 61,380 | 56,051 | (5,329) |
| Total revenues | <u>2,389,226</u> | <u>2,495,242</u> | <u>2,549,526</u> | <u>54,284</u> |
| Expenditures | | | | |
| Legislative | 167,340 | 284,442 | 281,552 | (2,890) |
| General government | 393,939 | 402,327 | 398,277 | (4,050) |
| Public safety | 1,016,492 | 1,014,195 | 974,699 | (39,496) |
| Public works | 477,455 | 462,463 | 388,350 | (74,113) |
| Recreation and cultural | 222,080 | 278,999 | 337,339 | 58,340 |
| Insurance | 8,000 | 13,000 | 17,000 | 4,000 |
| Debt service | 34,210 | 34,210 | 34,210 | - |
| Total expenditures | <u>2,319,516</u> | <u>2,489,636</u> | <u>2,431,427</u> | <u>(58,209)</u> |
| Revenues over (under) expenditures | <u>69,710</u> | <u>5,606</u> | <u>118,099</u> | <u>112,493</u> |
| Other financing sources (uses) | | | | |
| Transfer in | 19,500 | 19,500 | 19,500 | - |
| Transfer out | (35,090) | (35,690) | (35,690) | - |
| Total other financing sources (uses) | <u>(15,590)</u> | <u>(16,190)</u> | <u>(16,190)</u> | <u>-</u> |
| Net changes in fund balance | 54,120 | (10,584) | 101,909 | 112,493 |
| Fund balance, beginning of year, as restated | <u>1,371,050</u> | <u>1,371,050</u> | <u>1,367,488</u> | <u>(3,562)</u> |
| Fund balance, end of year | <u><u>\$ 1,425,170</u></u> | <u><u>\$ 1,360,466</u></u> | <u><u>\$ 1,469,397</u></u> | <u><u>\$ 108,931</u></u> |

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

CITY OF IMLAY CITY

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL
LAMB STEELE**

FOR THE YEAR ENDED JUNE 30, 2007

| | Original Budget | Amended Budget | Actual | OVER (UNDER) BUDGET |
|------------------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| Revenues | | | | |
| Rent | \$ 7,500 | \$ 7,500 | \$ 4,500 | \$ (3,000) |
| Interest | 36,000 | 55,000 | 86,416 | 31,416 |
| Total revenues | <u>43,500</u> | <u>62,500</u> | <u>90,916</u> | <u>28,416</u> |
| Expenditures | | | | |
| Supplies | 1,000 | 1,000 | 451 | (549) |
| Contracted services | 16,500 | 12,000 | 12,412 | 412 |
| Insurance | 700 | 673 | 673 | - |
| Utilities | 13,000 | 6,900 | 10,262 | 3,362 |
| Repairs and maintenance | 10,000 | 10,000 | 399 | (9,601) |
| Miscellaneous | 386 | 370 | 355 | (15) |
| Contribution | 4,500 | 5,555 | 5,711 | 156 |
| Total expenditures | <u>46,086</u> | <u>36,498</u> | <u>30,263</u> | <u>(6,235)</u> |
| Revenues over (under) expenditures | (2,586) | 26,002 | 60,653 | 34,651 |
| Other financing uses | | | | |
| Transfer out | <u>(7,500)</u> | <u>(10,000)</u> | <u>(10,000)</u> | <u>-</u> |
| Net change in fund balance | (10,086) | 16,002 | 50,653 | 34,651 |
| Fund balance, beginning of year | <u>1,374,868</u> | <u>1,374,868</u> | <u>1,374,868</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 1,364,782</u></u> | <u><u>\$ 1,390,870</u></u> | <u><u>\$ 1,425,521</u></u> | <u><u>\$ 34,651</u></u> |

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

CITY OF IMLAY CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2007

| | WATER / SEWER ENTERPRISE FUND | INTERNAL SERVICE FUNDS |
|--|--|------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 106,237 | \$ 11,293 |
| Investments | 1,389,161 | 45,000 |
| Accounts receivable, net allowance of \$20,773 | 195,882 | - |
| Other assets | 45,564 | - |
| Restricted assets: | | |
| Bond reserves | 286,807 | - |
| Total current assets | <u>2,023,651</u> | <u>56,293</u> |
| Capital assets | | |
| Nondepreciable capital assets | 55,798 | - |
| Depreciable capital assets | 14,430,497 | 858,501 |
| Less accumulated depreciation | <u>(5,047,261)</u> | <u>(624,393)</u> |
| Total capital assets | <u>9,439,034</u> | <u>234,108</u> |
| Total assets | <u>11,462,685</u> | <u>290,401</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | 86,933 | 1,877 |
| Current portion - bonds payable | 210,000 | - |
| Current portion - installment purchase | - | 14,237 |
| Customer deposits | <u>15,988</u> | <u>-</u> |
| Total current liabilities | <u>312,921</u> | <u>16,114</u> |
| Long-term liabilities | | |
| Bonds payable | 3,495,000 | - |
| Installment purchase | <u>-</u> | <u>45,322</u> |
| Total long-term liabilities | <u>3,495,000</u> | <u>45,322</u> |
| Total liabilities | <u>3,807,921</u> | <u>61,436</u> |
| Net Assets | | |
| Invested in capital assets, net of related debt | 5,734,034 | 174,549 |
| Unrestricted | <u>1,920,730</u> | <u>54,416</u> |
| Total Net Assets | 7,654,764 | <u>\$ 228,965</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund | <u>(9,001)</u> | |
| Net assets of business-type activities on the government-wide statement of net assets | <u>\$ 7,645,763</u> | |

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

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

| | WATER / SEWER ENTERPRISE FUND | INTERNAL SERVICE FUNDS |
|---|--|------------------------------|
| Operating revenues | | |
| Charges for services | 1,391,105 | \$ 106,499 |
| Reimbursements | 7,446 | - |
| Rental income | 6,380 | - |
| Miscellaneous | 4,637 | - |
| Total operating revenues | <u>1,409,568</u> | <u>106,499</u> |
| Operating expenses | | |
| Wages and benefits | 342,596 | 50,208 |
| Water purchases | 544,399 | - |
| Utilities | 82,774 | - |
| Equipment rental | 11,017 | - |
| Gas and oil | 1,466 | 12,444 |
| Operating supplies | 35,676 | 9,387 |
| Telephone | 5,175 | - |
| Transportation and conferences | 1,869 | - |
| Miscellaneous | 21,403 | 569 |
| Depreciation | 352,460 | 54,851 |
| Repairs & maintenance | 26,759 | 8,079 |
| Insurance | 21,133 | 28,284 |
| Contracted services | 125,886 | - |
| Total operating expenses | <u>1,572,613</u> | <u>163,822</u> |
| Operating income (loss) | <u>(163,045)</u> | <u>(57,323)</u> |
| Nonoperating revenues (expenses) | | |
| Property taxes | 387,353 | - |
| Interest revenue | 86,977 | 5,114 |
| Interest expense | (180,983) | (1,040) |
| Total non-operating revenues (expenses) | <u>293,347</u> | <u>4,074</u> |
| Income (loss) before transfers | 130,302 | (53,249) |
| Transfer out | <u>(95,307)</u> | <u>-</u> |
| Change in net assets | 34,995 | (53,249) |
| Net assets, beginning of year | | <u>282,214</u> |
| Net assets, end of year | | <u>\$ 228,965</u> |
| Adjustment to reflect the consolidation of internal service fund activities related to the enterprise fund | <u>(9,001)</u> | |
| Change in net assets of business-type activities | <u>\$ 25,994</u> | |

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

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

| | WATER / SEWER ENTERPRISE FUND | INTERNAL SERVICE FUNDS |
|---|--|------------------------------|
| Cash flows from operating activities | | |
| Cash received from customers | \$ 1,353,957 | \$ - |
| Cash received from interfund services provided | - | 106,499 |
| Cash payments to suppliers for goods and services | (834,583) | (57,857) |
| Cash payments to employees for services | (342,596) | (50,208) |
| Net cash provided by (used in) by operating activities | <u>176,778</u> | <u>(1,566)</u> |
| Cash from capital and related financing activities | | |
| Interest on debt | (180,983) | (1,040) |
| Principal payments on debt | (205,000) | (15,039) |
| Acquisition of capital assets | (49,523) | - |
| Net cash (used in) capital and related activities | <u>(435,506)</u> | <u>(16,079)</u> |
| Cash from noncapital and related financing activities | | |
| Property taxes | 387,353 | - |
| Transfers out | (95,307) | - |
| Net cash provided by (used in) noncapital related activities | <u>292,046</u> | <u>-</u> |
| Cash flows from investing activities | | |
| Purchase of investments | (72,792) | - |
| Sale of investments | - | 5,366 |
| Interest on investments | 86,977 | 5,114 |
| Net cash provided by investing activities | <u>14,185</u> | <u>10,480</u> |
| Net increase (decrease) in cash and cash equivalents | 47,503 | (7,165) |
| Cash and cash equivalents, beginning of year | <u>345,541</u> | <u>18,458</u> |
| Cash and cash equivalents, end of year | <u>\$ 393,044</u> | <u>\$ 11,293</u> |
| Non-cash investing, capital and financing transactions | | |
| All dividends and interest income were immediately reinvested in the cash management funds | | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | |
| Operating income (loss) | \$ (163,045) | \$ (57,323) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation | 352,460 | 54,851 |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Accounts receivable | (61,308) | - |
| Prepaid expenses | 1,911 | 200 |
| Other assets | 5,697 | - |
| Accounts payable | 34,260 | 706 |
| Customer deposits | 6,803 | - |
| Net cash provided by (used in) operating activities | <u>\$ 176,778</u> | <u>\$ (1,566)</u> |

Non-cash financing activity:

The City purchased a vehicle through incurring an installment purchase contract in the amount of \$54,609

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

CITY OF IMLAY CITY
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

| | <u>AGENCY FUND</u> |
|---------------------------------|------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 5,746</u> |
| LIABILITIES | |
| Due to other governmental units | <u>\$ 5,747</u> |

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

CITY OF IMLAY CITY

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Imlay City, Michigan, (the “City”) conform to generally accepted accounting principles as applicable to government units. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant policies.

