CITY OF ONAWAY
ONAWAY, MICHIGAN

Financial Statements
For the Fiscal Year Ended
March 31, 2007

Prepared By:
Richard E. Mahlmeister, C.P.A., P.C.
580 S. Nicolet, P.O.Box 996
Mackinaw City, MI 49701

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	City of Onaway	Presque Isle

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
March 31, 2007	December 6, 2007	December 7, 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	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Richard E. Mahlmeister, CPA, PC	231-436-5223		
Street Address	**City**	**State**	**Zip**
580 S. Nicolet Street, P.O. Box 996	Mackinaw City	MI	49701
Authorizing CPA Signature	**Printed Name**	**License Number**	
Richard E. Mahlmeister CPA	Richard E. Mahlmeister, CPA	17351	

CITY OF ONAWAY

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RICHARD E. MAHLMEISTER
CERTIFIED PUBLIC ACCOUNTANT, P.C.

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

INDEPENDENT AUDITOR'S REPORT

December 6, 2007

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the ***City of Onaway, Onaway, Michigan,*** as of and for the year ended March 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Onaway's*** management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the ***City of Onaway, Onaway, Michigan*** as of March 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

P.O. Box 996 • Mackinaw City, MI 49701 • **phone: (231) 436-5223 • fax: (231) 436-5938**

In accordance with *Government Auditing Standards,* I have also issued my report dated December 6, 2007, on my consideration of the ***City of Onaway's*** internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 7 and 34 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of Onaway's*** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements of the ***City of Onaway, Onaway, Michigan***. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, I express no opinion on it.

Richard E. Mahlmeister, C.P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended March 31, 2007. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

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

FINANCIAL HIGHLIGHTS

- The City's combined net assets increased $2,179,308. Separately, governmental activities increased $150,930 while business-type net assets increased $2,028,378. Both increases are due to significant grants for our sewer, industrial park and courthouse restoration projects and purchase of a police car and plow truck.
- The total cost of basic programs, excluding capital outlay and debt principal payments, were $628,848 for governmental activities and $582,986 for business-type activities.
- Total revenues were $828,778 for governmental activities (including $143,850 for charges for services, $6,700 for operating grants and contributions $141,568 of capital grants and contributions and $536,660 for general revenues) and $2,562,364 for business-type activities (including $335,120 for charges for services, $70,217 for operating grants and contributions, $2,154,752 for capital grants and contributions, and $2,275 for general revenues).
- The City repaid $65,563 of long-term debt during the fiscal year. The City issued an installment purchase note of $27,500 for the purchase of a new plow truck, while the fire department, issued an installment note of 40,806 for the purchase of a tanker cab and chassis.
- At the end of the fiscal year, the General Fund had $269,076 of unreserved fund balance available for future expenditures. This represents approximately 55 % of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: 1) management's discussion and analysis; 2) the basic financial statements; and 3) notes to the financial statements. This report also contains required and other supplementary information. The basic financial statements include two different kinds of statements that present different views of the City.

Government-wide financial statements. The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include legislative, general government, public safety, public works and recreation and culture. The business-type activities include water and sewer operations.

Fund financial statements. The fund financial statements provide more detailed information about the City's funds, focusing on significant (major) funds, not the City as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants, they may also be created by the City Commission. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The City has the following types of funds:

Governmental Funds

Most of the City's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the City's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

The City maintains six individual governmental funds; General Fund, Major and Local Street Funds, Onaway Area Fire Board, Courthouse Construction Fund and Courthouse Debt Fund. All of which we consider major funds. The City's funds are financed primarily by both property tax revenue and state shared revenues. A budgetary comparison statement has been provided for these general and special revenue funds to demonstrate compliance with the budgets.

Proprietary Funds

The City maintains two different proprietary funds, which are reported as business-type activities in the government-wide financial statements. The City's water and sewer enterprise funds are both considered major funds. The City also uses an Internal Service Fund to account for its equipment operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fiduciary Funds

The City acts as a trustee or fiduciary and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. The City maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to which the funds belongs. These activities do not appear in the City's government-wide financial statements since the assets do not belong to the City. The City maintains a Tax Collection Fund in this category.