REPORTING ENTITY

The City is organized under Michigan’s Comprehensive Home Rule City Act. A seven member City Commission is the governing body elected by the community at large. The Commission appoints a City Manager to administer the affairs of the City.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City and its component unit. The component unit discussed below is included in the City’s reporting entity because it is an entity for which the City is considered to financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Discretely Presented Component Unit

Downtown Development Authority (DDA) – The City appoints a voting majority and is able to impose its will on the DDA. It is responsible for compliance with federal grants received in conjunction with the DDA’s projects. In accordance with Statement of Michigan Governmental Accounting and Auditing No. 5, the DDA has been discretely presented. The DDA does not issue any other formal financial statements except as contained in the City of Imlay City’s Annual Financial Report.

Joint Operations

Lapeer County Emergency Medical Service (the “Authority”) – The City is a member of the Authority, a joint venture that operates under the Urban Corporation Act of 1967. Various local units of government within Lapeer County have elected to provide ambulance services to residents within their area by joining the Authority. Each local unit appoints one individual to serve on the Board of Directors. The Authority has locations in Lapeer, North Branch and Imlay City. During the year ended June 30, 2007, the City contributed approximately \$11,000 toward the Authority’s operations. The City’s interest in net assets of the Authority is not significant.

CITY OF IMLAY CITY

NOTES TO FINANCIAL STATEMENTS

As a result of the financial difficulties incurred by the Authority, the City maybe required to make additional contributions in future periods to sustain the Authority's operations. The amount and timing of the City's contributions, if any, are not known at this time.

Complete financial statements for the Authority can be obtained from Lapeer County Emergency Medical Service, 3056 Davison Road, Suite 1, Lapeer, Michigan 48446.

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 unit. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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 do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are

CITY OF IMLAY CITY

NOTES TO FINANCIAL STATEMENTS

recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes, franchise taxes, licenses, intergovernmental revenues 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

The *Lamb Steele fund* accounts for the revenue and the related operation and maintenance of the Lamb Steele building.

The government reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the government's water distribution and sewage disposal and treatment system.

Additionally, the City reports the following fund types:

The *internal service funds* account for the equipment rental and insurance services provided to other departments or agencies of the government on a cost reimbursement basis.

CITY OF IMLAY CITY

NOTES TO FINANCIAL STATEMENTS

Agency funds are used to account for the assets held for other governments in an agency capacity.

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 charges between the government's water and sewer function and various other 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 *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund are charges to customers for sales and services. The water and sewer fund also recognize as operating revenues the portion of tap-in fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

ASSETS, LIABILITIES AND EQUITY

Deposits and investments

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

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and payables

All receivables and payables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

Prepaid items

Certain payments made to vendors are for services applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted assets

Restricted assets are assets that have been set aside for debt service principal and interest, operations and maintenance and a bond reserve.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

Capital assets

Capital assets, which include property, plant, and equipment (the City owns infrastructure assets such as water and sewer systems and roads and sidewalks), 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 an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

As permitted by GASB Statement No. 34, the City has elected not to report governmental infrastructure (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---------------------------------|--------------|
| Public domain infrastructure | 20 |
| Water and sewer system | 20-70 |
| Treatment plant and water tower | 40-50 |
| Building improvements | 50 |
| Vehicles | 3-5 |
| Machinery and equipment | 5-10 |

Compensated absences

The City's policy allows employees to accumulate earned but unused vacation benefits. Accumulated sick and vacation is accrued when incurred in the proprietary funds. A liability for these amounts is reported in governmental funds only if they matured, for example, as a result of employee resignations and retirements.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

The unpaid sick and vacation pay that is applicable to governmental fund types is reported in the Statement of Net Assets.

Long-term obligations

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

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

Fund equity

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETS AND BUDGETARY ACCOUNTING

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

- Prior to June 1, the departments submit to the City Council a proposed departmental operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and means of financing them.
- Public hearings are conducted at the governmental center to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

- All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the City Council throughout the operating year.
- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General fund and Special Revenue Funds.
- Budgets for the General and Special Revenue Funds are prepared on a modified accrual basis. This method is consistent with generally accepted accounting principles (GAAP).
- The legal level of control is at the function level for the General and Special Revenue Funds.
- Revisions that alter the total expenditures of any fund or total department expenditures in the General Fund must be approved by the City Council.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The following funds had expenditures exceeding budgeted appropriations at the functional level, which is the City’s legal level of budgetary control for the year ended June 30, 2007:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|----------------------------------|---------------|---------------|-----------------|
| GENERAL FUND | | | |
| General government | | | |
| City Manager | \$ 122,019 | \$ 122,333 | \$ (314) |
| Assessor | 27,542 | 28,552 | (1,010) |
| Rental inspection | 18,591 | 21,821 | (3,230) |
| Planning commission | 36,640 | 41,670 | (5,030) |
| Recreational and cultural | 278,999 | 337,339 | (58,340) |
| Insurance | 13,000 | 17,000 | (4,000) |
| LAMB STEELE | | | |
| Contracted services | 12,000 | 12,412 | (412) |
| Utilities | 6,900 | 10,262 | (3,362) |
| Contribution | 5,555 | 5,711 | (156) |
| MAJOR STREETS | | | |
| Routine maintenance | 66,276 | 70,134 | (3,858) |
| Administration | 4,201 | 4,465 | (264) |
| Transfer out | - | 77,228 | (77,228) |
| LOCAL STREETS | | | |
| Administration | 4,139 | 4,363 | (224) |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

| | Budget | Actual | Variance |
|---------------------------------------|---------------|---------------|-----------------|
| INDUSTRIAL PARK DEVELOPMENT | | | |
| Public works | \$ - | \$ 3,600 | \$ (3,600) |
| Debt service | - | 19,679 | (19,679) |
| INDUSTRIAL PARK REVOLVING LOAN | | | |
| Public works | - | 53 | (53) |

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

| | Total |
|---|--------------|
| Government-wide Financial Statement Captions: | |
| Primary government | |
| Cash and cash equivalents | \$ 648,460 |
| Investments | 4,665,396 |
| Restricted assets - cash and cash equivalents | 286,807 |
| Component unit | |
| Cash and cash equivalents | 121,602 |
| Investments | 100,640 |
| Fiduciary Fund Financial Statement Captions: | |
| Cash and cash equivalents | 5,746 |
| Total | \$ 5,828,651 |
| Notes to Financial Statements: | |
| Deposits | \$ 4,105,417 |
| Investments | 1,722,434 |
| Cash on hand | 800 |
| Total | \$ 5,828,651 |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments.

| Investment | Maturity | Fair Value | Ratings |
|------------------------|----------|---------------------|-----------------|
| Comerica MBIA | N/A | \$ 605,828 | Fitch AAA / V1+ |
| Federal Home Loan Bank | 12/20/07 | 250,000 | S&P AAA |
| SB Money Fund | N/A | 49,470 | N/A |
| Commercial Paper | 11/02/07 | 430,802 | S&P A1+P1 |
| Federal Home Loan Bank | 11/16/07 | 385,111 | S&P AAA |
| Dryfus Money Fund | N/A | 1,223 | N/A |
| | | <u>\$ 1,722,434</u> | |

Investment and deposit risk:

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates on the City’s investments are noted above.

Credit risk. The City’s investment policy does not have specific limits in excess of state law on investment credit risk. Credit ratings on the City’s investments are noted above.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, approximately \$3,459,073 of the City’s bank balance of \$4,161,263 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. However, while uninsured and unregistered, the City’s funds are not exposed to custodial credit risk since the securities are held in the counterparty’s trust department in the City’s name.

CITY OF IMLAY CITY

NOTES TO FINANCIAL STATEMENTS

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified below. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. More than 5 percent of the City's investments are in Federal National Mortgage Association, commercial paper, and Federal Home Loan. All investments held at year end are reported above.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, 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. Banker's 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, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

B. RECEIVABLES

Receivables as of year end for the government's governmental and business-type activities in the aggregate, are as follows:

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Component Units</u> |
|---|---|--|-----------------------------------|
| Receivables: | | | |
| Accounts | \$ 45,489 | \$ 216,655 | \$ 15 |
| Less: allowance for uncollectible accounts | - | (20,773) | - |
| Intergovernmental | 167,205 | - | - |
| Loans | | | |
| Due within one year | 7,830 | - | - |
| Due after one year | <u>20,354</u> | <u>-</u> | <u>-</u> |
| Total receivables | <u>\$ 240,878</u> | <u>\$ 195,882</u> | <u>\$ 15</u> |

C. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007 was as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending Balance</u> |
|---|-------------------------------------|-------------------------|-------------------------|----------------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 925,703 | \$ - | \$ - | \$ 925,703 |
| Construction in progress | <u>882,965</u> | <u>66,252</u> | <u>-</u> | <u>949,217</u> |
| Total capital assets not being depreciated | <u>1,808,668</u> | <u>66,252</u> | <u>-</u> | <u>1,874,920</u> |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> <u>Balance</u> |
|--|--|--------------------------|-------------------------|---|
| Capital assets being depreciated: | | | | |
| Land improvements | \$ 168,204 | \$ 209,386 | \$ - | \$ 377,590 |
| Roads and sidewalks | 946,562 | - | - | 946,562 |
| Infrastructure | 450,000 | - | - | 450,000 |
| Buildings and improvements | 2,189,770 | - | - | 2,189,770 |
| Vehicles | 823,435 | 74,504 | - | 897,939 |
| Machinery and equipment | <u>1,657,477</u> | <u>58,223</u> | <u>-</u> | <u>1,715,700</u> |
| Total capital assets being depreciated | <u>6,235,448</u> | <u>342,113</u> | <u>-</u> | <u>6,577,561</u> |
| Less accumulated depreciation | | | | |
| Land improvements | (126,658) | (17,740) | - | (144,398) |
| Roads and sidewalks | (42,839) | (47,328) | - | (90,167) |
| Infrastructure | (45,000) | (22,500) | - | (67,500) |
| Buildings and improvements | (788,574) | (43,631) | - | (832,205) |
| Vehicles | (569,543) | (62,739) | - | (632,282) |
| Machinery and equipment | <u>(845,827)</u> | <u>(96,288)</u> | <u>-</u> | <u>(942,115)</u> |
| Total accumulated depreciation | <u>(2,418,441)</u> | <u>(290,226)</u> | <u>-</u> | <u>(2,708,667)</u> |
| Total capital assets being depreciated, net | <u>3,817,007</u> | <u>51,887</u> | <u>-</u> | <u>3,868,894</u> |
| Governmental activities capital assets, net | <u>\$ 5,625,675</u> | <u>\$ 118,139</u> | <u>\$ -</u> | <u>\$ 5,743,814</u> |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Disposals</u> | <u>Ending</u> <u>Balance</u> |
|---|--|----------------------------|-------------------------|---|
| Business-type activities | | | | |
| Capital assets not being depreciated | | | | |
| Land and land rights | \$ 55,798 | \$ - | \$ - | \$ 55,798 |
| Capital assets being depreciated: | | | | |
| Treatment plant | 10,132,783 | 29,888 | - | 10,162,671 |
| Water and sewer system | 3,138,443 | - | - | 3,138,443 |
| Equipment | 173,223 | 19,635 | - | 192,858 |
| Water tower | <u>936,525</u> | <u>-</u> | <u>-</u> | <u>936,525</u> |
| Total capital assets being depreciated | <u>14,380,974</u> | <u>49,523</u> | <u>-</u> | <u>14,430,497</u> |
| Less accumulated depreciation: | | | | |
| Treatment plant | (3,138,962) | (244,298) | - | (3,383,260) |
| Water and sewer system | (1,254,990) | (76,416) | - | (1,331,406) |
| Equipment | (113,556) | (13,015) | - | (126,571) |
| Water tower | <u>(187,294)</u> | <u>(18,730)</u> | <u>-</u> | <u>(206,024)</u> |
| Total accumulated depreciation | <u>(4,694,802)</u> | <u>(352,459)</u> | <u>-</u> | <u>(5,047,261)</u> |
| Total capital assets being depreciated, net | <u>9,686,172</u> | <u>(302,936)</u> | <u>-</u> | <u>9,383,236</u> |
| Business-type activities capital assets, net | <u>\$ 9,741,970</u> | <u>\$ (302,936)</u> | <u>\$ -</u> | <u>\$ 9,439,034</u> |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

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

Governmental activities:

| | |
|--|---------------|
| General government | \$ 22,267 |
| Public safety | 94,813 |
| Public works | 86,956 |
| Recreation and culture | 31,339 |
| Capital assets held by the government's internal funds are charged to various functions based on their usage of the assets | <u>54,851</u> |

Total depreciation expense – governmental activities \$ 290,226

Business-type activities:

| | |
|-----------------|-------------------|
| Water and Sewer | <u>\$ 352,459</u> |
|-----------------|-------------------|

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Discretely presented component unit | | | | |
| Capital assets being depreciated: | | | | |
| Land improvements | \$ 720,409 | \$227,388 | \$ - | \$947,797 |
| Equipment | <u>-</u> | <u>10,110</u> | <u>-</u> | <u>10,110</u> |
| Total capital assets being depreciated | <u>720,409</u> | <u>237,498</u> | <u>-</u> | <u>957,907</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | - | (40,718) | - | (40,718) |
| Equipment | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total accumulated depreciation | <u>-</u> | <u>(40,718)</u> | <u>-</u> | <u>(40,718)</u> |
| Discretely presented component unit capital assets, net | <u>\$ 720,409</u> | <u>\$ 196,780</u> | <u>\$ -</u> | <u>\$ 917,189</u> |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

D. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2007, is as follows:

| <u>Due To</u> | <u>Due From</u> | <u>Total</u> |
|---------------|-----------------|-----------------|
| | Major Streets | |
| General Fund | <u>\$1,528</u> | <u>\$ 1,528</u> |

The interfund receivable and payable for the City consist of an amount due to the General fund to eliminate a negative cash balance in the Major Streets Fund.

| Transfer To: | Transfer From: | | | | |
|---------------|------------------|------------------|-------------------|------------------|-------------------|
| | General | Lamb Steele | Nonmajor Govt | Enterprise | Total |
| General | \$ - | \$ 10,000 | \$ 2,000 | \$ 7,500 | \$ 19,500 |
| Nonmajor Govt | 35,690 | - | 111,243 | 87,807 | 234,740 |
| Total | <u>\$ 35,690</u> | <u>\$ 10,000</u> | <u>\$ 113,243</u> | <u>\$ 95,307</u> | <u>\$ 254,240</u> |

The interfund transfers are budgeted for operating expenditures, debt payments, and Act 51 revenues.

E. LONG-TERM DEBT

Long-term obligations for the year ended June 30, 2007, were as follows:

| | <u>Balance July 1, 2006</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Balance June 30, 2007</u> | <u>Due Within One Year</u> |
|---|-------------------------------------|------------------|---------------------|--------------------------------------|--------------------------------|
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities: | | | | | |
| General obligation bonds: | | | | | |
| 1992 general obligation unlimited tax bonds, annual installments of \$25,000 to \$65,000 through September 2007, interest at 6.00- 6.15%. | \$ 130,000 | \$ - | \$ (\$65,000) | \$ 65,000 | \$ 65,000 |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

| | Balance July 1, <u>2006</u> | | Balance June 30, <u>2007</u> | Due Within <u>One Year</u> |
|--|--|--------------------------|---|---------------------------------------|
| | | <u>Additions</u> | <u>(Reductions)</u> | |
| 2005 general obligation limited tax bonds, annual installments of \$55,000 to \$100,000 through February 2025, interest at 3.00-4.55%. | \$1,380,000 | \$ - | \$ (55,000) | \$ 1,325,000 |
| | | | | \$ 55,000 |
| Installment purchase contracts: | | | | |
| 1999 State of Michigan Prospective Business and Industrial Park Loan, annual installments of \$19,679 through 2014. | \$ 147,849 | \$ - | \$ (19,679) | \$ 128,170 |
| | | | | \$ 19,679 |
| 2004 Fire Truck commercial promissory note, annual installments of \$30,260 to \$33,380 through April 2009, interest at 2.45%. | 97,729 | - | (31,782) | 65,947 |
| | | | | 32,567 |
| Ford utility truck, 2007, annual installments of \$975 through January 2012, interest at 3.09%. | - | 54,609 | (11,255) | 43,354 |
| | | | | 10,363 |
| Bobcat, 2006, annual installments of \$3,568 to \$4,376 through January 2010, interest at 3.09%. | 19,989 | - | (3,784) | 16,205 |
| | | | | 3,874 |
| Environmental remediation | 50,894 | - | (31,957) | 18,937 |
| | | | | 18,937 |
| Compensated absences | <u>201,345</u> | <u>128,242</u> | <u>(127,710)</u> | <u>201,877</u> |
| | | | | <u>118,247</u> |
| Total | <u>\$2,027,806</u> | <u>\$ 182,851</u> | <u>\$ (346,167)</u> | <u>\$ 1,864,490</u> |
| | | | | <u>\$ 323,667</u> |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