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's assets exceeded liabilities by $2,067,198 for the governmental activities and $9,508,279 for the business-type assets, as of March 31, 2007.

A large portion of the City's net assets are invested in capital assets, less any debt to acquire those assets. The City uses those assets to provide services to our citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

The comparison of net assets of governmental and business-type activities from year to year serves to measure a government; financial position:

City of Onaway
Net Assets
March 31,

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2007	2006	2007	2006	2007	2006
Current assets	$630,259	$729,310	$254,557	$239,619	$884,816	$968,929
Other assets	10,740	9,658	45,208	47,385	55,948	57,043
Capital assets (net)	1,860,700	1,562,724	11,889,883	9,917,589	13,750,583	11,480,313
Total assets	$2,501,699	$2,301,692	$12,189,648	$10,204,593	$14,691,347	$12,506,285
Current liabilities	39,083	38,266	110,369	115,692	149,452	153,958
Long-term liabilities	395,418	347,158	2,571,000	2,609,000	2,966,418	2,956,158
Total Liabilities	434,501	385,424	2,681,369	2,724,692	3,115,870	3,110,116
Net assets:						
Invested in capital assets, net of related debt	1,497,603	1,187,003	9,280,883	7,271,589	10,778,486	8,458,592
Restricted	15,129	14,065	27,660	27,007	42,789	41,072
Unrestricted	554,466	715,200	199,736	181,305	754,202	896,505
	$2,067,198	$1,916,268	$9,508,279	$7,479,901	$11,575,477	$9,396,169

GOVERNMENT-WIDE FINANCIAL STATEMENTS (CONTINUED)

The most significant portion of the City's Net Assets is the investment in capital assets (e.g. land, buildings, equipment and water and sewer systems), less any related debt that is outstanding that the City used to acquire or construct the asset. The City has $754,202 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by policies regarding their use.

The following table summarizes the results of the changes in Net Assets of the City:

City of Onaway
Change in Net Assets
March 31,

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2007	2006	2007	2006	2007	2006
REVENUES:						
Program revenues:						
Charges for services	$143,850	$104,557	$335,120	$240,031	$478,970	$344,588
Operating grants and contributions	6,700	-	70,217	233,459	76,917	233,459
Capital grants and contributions	141,568	298,198	2,154,752	1,413,037	2,296,320	1,711,235
General revenues:						
Property taxes	297,005	268,073	937	251	297,942	268,324
State-shared revenues	227,688	232,671	-	-	227,688	232,671
Interest income	6,145	6,850	1,338	918	7,483	7,768
Gain on sale of capital assets	-	125,100	-	-	-	125,100
Other	5,822	7,438	-	-	5,822	7,438
Total Revenues	828,778	1,042,887	2,562,364	1,887,696	3,391,142	2,930,583
EXPENSES:						
Legislative	15,301	14,318	-	-	15,301	14,318
General government	263,327	246,377	-	-	263,327	246,377
Public safety	142,334	136,986	-	-	142,334	136,986
Public works	172,382	121,688	-	-	172,382	121,688
Recreation and culture	19,011	18,718	-	-	19,011	18,718
Interest and fees	16,493	16,039	-	-	16,493	16,039
Sewer expenses	-	-	419,373	423,333	419,373	423,333
Water expenses	-	-	163,613	135,343	163,613	135,343
Total Expenses	628,848	554,126	582,986	558,676	1,211,834	1,112,802
Transfers	(49,000)	(40,000)	49,000	40,000	-	-
Net assets:						
Increase in Net Assets	150,930	448,761	2,028,378	1,369,020	2,179,308	1,817,781
Beginning Net Assets	1,916,268	1,467,507	7,479,901	6,110,881	9,396,169	7,578,388
Ending Net Assets	$2,067,198	$1,916,268	$9,508,279	$7,479,901	$11,575,477	$9,396,169