| | <u>Balance</u> <u>July 1,</u> <u>2006</u> | <u>Additions</u> | <u>(Reductions)</u> | <u>Balance</u> <u>June 30,</u> <u>2007</u> | <u>Due Within</u> <u>One Year</u> |
|--|---|------------------|---------------------|--|--------------------------------------|
| Business-type activities: | | | | | |
| General obligation bonds: | | | | | |
| 2004 limited tax general obligation refunding bonds, annual installments of \$80,000 to \$370,000 through October 2015, interest at 2.00- 3.90%. | \$1,520,000 | \$ - | \$ (90,000) | \$1,430,000 | \$ 90,000 |
| Revenue bonds: | | | | | |
| 1995 revenue bonds, annual installments of \$10,000 to \$60,000 through October 2015, interest at 5.30-5.90%. | 475,000 | - | (35,000) | 440,000 | 40,000 |
| 2001 revenue bonds, annual installments of \$65,000 to \$180,000 through October 2021, interest at 4.375-5.60% | <u>\$1,915,000</u> | <u>-</u> | <u>\$(80,000)</u> | <u>\$1,835,000</u> | <u>\$80,000</u> |
| Total | <u>\$3,910,000</u> | <u>\$ -</u> | <u>\$(205,000)</u> | <u>\$3,705,000</u> | <u>\$ 210,000</u> |

Primary Government

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

The annual requirements to pay future principal and interest on the governmental installment contracts are as follows:

| Year ending June 30, | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|---------------------------------|---------------------------------------|------------------------|--|------------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 205,420 | \$ 61,469 | \$ 210,000 | \$ 167,688 |
| 2009 | 122,734 | 56,293 | 210,000 | 159,473 |
| 2010 | 89,811 | 53,083 | 220,000 | 150,554 |
| 2011 | 95,194 | 50,690 | 225,000 | 140,912 |
| 2012 | 79,679 | 47,930 | 235,000 | 130,532 |
| 2013-2017 | 369,775 | 200,740 | 1,810,000 | 422,969 |
| 2018-2022 | 410,000 | 122,530 | 795,000 | 115,452 |
| 2023-2025 | <u>290,000</u> | <u>26,845</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 1,662,613</u> | <u>\$ 619,580</u> | <u>\$ 3,705,000</u> | <u>\$ 1,287,580</u> |

| | <u>Balance July 1, 2006</u> | <u>Additions (Reductions)</u> | <u>Balance June 30, 2007</u> | <u>Due Within One Year</u> |
|--|--|--------------------------------------|---|---------------------------------------|
| COMPONENT UNIT | | | | |
| Note payable: | | | | |
| Historic Depot District 3rd Street Improvements Phase II annual installments of \$38,963 to \$87,810 through 2015, interest at 3.8% | <u>\$720,409</u> | <u>\$ -</u> | <u>\$(140,911)</u> | <u>\$ 579,498</u> |
| | | | | <u>\$ 67,397</u> |

Component Unit

Downtown Development Authority. The Downtown Development Authority has no general obligation bonds outstanding. The outstanding balance is a note payable the DDA used to finance the renovation of the Third Street Improvements Phase II.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

The annual requirements to pay future principal and interest on the note payable are as follows:

| <u>Year ending June 30,</u> | <u>Governmental Activities</u> | |
|--|---------------------------------------|------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 67,397 | \$ 25,298 |
| 2009 | 69,931 | 22,763 |
| 2010 | 72,688 | 20,007 |
| 2011 | 75,488 | 17,206 |
| 2012 | 78,396 | 14,298 |
| 2013-2016 | <u>215,598</u> | <u>24,334</u> |
| Total | <u>\$ 579,498</u> | <u>\$ 123,906</u> |

For the governmental activities, compensated absences and environmental liabilities are generally liquidated by the general fund.

During the June 30, 2005 fiscal year, the City issued \$1,600,000 in general obligation bonds with an average interest rate of 3.6%. The proceeds of these bonds were used to advanced refund \$1,500,000 of outstanding general obligation bonds with an average interest rate of 5.7%. The balance of the defeased debt outstanding at June 30, 2007 was \$1,370,000.

IV. OTHER INFORMATION

A. DEFINED BENEFIT PENSION PLAN

Plan Description

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

Funding Policy

The City is required to contribute at an actuarially determined rate; the current rate is 13.36% of annual covered general payroll and 11.55% of annual covered police and fire payroll. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$129,902 for MERS 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 include (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 12.9% 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 market 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.

Three-Year Trend Information

| Fiscal Year Ending | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-----------------------------------|--|--|---------------------------------------|
| 6/30/05 | \$120,747 | 100% | \$0 |
| 6/30/06 | 117,107 | 100 | 0 |
| 6/30/07 | 129,902 | 100 | 0 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) -Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a/c) |
|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|--|
| 12/31/04 | \$2,785,044 | \$3,582,651 | \$797,607 | 78% | \$998,647 | 80% |
| 12/31/05 | 3,036,533 | 3,841,601 | 805,068 | 79 | 1,021,678 | 79 |
| 12/31/06 | 3,354,216 | 4,069,194 | 714,978 | 82 | 1,003,199 | 71 |

CITY OF IMLAY CITY
NOTES TO FINANCIAL STATEMENTS

B. PROPERTY TAXES

City property taxes are attached as an enforceable lien on property as of July 1 and are due without penalty on or before July 31. Real property taxes not collected as of March 1 are turned over to Lapeer County for collection, which advances the City 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Property taxes levied in July of each year are recognized as revenue in that year.

The City acts as a collection agent for the State of Michigan, Lapeer County and the local school district.

Taxes collected on behalf of the school district, Lapeer County and the State of Michigan are turned over immediately following collection and are accounted for in the agency fund.

C. CONTINGENCIES AND COMMITMENTS

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, City management does not believe such disallowances, if any, will be material to the financial position of the City.

D. PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was necessary to decrease fund balance in the general fund due to the additional recording of a payable.

| | |
|---|---------------------|
| Fund balance, beginning of the year | \$ 1,371,050 |
| Understatement of liabilities | <u>(3,562)</u> |
| Fund balance, beginning of the year, as restated | <u>\$ 1,367,488</u> |

Prior period adjustments were necessary to decrease net assets in the governmental activities due to the additional recording of a payable and the understatement of the effects as noted above.

| | |
|---|---------------------|
| Net assets, beginning of the year | \$ 7,375,640 |
| Understatement of liabilities | (30,818) |
| Understatement from above | <u>(3,562)</u> |
| Net assets, beginning of the year, as restated | <u>\$ 7,341,260</u> |

CITY OF IMLAY CITY

**GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | OVER (UNDER) BUDGET |
|---|---------------------|---------------------|---------------------|---------------------------|
| Taxes | | | | |
| Current property taxes | \$ 1,507,871 | \$ 1,433,982 | \$ 1,398,122 | \$ (35,860) |
| Tax administration fees | 15,000 | 10,000 | 9,634 | (366) |
| Trailer park fees | 1,200 | 1,200 | 1,097 | (103) |
| Total taxes | <u>1,524,071</u> | <u>1,445,182</u> | <u>1,408,853</u> | <u>(36,329)</u> |
| Federal grants | <u>55,000</u> | <u>157,325</u> | <u>157,197</u> | <u>(128)</u> |
| Intergovernmental revenue - State of Michigan | | | | |
| State grants | 48,000 | 52,931 | 143,587 | 90,656 |
| Sales tax | 387,000 | 408,000 | 403,947 | (4,053) |
| Liquor license | 4,200 | 4,270 | 4,267 | (3) |
| Total intergovernmental revenue - State of Michigan | <u>439,200</u> | <u>465,201</u> | <u>551,801</u> | <u>86,600</u> |
| Charges for services | | | | |
| Refuse collections | 96,125 | 96,980 | 100,002 | 3,022 |
| Swimming program | 15,000 | 15,000 | 17,983 | 2,983 |
| Snack shop | 600 | 900 | 1,184 | 284 |
| 5K run registration fee | 4,750 | 2,295 | 2,329 | 34 |
| Zoning fees | 15,000 | 12,000 | 9,876 | (2,124) |
| Inspections | 10,000 | 7,500 | 16,255 | 8,755 |
| Fire protection | 45,000 | 45,000 | 46,750 | 1,750 |
| Street lighting | 450 | 450 | 455 | 5 |
| Administration | 70,000 | 67,000 | 72,203 | 5,203 |
| Miscellaneous charges | 13,000 | 13,000 | 8,860 | (4,140) |
| Total charges for services | <u>269,925</u> | <u>260,125</u> | <u>275,897</u> | <u>15,772</u> |
| Fines and forfeits | <u>2,600</u> | <u>5,629</u> | <u>6,226</u> | <u>597</u> |
| Licenses and permits | <u>600</u> | <u>200</u> | <u>740</u> | <u>540</u> |
| Other revenue | | | | |
| Miscellaneous | 8,000 | 6,400 | 6,395 | (5) |
| Francise fees | 23,000 | 23,000 | 24,121 | 1,121 |
| Rent | 16,830 | 19,980 | 19,530 | (450) |
| Reimbursements | 5,000 | 12,000 | 6,005 | (5,995) |
| Total other revenue | <u>52,830</u> | <u>61,380</u> | <u>56,051</u> | <u>(5,329)</u> |
| Interest income | <u>45,000</u> | <u>100,200</u> | <u>92,761</u> | <u>(7,439)</u> |
| Other financing sources | | | | |
| Transfer in | <u>19,500</u> | <u>19,500</u> | <u>19,500</u> | <u>-</u> |
| Total revenues | <u>\$ 2,408,726</u> | <u>\$ 2,514,742</u> | <u>\$ 2,569,026</u> | <u>\$ 54,284</u> |

CITY OF IMLAY CITY

**GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|---------------------------------------|----------------------------|---------------------------|---------------------|------------------------------------|
| Legislative | \$ 167,340 | \$ 284,442 | \$ 281,552 | \$ (2,890) |
| General government | | | | |
| City Manager | 113,779 | 122,019 | 122,333 | 314 |
| Assessor | 27,700 | 27,542 | 28,552 | 1,010 |
| Clerk/Treasurer | 161,450 | 161,458 | 159,741 | (1,717) |
| Building maintenance | 13,080 | 36,077 | 24,160 | (11,917) |
| Rental inspection | 18,865 | 18,591 | 21,821 | 3,230 |
| Planning commission | 59,065 | 36,640 | 41,670 | 5,030 |
| Total general government | <u>393,939</u> | <u>402,327</u> | <u>398,277</u> | <u>(4,050)</u> |
| Public safety | | | | |
| Police department | 829,477 | 827,283 | 808,740 | (18,543) |
| Fire department | 179,908 | 179,805 | 158,852 | (20,953) |
| Lapeer County EMS | 7,107 | 7,107 | 7,107 | - |
| Total public safety | <u>1,016,492</u> | <u>1,014,195</u> | <u>974,699</u> | <u>(39,496)</u> |
| Public works | <u>477,455</u> | <u>462,463</u> | <u>388,350</u> | <u>(74,113)</u> |
| Recreation and cultural | <u>222,080</u> | <u>278,999</u> | <u>337,339</u> | <u>58,340</u> |
| Insurance | <u>8,000</u> | <u>13,000</u> | <u>17,000</u> | <u>4,000</u> |
| Debt service | <u>34,210</u> | <u>34,210</u> | <u>34,210</u> | <u>-</u> |
| Total expenditures | 2,319,516 | 2,489,636 | 2,431,427 | (58,209) |
| Other financing uses - transfer out | <u>35,090</u> | <u>35,690</u> | <u>35,690</u> | <u>-</u> |
| Total expenditures and financing uses | <u>\$ 2,354,606</u> | <u>\$ 2,525,326</u> | <u>\$ 2,467,117</u> | <u>\$ (58,209)</u> |

CITY OF IMLAY CITY

**GENERAL FUND
DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|---|----------------------------|---------------------------|----------------|------------------------------------|
| Legislative | | | | |
| Wages and benefits | \$ 27,615 | \$ 26,637 | \$ 26,735 | \$ 98 |
| Office supplies | 250 | - | 51 | 51 |
| Audit and accounting | 14,575 | 6,401 | 6,401 | - |
| Contractual servcies | 20,000 | 27,650 | 22,728 | (4,922) |
| Legal services | 23,000 | 36,200 | 44,776 | 8,576 |
| Transportation and conferences | 4,400 | 2,650 | 2,792 | 142 |
| Community promotion | 2,000 | 5,000 | 5,294 | 294 |
| MISHDA | 55,000 | 152,054 | 152,024 | (30) |
| Contributions to Lapeer Development Corp. | 7,500 | 7,500 | 7,500 | - |
| Other | 13,000 | 20,350 | 13,251 | (7,099) |
| Total legislative | <u>167,340</u> | <u>284,442</u> | <u>281,552</u> | <u>(2,890)</u> |
| General government | | | | |
| City Manager | | | | |
| Wages and benefits | 100,599 | 108,871 | 109,985 | 1,114 |
| Office supplies | 250 | 300 | 596 | 296 |
| Contractual servcies | 300 | 1,000 | 915 | (85) |
| Transportation and conferences | 5,000 | 5,000 | 4,018 | (982) |
| Telephone | 2,030 | 1,800 | 1,774 | (26) |
| Car allowance | 3,600 | 3,600 | 3,600 | - |
| Capital outlay | 2,000 | 1,448 | 1,445 | (3) |
| Total city manager | <u>113,779</u> | <u>122,019</u> | <u>122,333</u> | <u>314</u> |
| Assessor | | | | |
| Wages and benefits | 700 | 592 | 585 | (7) |
| Office supplies | 1,000 | 1,000 | 1,312 | 312 |
| Contractual servcies | 25,000 | 25,000 | 25,811 | 811 |
| Telephone | 900 | 900 | 811 | (89) |
| Printing and publishing | 100 | 50 | 33 | (17) |
| Total assessor | <u>27,700</u> | <u>27,542</u> | <u>28,552</u> | <u>1,010</u> |
| Clerk/Treasurer | | | | |
| Wages and benefits | 128,850 | 133,085 | 129,125 | (3,960) |
| Office supplies | 6,250 | 6,300 | 5,733 | (567) |
| Postage | 8,000 | 8,000 | 10,039 | 2,039 |
| Contractual services | 9,050 | 8,000 | 8,107 | 107 |
| Telephone | 1,800 | 1,500 | 1,571 | 71 |
| Transportation and conferences | 3,000 | 1,700 | 2,145 | 445 |
| Printing and publishing | 2,000 | 1,500 | 1,248 | (252) |
| Capital outlay | 2,500 | 1,373 | 1,773 | 400 |
| Total clerk/treasurer | <u>161,450</u> | <u>161,458</u> | <u>159,741</u> | <u>(1,717)</u> |

CITY OF IMLAY CITY

**GENERAL FUND
DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|--------------------------------|----------------------------|---------------------------|----------------|------------------------------------|
| General government (continued) | | | | |
| Building maintenance | | | | |
| Insurance | \$ 680 | \$ 677 | \$ 677 | \$ - |
| Repair and maintenance | 4,000 | 26,000 | 15,669 | (10,331) |
| Utilities | 8,400 | 9,400 | 7,814 | (1,586) |
| Total building maintenance | <u>13,080</u> | <u>36,077</u> | <u>24,160</u> | <u>(11,917)</u> |
| Rental inspection | | | | |
| Wages and benefits | 13,665 | 13,341 | 13,948 | 607 |
| Office supplies | 200 | 250 | 384 | 134 |
| Contractual services | 5,000 | 5,000 | 7,489 | 2,489 |
| Total rental inspection | <u>18,865</u> | <u>18,591</u> | <u>21,821</u> | <u>3,230</u> |
| Planning commission | | | | |
| Wages and benefits | 915 | 915 | 635 | (280) |
| Supplies | 100 | 100 | 65 | (35) |
| Contractual services | 57,500 | 35,000 | 39,928 | 4,928 |
| Transportation and conferences | 150 | 225 | 432 | 207 |
| Printing and publishing | 400 | 400 | 610 | 210 |
| Total planning commission | <u>59,065</u> | <u>36,640</u> | <u>41,670</u> | <u>5,030</u> |
| Total general government | <u>393,939</u> | <u>402,327</u> | <u>398,277</u> | <u>(4,050)</u> |
| Public safety | | | | |
| Police department | | | | |
| Salaries, wages and benefits | 678,637 | 703,494 | 711,261 | 7,767 |
| Supplies | 4,000 | 4,000 | 2,360 | (1,640) |
| Clothing | 4,750 | 4,650 | 2,781 | (1,869) |
| Liquor control | 6,300 | 6,300 | 6,594 | 294 |
| Contractual services | 33,754 | 14,000 | 10,379 | (3,621) |
| Telephone | 6,900 | 6,900 | 5,145 | (1,755) |
| Transportation and conferences | 1,500 | 1,000 | 803 | (197) |
| Insurance | 13,836 | 14,189 | 14,189 | - |
| Repair and maintenance | 20,500 | 17,500 | 10,491 | (7,009) |
| Utilities | 4,000 | 3,100 | 4,285 | 1,185 |
| Gas and oil | 15,500 | 15,500 | 12,241 | (3,259) |
| Training | 2,500 | 2,500 | 4,101 | 1,601 |
| Capital outlay | 35,700 | 32,400 | 22,741 | (9,659) |
| Other | 1,600 | 1,750 | 1,369 | (381) |
| Total police department | <u>829,477</u> | <u>827,283</u> | <u>808,740</u> | <u>(18,543)</u> |