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

The General Fund is the chief operating fund of the City. General Fund balance increased $22,879, from $293,500 on March 31, 2006 to $316,379 on March 31, 2007, despite transferring $45,000 to the Sewer Fund, $4,000 to the Water Fund, and $7,500 to the Motor Vehicle (Internal Service) Fund. The transfer to the Sewer Fund was used to offset sewer operational costs, allowing for sewer revenue to pay federal debt, as customers continued to be connected to the system during the fiscal year. The remaining transfers were to supplement revenues needed for operations during the fiscal year. The City continues to focus on improving its cash flow in the General Fund increasing unreserved cash $22,878 from the prior year, bringing the cash balance to $196,301.

The City's Major Street Fund balance increased $12,142, from $129,385 on March 31, 2006 to $141,527 on March 31, 2007, while the Local Street Fund balance increased $9,688, from $26,581 on March 31, 2006 to $36,269 on March 31, 2007. During the year, $35,483 in federal grant funds was used to pave Industrial Park Drive. These were the final funds remaining from a federal grant that provided sewer and water service, and a new road, to the City's Renaissance Zone, and sewer main to other underdeveloped commercial and industrial districts in town. Both the Major and Local Street Funds increased as the City didn't reconstruct or overlay any of its streets, as sewer system construction was ongoing and a lot of heavy equipment was traveling over those streets as part of that construction.

The Courthouse Construction Fund increased $3,293, from $80,746 on March 31, 2006 to $84,039 on March 31, 2007. Grant funds were used to install sound panels in the main courtroom. Also, donations received from the public have been and will be used to complete the renovation. The increase comes from donations received during the 2006-07 fiscal year.

The Courthouse Debt Fund increased $1,064, from $14,065 on March 31, 2006 to $15,129 on March 31, 2007. In the prior year, voters authorized the City to borrow $150,000 for the restoration of the historic Onaway Courthouse. These bonds will be repaid over 30 years. This is the third year the City has had the courthouse debt fund. The fund balance is for the following fiscal year's payment. A total of $144,000 in principal payments remained as of March 31, 2007.

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

The Sewer Fund's net assets increased $2,048,850, from $6,674,083 on March 31, 2006 to $8,722,933 on March 31, 2007. Much of this increase is due to federal grants received for the construction of capital assets. Though its new wastewater treatment plant was complete and operational in 2006-07, the City still was in the process of constructing its sewer collection system. Total construction costs of the sewer system will be approximately $13.5 million, of which $11 million is funded through state and federal grants, with the remainder being bonded indebtedness. While the debt is paid with system-generated revenue, some of the operational costs are currently being paid with General Fund monies. This has been the case during construction and may continue to be the case until the first debt is paid off and certain permit requirements are met. The General Fund contributed $45,000 to the sewer fund in 2006-07.

The Water Fund's net assets decreased $20,472, from $805,818 on March 31, 2006 to $785,346 on March 31, 2007. This is in large part due to labor, material, and related costs associated with installing water meters throughout the community, a requirement of USDA Rural Development, which provided much of the funding for the sewer project. Sewer grant funds purchased the meters, while the water fund financed their installation.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City Commission reviews its expenditures and compares them to the adopted budget to determine if any amendments to the original budget need to be made. During the year, amendments were made to the original adopted budget, though none of those were significant in nature, with the exception of Major Street maintenance, which was increased to allow grant funds to pave Industrial Park Drive, and the Motor Vehicle Fund expense, which was increased to allow for the capital purchase of a new plow truck, financed primarily through a federal grant.

CAPITAL ASSET AND DEBT ADMINISTRATION

At March 31, 2007 the City had $13,750,583 (net of accumulated depreciation) in a broad range of capital assets, including land, buildings, equipment, courthouse, sewer construction in progress, sewer system and the water system. The most significant addition to City's capital assets was the construction of the sewer collection system. We also purchased a new DPW plow truck and plow for approximately $110,000, financed through a grant and loan from the United States Department of Agriculture and a new police car, financed partially by a $15,000 grant from USDA. Please note that additional information can be found on the City's capital assets in the accompanying notes to the financial statements of this report.