CITY OF IMLAY CITY

**GENERAL FUND
DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | OVER (UNDER) BUDGET |
|--------------------------------|--------------------|-------------------|----------------|---------------------------|
| Public safety (continued) | | | | |
| Fire department | | | | |
| Salaries, wages and benefits | \$ 85,978 | \$ 86,418 | \$ 69,626 | \$ (16,792) |
| Supplies | 3,000 | 3,000 | 1,379 | (1,621) |
| Clothing | 2,000 | 2,000 | 650 | (1,350) |
| Extinguisher recharges | 1,200 | 1,200 | 346 | (854) |
| Contractual services | 2,000 | 2,000 | 2,448 | 448 |
| Telephone | 1,980 | 1,980 | 2,150 | 170 |
| Transportation and conferences | 1,000 | 1,000 | 151 | (849) |
| Insurance | 7,000 | 5,172 | 5,172 | - |
| Repair and maintenance | 28,500 | 18,500 | 13,367 | (5,133) |
| Utilities | 8,050 | 9,335 | 8,692 | (643) |
| Gas and oil | 3,000 | 3,000 | 2,102 | (898) |
| Training | 5,000 | 5,000 | 3,791 | (1,209) |
| Capital outlay | 27,000 | 37,000 | 47,066 | 10,066 |
| Other | 4,200 | 4,200 | 1,912 | (2,288) |
| Total fire department | <u>179,908</u> | <u>179,805</u> | <u>158,852</u> | <u>(20,953)</u> |
| Lapeer County EMS | <u>7,107</u> | <u>7,107</u> | <u>7,107</u> | <u>-</u> |
| Total public safety | <u>1,016,492</u> | <u>1,014,195</u> | <u>974,699</u> | <u>(39,496)</u> |
| Public works | | | | |
| Wages and benefits | 171,810 | 160,380 | 168,341 | 7,961 |
| Supplies | 6,000 | 5,500 | 5,681 | 181 |
| Clothing | 4,200 | 4,000 | 4,105 | 105 |
| Contracted services | 12,000 | 6,000 | 7,352 | 1,352 |
| Garbage collection | 96,125 | 96,980 | 95,397 | (1,583) |
| Telephone | 3,840 | 2,600 | 3,172 | 572 |
| Transportation and conferences | 1,100 | 800 | 638 | (162) |
| Printing and publishing | 200 | 200 | 395 | 195 |
| Insurance | 1,305 | 1,403 | 1,399 | (4) |
| Utilities | 50,875 | 41,400 | 45,750 | 4,350 |
| Repairs and maintenance | 5,000 | 6,000 | 4,418 | (1,582) |
| Rent | 31,000 | 34,000 | 33,672 | (328) |
| Capital outlay | 93,000 | 91,200 | 17,964 | (73,236) |
| Other | 1,000 | 12,000 | 66 | (11,934) |
| Total public works | <u>477,455</u> | <u>462,463</u> | <u>388,350</u> | <u>(74,113)</u> |

CITY OF IMLAY CITY

**GENERAL FUND
DETAIL SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL (CONTINUED)**

FOR THE YEAR ENDED JUNE 30, 2007

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | OVER (UNDER) BUDGET |
|---|---------------------|---------------------|---------------------|---------------------------|
| Recreational and culture | | | | |
| Wages and benefits | \$ - | \$ 60,822 | \$ 60,159 | \$ (663) |
| Supplies | 7,200 | 7,000 | 9,620 | 2,620 |
| Contractual services | 3,000 | 8,000 | 12,031 | 4,031 |
| Telephone | 325 | 350 | 386 | 36 |
| Insurance | 1,755 | 1,897 | 1,897 | - |
| Utilities | 3,300 | 3,300 | 3,537 | 237 |
| Rent | 17,000 | 15,000 | 17,051 | 2,051 |
| Capital outlay | 185,000 | 180,415 | 230,305 | 49,890 |
| Other | 1,500 | 55 | 143 | 88 |
| 5K race | 3,000 | 2,160 | 2,210 | 50 |
| Total recreational and cultural | <u>222,080</u> | <u>278,999</u> | <u>337,339</u> | <u>58,340</u> |
| Debt service | | | | |
| Principal | 31,782 | 31,782 | 31,782 | - |
| Interest and fiscal charges | 2,428 | 2,428 | 2,428 | - |
| Total debt service | <u>34,210</u> | <u>34,210</u> | <u>34,210</u> | <u>-</u> |
| Insurance | <u>8,000</u> | <u>13,000</u> | <u>17,000</u> | <u>4,000</u> |
| Total expenditures | 2,319,516 | 2,489,636 | 2,431,427 | (58,209) |
| Other financing uses - transfers out | <u>35,090</u> | <u>35,690</u> | <u>35,690</u> | <u>-</u> |
| Total expenditures and other financing uses | <u>\$ 2,354,606</u> | <u>\$ 2,525,326</u> | <u>\$ 2,467,117</u> | <u>\$ (58,209)</u> |

CITY OF IMLAY CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2007

| | Special Revenue Funds | | | |
|--|-----------------------|-------------------|-----------------------------------|--------------------|
| | MAJOR STREETS | LOCAL STREETS | INDUSTRIAL PARK DEVELOPMENT | DRUG FORFEITURE |
| Assets | | | | |
| Cash | \$ - | \$ 42,876 | \$ 9,830 | \$ 7,277 |
| Investments | 422,086 | 90,000 | 60,000 | - |
| Accounts receivable | - | - | - | - |
| Due from other governmental units | 16,194 | 4,865 | - | - |
| Total assets | \$ 438,280 | \$ 137,741 | \$ 69,830 | \$ 7,277 |
| Liabilities and fund equity | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 1,645 | \$ 6,676 | \$ 1,100 | \$ - |
| Due to other funds | 1,528 | - | - | - |
| Deferred revenue | - | - | - | - |
| Total liabilities | 3,173 | 6,676 | 1,100 | - |
| Fund equity | | | | |
| Unreserved: | | | | |
| Undesignated | 435,107 | 131,065 | 68,730 | 7,277 |
| Total fund equity | 435,107 | 131,065 | 68,730 | 7,277 |
| Total liabilities and fund equity | \$ 438,280 | \$ 137,741 | \$ 69,830 | \$ 7,277 |

| Special Revenue Funds | Debt Service Funds | | Capital Projects Fund | |
|--------------------------------------|--|---|-----------------------------|---------------------|
| INDUSTRIAL PARK REVOLVING LOAN | 2005 GENERAL OBLIGATION BONDS | GENERAL OBLIGATION UNLIMITED TAX BONDS | 2005 CAPITAL PROJECTS | TOTAL |
| \$ 8,636 | \$ - | \$ 7 | \$ 305,286 | \$ 373,912 |
| 15,000 | - | - | - | 587,086 |
| 28,184 | - | - | - | 28,184 |
| - | - | - | - | 21,059 |
| <u>\$ 51,820</u> | <u>\$ -</u> | <u>\$ 7</u> | <u>\$ 305,286</u> | <u>\$ 1,010,241</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 9,421 |
| - | - | - | - | 1,528 |
| <u>28,184</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>28,184</u> |
| <u>28,184</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>39,133</u> |
| <u>23,636</u> | <u>-</u> | <u>7</u> | <u>305,286</u> | <u>971,108</u> |
| <u>23,636</u> | <u>-</u> | <u>7</u> | <u>305,286</u> | <u>971,108</u> |
| <u>\$ 51,820</u> | <u>\$ -</u> | <u>\$ 7</u> | <u>\$ 305,286</u> | <u>\$ 1,010,241</u> |

CITY OF IMLAY CITY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2007

| | Special Revenue Funds | | | | |
|--------------------------------------|-----------------------|-------------------|-----------------------------------|--------------------|--------------------------------------|
| | MAJOR STREETS | LOCAL STREETS | INDUSTRIAL PARK DEVELOPMENT | DRUG FORFEITURE | INDUSTRIAL PARK REVOLVING LOAN |
| Revenues | | | | | |
| Gas and weight tax | \$ 206,548 | \$ 58,709 | \$ - | \$ - | \$ - |
| State grants | 12,833 | - | - | - | - |
| Loan repayments | - | - | - | - | 3,351 |
| Interest | 26,885 | 7,981 | 5,388 | 99 | 3,996 |
| Other | 3 | 4 | - | - | - |
| Total revenues | <u>246,269</u> | <u>66,694</u> | <u>5,388</u> | <u>99</u> | <u>7,347</u> |
| Expenditures | | | | | |
| Public works | 95,921 | 45,820 | 3,600 | - | 53 |
| Capital outlay | - | - | - | - | - |
| Debt service | | | | | |
| Principal | - | - | 19,679 | - | - |
| Interest | - | - | - | - | - |
| Total expenditures | <u>95,921</u> | <u>45,820</u> | <u>23,279</u> | <u>-</u> | <u>53</u> |
| Revenues over (under) expenditures | <u>150,348</u> | <u>20,874</u> | <u>(17,891)</u> | <u>99</u> | <u>7,294</u> |
| Other financing sources (uses) | | | | | |
| Transfers in | - | 50,000 | - | - | - |
| Transfers out | (77,228) | (34,015) | - | - | (2,000) |
| Total other financing sources (uses) | <u>(77,228)</u> | <u>15,985</u> | <u>-</u> | <u>-</u> | <u>(2,000)</u> |
| Net change in fund balances | 73,120 | 36,859 | (17,891) | 99 | 5,294 |
| Fund balances, beginning of year | <u>361,987</u> | <u>94,206</u> | <u>86,621</u> | <u>7,178</u> | <u>18,342</u> |
| Fund balances, end of year | <u>\$ 435,107</u> | <u>\$ 131,065</u> | <u>\$ 68,730</u> | <u>\$ 7,277</u> | <u>\$ 23,636</u> |

| Debt Service Funds | | Capital Projects Fund | |
|-------------------------------------|---|-----------------------------|------------|
| 2005 GENERAL OBLIGATION BONDS | GENERAL OBLIGATION UNLIMITED TAX BONDS | 2005 CAPITAL PROJECTS | TOTAL |
| \$ - | \$ - | \$ - | \$ 265,257 |
| - | - | - | 12,833 |
| - | - | - | 3,351 |
| - | - | 8,976 | 53,325 |
| - | - | - | 7 |
| - | - | 8,976 | 334,773 |
| - | - | - | 145,394 |
| - | - | 66,252 | 66,252 |
| 55,000 | 65,000 | - | 139,679 |
| 58,360 | 6,380 | 2,259 | 66,999 |
| 113,360 | 71,380 | 68,511 | 418,324 |
| (113,360) | (71,380) | (59,535) | (83,551) |
| 113,360 | 71,380 | - | 234,740 |
| - | - | - | (113,243) |
| 113,360 | 71,380 | - | 121,497 |
| - | - | (59,535) | 37,946 |
| - | 7 | 364,821 | 933,162 |
| \$ - | \$ 7 | \$ 305,286 | \$ 971,108 |

CITY OF IMLAY CITY

**MAJOR STREETS
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES-BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | Original Budget | Amended Budget | Actual | OVER (UNDER) BUDGET |
|------------------------------------|--------------------|-------------------|-------------------|---------------------------|
| Revenues | | | | |
| Intergovernmental revenue | | | | |
| Gas and weight tax | \$ 203,754 | \$ 203,755 | \$ 206,548 | \$ 2,793 |
| State grants | 1,300 | 14,520 | 12,833 | (1,687) |
| Interest | 5,000 | 25,000 | 26,885 | 1,885 |
| Other | - | 5 | 3 | (2) |
| Total revenues | <u>210,054</u> | <u>243,280</u> | <u>246,269</u> | <u>2,989</u> |
| Expenditures | | | | |
| Routine maintenance | 70,675 | 66,276 | 70,134 | 3,858 |
| Winter maintenance | 26,250 | 19,045 | 13,735 | (5,310) |
| Administration | 4,740 | 4,201 | 4,465 | 264 |
| Traffic services | 7,535 | 6,975 | 6,470 | (505) |
| Construction | - | 1,117 | 1,117 | - |
| Total expenditures | <u>109,200</u> | <u>97,614</u> | <u>95,921</u> | <u>(1,693)</u> |
| Revenues over (under) expenditures | 100,854 | 145,666 | 150,348 | 4,682 |
| Other financing sources | | | | |
| Transfer out | - | - | (77,228) | (77,228) |
| Net change in fund balance | 100,854 | 145,666 | 73,120 | (72,546) |
| Fund balance, beginning of year | <u>361,987</u> | <u>361,987</u> | <u>361,987</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 462,841</u> | <u>\$ 507,653</u> | <u>\$ 435,107</u> | <u>\$ (72,546)</u> |

CITY OF IMLAY CITY

**LOCAL STREETS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|--------------------------------------|----------------------------|---------------------------|-------------------|------------------------------------|
| Revenues | | | | |
| Intergovernmental revenue | | | | |
| Gas and weight tax | \$ 63,099 | \$ 63,099 | \$ 58,709 | \$ (4,390) |
| Interest | 1,500 | 8,050 | 7,981 | (69) |
| Other | - | 5 | 4 | (1) |
| Total revenues | <u>64,599</u> | <u>71,154</u> | <u>66,694</u> | <u>(4,460)</u> |
| Expenditures | | | | |
| Routine maintenance | 58,235 | 56,198 | 27,831 | (28,367) |
| Winter maintenance | 23,200 | 19,736 | 13,067 | (6,669) |
| Administration | 4,437 | 4,139 | 4,363 | 224 |
| Traffic services | <u>1,192</u> | <u>930</u> | <u>559</u> | <u>(371)</u> |
| Total expenditures | <u>87,064</u> | <u>81,003</u> | <u>45,820</u> | <u>(35,183)</u> |
| Revenues over (under) expenditures | <u>(22,465)</u> | <u>(9,849)</u> | <u>20,874</u> | <u>30,723</u> |
| Other financing sources (uses) | | | | |
| Transfer in | 50,000 | 50,000 | 50,000 | - |
| Transfer out | <u>-</u> | <u>-</u> | <u>(34,015)</u> | <u>(34,015)</u> |
| Total other financing sources (uses) | <u>50,000</u> | <u>50,000</u> | <u>15,985</u> | <u>(34,015)</u> |
| Net change in fund balance | 27,535 | 40,151 | 36,859 | (3,292) |
| Fund balance, beginning of year | <u>94,206</u> | <u>94,206</u> | <u>94,206</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 121,741</u> | <u>\$ 134,357</u> | <u>\$ 131,065</u> | <u>\$ (3,292)</u> |

CITY OF IMLAY CITY

**INDUSTRIAL PARK DEVELOPMENT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|---------------------------------|------------------------------|------------------------------|------------------------------|------------------------------------|
| Revenues | | | | |
| Interest | <u>\$ 4,000</u> | <u>\$ 5,535</u> | <u>\$ 5,388</u> | <u>\$ (147)</u> |
| Expenditures | | | | |
| Public works | - | - | 3,600 | 3,600 |
| Debt service | <u>-</u> | <u>-</u> | <u>19,679</u> | <u>19,679</u> |
| Total expenditures | <u>-</u> | <u>-</u> | <u>23,279</u> | <u>23,279</u> |
| Net change in fund balance | 4,000 | 5,535 | (14,291) | (19,826) |
| Fund balance, beginning of year | <u>86,621</u> | <u>86,621</u> | <u>86,621</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 90,621</u></u> | <u><u>\$ 92,156</u></u> | <u><u>\$ 72,330</u></u> | <u><u>\$ (19,826)</u></u> |

CITY OF IMLAY CITY

**DRUG FORFEITURE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|---------------------------------|----------------------------|---------------------------|-----------------|------------------------------------|
| Revenues | | | | |
| Interest | \$ - | \$ 100 | \$ 99 | \$ (1) |
| Fund balance, beginning of year | <u>7,178</u> | <u>7,178</u> | <u>7,178</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 7,178</u> | <u>\$ 7,278</u> | <u>\$ 7,277</u> | <u>\$ (1)</u> |

CITY OF IMLAY CITY

**INDUSTRIAL PARK REVOLVING LOAN
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>ORIGINAL BUDGET</u> | <u>AMENDED BUDGET</u> | <u>ACTUAL</u> | <u>OVER (UNDER) BUDGET</u> |
|---------------------------------|----------------------------|---------------------------|-------------------------|------------------------------------|
| Revenues | | | | |
| Repayments | \$ - | \$ - | \$ 3,351 | \$ 3,351 |
| Interest | <u>1,950</u> | <u>2,950</u> | <u>3,996</u> | <u>1,046</u> |
| Total revenues | 1,950 | 2,950 | 7,347 | 4,397 |
| Expenditures | | | | |
| Public works | <u>-</u> | <u>-</u> | <u>53</u> | <u>53</u> |
| Revenues over expenditures | 1,950 | 2,950 | 7,294 | 4,344 |
| Other financing uses | | | | |
| Transfer out | <u>-</u> | <u>-</u> | <u>(2,000)</u> | <u>(2,000)</u> |
| Net change in fund balance | 1,950 | 2,950 | 5,294 | 2,344 |
| Fund balance, beginning of year | <u>18,342</u> | <u>18,342</u> | <u>18,342</u> | <u>-</u> |
| Fund balance, end of year | <u><u>\$ 20,292</u></u> | <u><u>\$ 21,292</u></u> | <u><u>\$ 23,636</u></u> | <u><u>\$ 2,344</u></u> |

CITY OF IMLAY CITY
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2007

| | <u>MOTOR POOL</u> | <u>INSURANCE</u> | <u>TOTAL</u> |
|---|-----------------------|------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash | \$ 9,422 | \$ 1,871 | \$ 11,293 |
| Investments | 45,000 | - | 45,000 |
| Prepaid | - | - | - |
| Total current assets | <u>54,422</u> | <u>1,871</u> | <u>56,293</u> |
| Capital assets | | | |
| Machinery and equipment | 858,501 | - | 858,501 |
| Less accumulated depreciation | <u>(624,393)</u> | <u>-</u> | <u>(624,393)</u> |
| Total capital assets | <u>234,108</u> | <u>-</u> | <u>234,108</u> |
| Total assets | <u>288,530</u> | <u>1,871</u> | <u>290,401</u> |
| Current liabilities | | | |
| Accounts payable | 1,877 | - | 1,877 |
| Current portion - installment purchase | <u>14,237</u> | <u>-</u> | <u>14,237</u> |
| Total current liabilities | 16,114 | - | 16,114 |
| Long-term liabilities | | | |
| Installment purchase | <u>45,322</u> | <u>-</u> | <u>45,322</u> |
| Total liabilities | <u>61,436</u> | <u>-</u> | <u>61,436</u> |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 174,549 | - | 174,549 |
| Unrestricted | <u>52,545</u> | <u>1,871</u> | <u>54,416</u> |
| Total net assets | <u>\$ 227,094</u> | <u>\$ 1,871</u> | <u>\$ 228,965</u> |