As of March 31, 2007, the City had total long-term debt outstanding of $2,972,097. The City issued an installment purchase note of $27,500 for the purchase of the new plow truck mentioned in the previous paragraph, while the fire department, issued an installment note of 40,806 for the purchase of a tanker cab and chassis. The City has also reduced previously incurred debt by $65,563 by making scheduled payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City assumed an increase in property tax revenue of three percent, based on past experience of minimal growth. The City assumed that revenue sharing from the state would remain stagnant based on state budget projections. The City expects to contribute general fund dollars to its sewer operations, while customers continue to be connected and to keep rates down in the short-term. The City expects to begin spending its major and local street funds on street reconstruction and resurfacing projects that have been put on hold until the conclusion of sewer construction. The City also anticipates doing further work on the courthouse, using grant funds and donations on hand. The City will be planning for continued improvements to its street system, as well as gradual improvements to its water system. It also will seek funds for the construction of a small police building with a garage.

CONTACTING CITY MANAGEMENT

This financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the City's finances and to demonstrate the City's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the City Manager at 989-733-8313 (City Hall).

Joseph C. Hefele, City Manager
City of Onaway

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ONAWAY
STATEMENT OF NET ASSETS
MARCH 31, 2007

	PRIMARY GOVERNMENT		
ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
Cash and cash equivalents	$535,866	$174,873	$710,739
Cash and cash equivalents, restricted	-	11,160	11,160
Restricted investments	-	16,500	16,500
Receivables:			
Property taxes	57,132	-	57,132
Accounts	5,494	51,717	57,211
From other governments	31,715	307	32,022
Due from fiduciary fund	52	-	52
Financing costs (Net of Accumulated Amortization)	10,740	45,208	55,948
Capital assets (Net of Accumulated Depreciation)	1,860,700	11,889,883	13,750,583
TOTAL ASSETS	2,501,699	12,189,648	14,691,347
LIABILITIES			
Accounts payable	7,928	16,137	24,065
Accrued interest	5,093	56,126	61,219
Deferred revenue	-	106	106
Long-term liabilities:			
Due within one year	26,062	38,000	64,062
Due in more than one year	395,418	2,571,000	2,966,418
TOTAL LIABILITIES	434,501	2,681,369	3,115,870
NET ASSETS			
Invested in capital assets, net of related debt	1,497,603	9,280,883	10,778,486
Restricted for debt service	15,129	27,660	42,789
Unrestricted	554,466	199,736	754,202
TOTAL NET ASSETS	$2,067,198	$9,508,279	$11,575,477

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

CITY OF ONAWAY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2007

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	$15,301	$ -	$ -
General government	263,327	11,271	6,700
Public safety	142,334	83,532	-
Public works	172,382	49,047	-
Recreation and culture	19,011	-	-
Interest and fees on long-term debt	16,493	-	-
Total governmental activities	628,848	143,850	6,700
Business-type activities			
Sewer	419,373	197,574	70,217
Water	163,613	137,546	-
Total business-type activities	582,986	335,120	70,217
Total primary government	$1,211,834	$478,970	$76,917

General Revenues
Property taxes
State-shared revenues
Unrestricted interest income
Other
Transfers - internal activities

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Net assets, end of year

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

Capital Grants and Contributions	Net (Expense) Revenue and changes in Net Assets Primary Government: Governmental Activities	Business-Type Activities	TOTAL
$ -	($15,301)	$ -	($15,301)
-	(245,356)	-	(245,356)
15,000	(43,802)	-	(43,802)
126,568	3,233	-	3,233
-	(19,011)	-	(19,011)
-	(16,493)	-	(16,493)
141,568	(336,730)	-	(336,730)
2,154,752	-	2,003,170	2,003,170
-	-	(26,067)	(26,067)
2,154,752	-	1,977,103	1,977,103
$2,296,320	(336,730)	1,977,103	1,640,373
	297,005	937	297,942
	227,688	-	227,688
	6,145	1,338	7,483
	5,822	-	5,822
	(49,000)	49,000	-
	487,660	51,275	538,935
	150,930	2,028,378	2,179,308
	1,916,268	7,479,901	9,396,169
	$2,067,198	$9,508,279	$11,575,477