CITY OF IMLAY CITY

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

FOR THE YEAR ENDED JUNE 30, 2007

| | <u>MOTOR POOL</u> | <u>INSURANCE</u> | <u>TOTAL</u> |
|--|-----------------------|------------------|-------------------|
| Operating revenues | | | |
| Charges for services | \$ 84,859 | \$ 21,640 | \$ 106,499 |
| Expenditures | | | |
| Wages and benefits | 50,208 | - | 50,208 |
| Supplies | 9,387 | - | 9,387 |
| Gas and oil | 12,444 | - | 12,444 |
| Miscellaneous | 569 | - | 569 |
| Repair and maintenance | 8,079 | - | 8,079 |
| Depreciation | 54,851 | - | 54,851 |
| Insurance | 8,033 | 20,251 | 28,284 |
| Total expenditures | <u>143,571</u> | <u>20,251</u> | <u>163,822</u> |
| Operating income (loss) | <u>(58,712)</u> | <u>1,389</u> | <u>(57,323)</u> |
| Nonoperating revenues (expenses) | | | |
| Interest earned on deposits | 5,100 | 14 | 5,114 |
| Interest on long-term debt | <u>(1,040)</u> | <u>-</u> | <u>(1,040)</u> |
| Total nonoperating revenues (expenses) | <u>4,060</u> | <u>14</u> | <u>4,074</u> |
| Change in net assets | (54,652) | 1,403 | (53,249) |
| Net assets, beginning of year | <u>281,746</u> | <u>468</u> | <u>282,214</u> |
| Net assets, end of year | <u>\$ 227,094</u> | <u>\$ 1,871</u> | <u>\$ 228,965</u> |

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

| | <u>MOTOR POOL</u> | <u>INSURANCE</u> | <u>TOTAL</u> |
|---|-----------------------|------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash received from interfund services | \$ 84,859 | \$ 21,640 | \$ 106,499 |
| Cash payments to employees | (50,208) | - | (50,208) |
| Cash payments to suppliers for goods and services | (37,606) | (20,251) | (57,857) |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | <u>(2,955)</u> | <u>1,389</u> | <u>(1,566)</u> |
| CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Principal payments on debt | (15,039) | - | (15,039) |
| Interest on debt | (1,040) | - | (1,040) |
| NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(16,079)</u> | <u>-</u> | <u>(16,079)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Sale of investments | 5,366 | - | 5,366 |
| Interest earned on deposits | 5,100 | 14 | 5,114 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | <u>10,466</u> | <u>14</u> | <u>10,480</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (8,568) | 1,403 | (7,165) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>17,990</u> | <u>468</u> | <u>18,458</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 9,422</u> | <u>\$ 1,871</u> | <u>\$ 11,293</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating income (loss) | \$ (58,712) | \$ 1,389 | \$ (57,323) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 54,851 | - | 54,851 |
| Changes in operating assets and liabilities which provided (used) cash: | | | |
| Prepaid expenses | 200 | - | 200 |
| Accounts payable | 706 | - | 706 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ (2,955)</u> | <u>\$ 1,389</u> | <u>\$ (1,566)</u> |

CITY OF IMLAY CITY

**DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT
STATEMENT OF NET ASSETS AND
BALANCE SHEET**

JUNE 30, 2007

| | DDA | ADJUSTMENTS | STATEMENT OF NET ASSETS |
|---|-------------------|-------------------|----------------------------|
| Assets | | | |
| Cash | \$ 121,602 | \$ - | \$ 121,602 |
| Investments | 100,640 | - | 100,640 |
| Accounts receivable | 15 | - | 15 |
| Depreciable capital assets, net | - | 917,189 | 917,189 |
| Total assets | \$ 222,257 | 917,189 | 1,139,446 |
| Liabilities and fund balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 13,395 | - | 13,395 |
| Installment contract | | | |
| Due within one year | - | 67,397 | 67,397 |
| Due in more than one year | - | 512,101 | 512,101 |
| Total liabilities | 13,395 | 579,498 | 592,893 |
| Fund balance | | | |
| Undesignated | 208,862 | (208,862) | - |
| Total liabilities and fund balance | \$ 222,257 | | |
| Net Assets | | | |
| Unrestricted | | 546,553 | 546,553 |
| Total net assets | | \$ 546,553 | \$ 546,553 |

CITY OF IMLAY CITY

DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT STATEMENT OF ACTIVITIES AND GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

| | DDA | ADJUSTMENTS | STATEMENT OF ACTIVITIES |
|--|------------|-------------|----------------------------|
| Revenues | | | |
| Property taxes | \$ 328,626 | \$ - | \$ 328,626 |
| Intergovernmental | | | |
| Federal grants | 77,017 | - | 77,017 |
| Charges for services | 11,609 | - | 11,609 |
| Interest | 11,430 | - | 11,430 |
| Other | 4,103 | - | 4,103 |
| | 432,785 | - | 432,785 |
| Total revenues | | | |
| Expenditures | | | |
| Wages and benefits | 49,559 | - | 49,559 |
| Supplies | 2,127 | - | 2,127 |
| Postage | 1,663 | - | 1,663 |
| Professional services | 32,515 | - | 32,515 |
| Repair and maintenance | 15,367 | - | 15,367 |
| Telephone | 951 | - | 951 |
| Transportation and conferences | 2,032 | - | 2,032 |
| Community promotion | 4,362 | - | 4,362 |
| Utilities | 17,172 | - | 17,172 |
| Beautification | 231,728 | (227,388) | 4,340 |
| Miscellaneous | 29,214 | (10,110) | 19,104 |
| Contractual services | 7,500 | - | 7,500 |
| Depreciation | - | 40,718 | 40,718 |
| Debt service | | | |
| Principal | 140,911 | (140,911) | - |
| Interest | 44,477 | - | 44,477 |
| | 579,578 | (337,691) | 241,887 |
| Total expenditures | | | |
| Net change in fund balance / change in net assets | (146,793) | 337,691 | 190,898 |
| Fund balance / net assets, beginning of year | 355,655 | - | 355,655 |
| End of year | \$ 208,862 | \$ 337,691 | \$ 546,553 |



**INDEPENDENT AUDITORS' 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**

November 30, 2007

Honorable Mayor and Members
of the City Council
City of Imlay City
Imlay City, 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 Imlay City, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Imlay City, Michigan's basic financial statements, and have issued our report thereon dated November 30, 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 Imlay City, 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 Imlay City, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Imlay City, Michigan's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Imlay City, 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 Imlay City, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the City of Imlay City, Michigan's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1

Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition: As is the case with many smaller and medium-sized entities, the City has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the City has placed reliance on its *external* auditors, who cannot by definition be considered a part of the City's *internal* controls.

Cause: This condition was caused by the City's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The City has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the City to rely on its external auditors to recommend the necessary adjustments.

Lack of Adequate Controls to Produce Full-Disclosure GAAP Basis Financial Statements

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

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

Cause: This condition was caused by the City's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the City to perform this task internally.

Effect: As a result of this condition, the City lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

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

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 Imlay City, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of City of Imlay City, Michigan, in a separate letter dated November 30, 2007.

We did not audit City of Imlay City, Michigan's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Lehmann Johnson".



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

November 30, 2007

To the Honorable Mayor and Members
of the City Council
City of Imlay City
Imlay City, Michigan

We have audited the financial statements of the City of Imlay City for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated August 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the City of Imlay City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Imlay City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the City of Imlay City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Imlay City's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, certain adjustments we proposed to correct account balances, whether recorded or unrecorded by the City of Imlay City, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Imlay City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

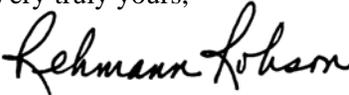
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Imlay City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and are not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



City of Imlay City

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the City of Imlay City, Michigan as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Imlay City, Michigan's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and suggestions regarding this matter. A separate report dated November 30, 2007, contains our report on significant deficiencies in the City's internal control. This letter does not affect our report dated November 30, 2007, on the financial statements of the City of Imlay City, Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Other Matters

1) **Consideration of Adopting a Comprehensive Capital Asset Policy**

The City does not currently have a comprehensive capital asset policy to clearly define matters such as capitalization threshold, estimated useful lives for certain types of assets, capitalization of systems of assets, frequency of physical inventories of capitalized items, etc.

Recommendation:

The City should consider drafting and adopting a comprehensive capital asset policy to include matters identified above and any other matters deemed significant to the City.

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