FUND FINANCIAL STATEMENTS

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2007

ASSETS	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
Cash and cash equivalents	$244,437	$131,375	$31,617
Taxes receivable	55,339	-	-
Accounts receivable	5,494	-	-
Due from other funds	52	-	-
Receivables from other governments	15,853	10,512	5,350
TOTAL ASSETS	$321,175	$141,887	$36,967
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$4,796	$360	$698
FUND BALANCES			
Reserved for:			
Courthouse renovation	38,757	-	-
Recreation equipment	2,561	-	-
Police department	5,732	-	-
Promotion	253	-	-
Debt service	-	-	-
Unreserved:			
Designated for:			
Subsequent years' expenditures	-	81,430	25,409
Undesignated	269,076	60,097	10,860
TOTAL FUND BALANCES	316,379	141,527	36,269
TOTAL LIABILITIES AND FUND BALANCES	$321,175	$141,887	$36,967

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

ONAWAY AREA FIRE BOARD FUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
$31,058	$84,039	$13,336	$535,862
-	-	1,793	57,132
-	-	-	5,494
-	-	-	52
-	-	-	31,715
$31,058	$84,039	$15,129	$630,255
$ -	$ -	$ -	$5,854
-	-	-	38,757
-	-	-	2,561
-	-	-	5,732
-	-	-	253
-	-	15,129	15,129
-	20,500	-	127,339
31,058	63,539	-	434,630
31,058	84,039	15,129	624,401
$31,058	$84,039	$15,129	$630,255

CITY OF ONAWAY
BALANCE SHEET - GOVERNMENTAL FUNDS
MARCH 31, 2007

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets	
FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$624,401
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	1,841,399
Subtract: accumulated depreciation	(196,881)
Deferred costs used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Add: financing costs	8,338
Subtract: accumulated amortization	(556)
Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.	141,325
Certain liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds, and consist of:	
Subtract: bonds and installment contracts payable	(288,097)
Subtract: compensated absences	(58,383)
Subtract: accrued interest on long-term liabilities	(4,348)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$2,067,198

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

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND
REVENUES			
Taxes	$287,662	$ -	$ -
Federal revenues	15,000	35,483	-
State-shared revenues	134,931	58,750	34,007
Licenses and permits	800	-	-
Charges for services	48,247	-	-
Fines and forfeits	978	-	-
Interest income	1,208	1,038	241
Rents	11,271	-	-
Donations	7,683	-	-
Other	4,455	-	-
TOTAL REVENUES	512,235	95,271	34,248
EXPENDITURES			
Current:			
Legislative	15,301	-	-
General government	220,391	-	-
Public safety	101,692	-	-
Public works	56,005	61,386	37,148
Recreation and culture	17,714	-	-
Capital outlay	21,753	-	-
Debt service:			
Principal	-	-	8,000
Interest and fees	-	-	1,155
TOTAL EXPENDITURES	432,856	61,386	46,303
REVENUES OVER (UNDER) EXPENDITURES	79,379	33,885	(12,055)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	21,743
Operating transfers (out)	(56,500)	(21,743)	-
Loan proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(56,500)	(21,743)	21,743
NET CHANGES IN FUND BALANCES	22,879	12,142	9,688
FUND BALANCES, BEGINNING OF YEAR,	293,500	129,385	26,581
FUND BALANCES, END OF YEAR	$316,379	$141,527	$36,269

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

ONAWAY AREA FIRE BOARD FUND	COURTHOUSE CONSTRUCTION FUND	COURTHOUSE DEBT FUND	TOTAL GOVERNMENTAL FUNDS
$ -	$ -	$9,343	$297,005
-	6,047	-	56,530
-	-	-	227,688
-	-	-	800
82,554	-	-	130,801
-	-	-	978
1,771	1,804	65	6,127
-	-	-	11,271
-	1,555	-	9,238
1,367	-	-	$5,822
85,692	9,406	9,408	746,260
-	-	-	15,301
-	-	-	220,391
24,086	-	-	125,778
-	-	-	154,539
-	-	-	17,714
219,583	6,113	-	247,449
16,063	-	2,000	26,063
6,533	-	6,344	14,032
266,265	6,113	8,344	821,267
(180,573)	3,293	1,064	(75,007)
-	-	-	21,743
-	-	-	(78,243)
40,806	-	-	40,806
40,806	-	-	(15,694)
(139,767)	3,293	1,064	(90,701)
170,825	80,746	14,065	715,102
$31,058	$84,039	$15,129	$624,401

CITY OF ONAWAY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2007

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities	
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	($90,701)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of aetivities.	
Add: capital outlay capitalized during the current year.	247,449
Subtract: depreciation expense	(54,097)
Governmental funds report deferred costs, such as finacing costs, as expenditures. However, those costs are allocated over the related debt repayment period as annual amortization expense in the statement of activities.	
Subtract: amortization expense	(278)
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	26,063
Issuance of bond and installment loan proceeds is an other financing source in the governmental funds, but increases long-term liabilities in the statement of net assets.	
Subtract: installment contract loan proceeds.	(40,806)
Some expenses in the statement of activities do not require the use of current finanical resources and therefore are not reported as expenditures in governmental funds.	
Add: decrease in the accrual of interest on long-term liabilities.	287
Subtract: increase in the accrual of compensated absences.	(6,016)
Internal service funds are used by management to charge the costs of certain activities, such as equipment costs, to individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.	
Subtract: change in net assets from governmental activities accounted for in the internal service fund.	69,029
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$150,930

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

CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2007

ASSETS	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CURRENT ASSETS:				
Cash and cash equivalents	$174,837	$36	$174,873	$4
Cash and cash equivalents, restricted	-	11,160	11,160	-
Restricted investments	-	16,500	16,500	-
Accounts receivable	35,513	16,204	51,717	-
Receivable from other governments	307	-	307	-
TOTAL CURRENT ASSETS	210,657	43,900	254,557	4
NONCURRENT ASSETS:				
Financing costs (net of amortization)	45,208	-	45,208	2,958
CAPITAL ASSETS:				
Land and improvements	13,960	6,614	20,574	-
Water system	-	1,324,528	1,324,528	-
Sewer system	9,085,345	-	9,085,345	-
Sewer system - construction in progress	2,127,017	-	2,127,017	-
Machinery and equipment	21,473	9,199	30,672	308,302
Less: accumulated depreciation	(185,808)	(512,445)	(698,253)	(92,120)
NET CAPITAL ASSETS	11,061,987	827,896	11,889,883	216,182
TOTAL NONCURRENT ASSETS	11,107,195	827,896	11,935,091	219,140
TOTAL ASSETS	11,317,852	871,796	12,189,648	219,144
LIABILITIES				
CURRENT LIABILITIES:				
Accounts payable	12,712	3,425	16,137	2,074
Accrued interest	55,101	1,025	56,126	745
Deferred revenue	106	-	106	-
Bonds payable	26,000	12,000	38,000	-
Installment note payable	-	-	-	4,000
TOTAL CURRENT LIABILITIES	93,919	16,450	110,369	6,819
LONG-TERM LIABILITIES:				
Bonds payable	2,501,000	70,000	2,571,000	-
Installment notes payable	-	-	-	71,000
TOTAL LONG-TERM LIABILITIES	2,501,000	70,000	2,571,000	71,000
TOTAL LIABILITIES	2,594,919	86,450	2,681,369	77,819
NET ASSETS				
Invested in capital assets, net of related debt	8,534,987	745,896	9,280,883	141,182
Restricted for debt service	-	27,660	27,660	-
Unrestricted	187,946	11,790	199,736	143
TOTAL NET ASSETS	$8,722,933	$785,346	$9,508,279	$141,325

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

CITY OF ONAWAY
PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2007

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
OPERATING REVENUES				
Charges for services	$197,574	$137,546	$335,120	$41,114
Other revenue	-	-	-	6,051
TOTAL OPERATING REVENUES	197,574	137,546	335,120	47,165
OPERATING EXPENSES				
Salaries and wages	24,216	57,611	81,827	8,750
Fringe benefits	5,058	13,788	18,846	4,348
Gasoline	-	-	-	6,722
Supplies	10,585	10,308	20,893	10,686
Contracted service	39,532	9,072	48,604	1,198
Maintenance/repairs	-	-	-	6,186
Communication	2,976	1,038	4,014	1,137
Transportation	1,259	-	1,259	96
Utilities	36,325	23,968	60,293	5,549
Education and training	668	280	948	-
Insurance	1,438	4,211	5,649	8,378
Licenses and permits	2,350	1,167	3,517	-
Equipment rentals	700	13,254	13,954	-
Depreciation and amortization	140,641	24,366	165,007	12,634
TOTAL OPERATING EXPENSES	265,748	159,063	424,811	65,684
OPERATING INCOME (LOSS)	(68,174)	(21,517)	(89,691)	(18,519)
NON-OPERATING REVENUES (EXPENSES)				
Interest income	680	658	1,338	18
Special assessments	-	937	937	-
Federal revenue	2,154,752	-	2,154,752	82,500
Other grant revenue	70,217	-	70,217	-
Other contracted service	(70,217)	-	(70,217)	-
Interest expense	(83,408)	(4,550)	(87,958)	(2,470)
TOTAL NON-OPERATING INCOME (EXPENSES) - NET	2,072,024	(2,955)	2,069,069	80,048
INCOME (LOSS) BEFORE TRANSFERS	2,003,850	(24,472)	1,979,378	61,529
TRANSFER IN	45,000	4,000	49,000	7,500
CHANGE IN NET ASSETS	2,048,850	(20,472)	2,028,378	69,029
NET ASSETS, BEGINNING OF YEAR	6,674,083	805,818	7,479,901	72,296
NET ASSETS, END OF YEAR	$8,722,933	$785,346	$9,508,279	$141,325

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

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2007

	SEWER FUND	WATER FUND	TOTAL	GOVERNMENTAL ACTIVITIES - INTERNAL SERVICE FUND
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	$181,673	$138,631	$320,304	$ -
Receipts from other funds	-	-	-	41,114
Other receipts	-	-	-	6,051
Cash paid for employees wages and benefits	(29,411)	(71,479)	(100,890)	(13,182)
Cash paid for interfund services	(700)	(13,254)	(13,954)	-
Cash paid for other operating expenses	(95,892)	(49,012)	(144,904)	(38,839)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	55,670	4,886	60,556	(4,856)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Special assessments	-	937	937	-
Federal revenue	2,228,000	-	2,228,000	82,500
Debt proceeds	-	-	-	27,500
Acquisition and construction of capital assets	(2,193,766)	(7,166)	(2,200,932)	(117,119)
Payment of finance costs	-	-	-	(1,500)
Principal and interest paid on capital debt	(55,099)	(16,700)	(71,799)	(4,481)
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	(20,865)	(22,929)	(43,794)	(13,100)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
State revenue	-	251	251	-
Other grant revenue	69,910	-	69,910	-
Other non-capital contracted services	(64,053)	-	(64,053)	-
Transfer in	45,000	4,000	49,000	7,500
NET CASH PROVIDED (USED) IN CAPITAL AND RELATED FINANCING ACTIVITIES	50,857	4,251	55,108	7,500
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	680	658	1,338	18
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	86,342	(13,134)	73,208	(10,438)
CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR	88,495	24,330	112,825	10,442
END OF YEAR	$174,837	$11,196	$186,033	$4
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS:				
Cash and cash equavalents	$174,837	$36	$174,873	$4
Restricted cash and cash equavalents	-	11,160	11,160	-
TOTAL	$174,837	$11,196	$186,033	$4
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES				
Operating income (loss)	($68,174)	($21,517)	($89,691)	($18,519)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	140,641	24,366	165,007	12,634
Changes in assets and liabilities:				
Receivables	(15,901)	1,085	(14,816)	-
Accounts payable	(759)	1,032	273	1,113
Accrued expenses	(137)	(80)	(217)	(84)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$55,670	$4,886	$60,556	($4,856)

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

CITY OF ONAWAY
STATEMENT OF FIDUCIARY NET ASSETS
TAX COLLECTION FUND
MARCH 31, 2007

	AGENCY FUND
ASSETS	
Cash and cash equivalents	$52
LIABILITIES	
Due to other funds	52
NET ASSETS	
Fiduciary Net Assets	$ -

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Onaway, Onaway, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

THE REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity includes those of the City and any component units. The basic criterion for determining the reporting entity includes oversight responsibility, ability to significantly influence operations, fiscal dependency, and whether the financial statements would be misleading if data were not included. The component units discussed below are included in the City's reporting entity.

Based on the foregoing criteria, including the consideration of the significance of their operational or financial relationship with the City, the financial statements of the Onaway Area Fire Board is included in the City's annual report as a blended component unit because the City is the largest member of the Joint Venture. The City has no discretely presented component units.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. 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 direct expenses of a given function or segment 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 are not properly included among program revenues are reported instead as general revenue.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

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. Major funds are generally those that represent 10% or more of the respective fund type assets, liabilities, revenues or expenditures. The City considers all of its funds to be major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year 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 measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is 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 City 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 are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred. Principal operating revenues for proprietary funds are charges to customers for sales or services.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Fund Financial Statements

The fund financial statements provide information about the City's funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. The City considers all of its funds to be major funds; therefore, there are no nonmajor funds.

The City reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Major Street Fund - This special revenue fund accounts for revenues from motor fuel taxes, which are restricted by state statute for major street and highway purposes.

Local Street Fund - This special revenue fund accounts for revenues from motor fuel taxes and a tax, when levied, which are restricted by state statute for local street purposes.

Onaway Area Fire Board Fund - This special revenue fund accounts for the blended component unit fire protection services of the Onaway Area Fire Board. Revenues are derived mainly from contributions from the participating local units of government and contributions from the general public.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

Courthouse Debt Fund - This debt service fund is used to account for the tax revenues and the payments on the bonds of the Historic Courthouse/City Hall.

Courthouse Construction Fund - This capital projects fund is used to account for the construction and restoration of the Historic Courthouse/City Hall, financed primarily by grants and donations.

The City reports the following major enterprise funds:

Sewer Fund – This fund accounts for the activities of the sewer department system, which has been under construction and is partially completed and in operation. This fund is financed primarily by user fees.

Water Fund – This fund accounts for the activities of the water department system. This fund is financed primarily by user fees.

Additionally the City of Onaway reports the following fund types:

Internal Service Fund – This fund accounts for operations that provide machinery and equipment to other departments of the City on a cost-reimbursement basis.

Fiduciary Funds

Tax Collection Fund – This fund accounts for assets held for other governments in an agency capacity. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

RESTRICTED ASSETS

Certain resources are set aside for repayment of the City's sewer and water revenue bonds and unspent grant funds. The amounts are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable bond covenants and/or other agreements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES AND PAYABLES

All receivables are reported at their gross values. The City does not use an allowance for doubtful accounts. Uncollected delinquent taxes and water and sewer accounts receivable are purchased by the County and placed on the taxpayer/customer's tax bill and management considers them to be fully collectible. Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables from other governments represents various shared revenues, grants, and reimbursements from other governments.

PROPERTY TAX REVENUE RECOGNITION

Property tax revenues for the year ended March 31, 2007, reflected in the accompanying financial statements include property taxes levied December 31, 2006. These taxes are due by February 15, 2007, and are added to the County tax rolls after February 28, 2007. The City will receive 100% payment for the delinquent City tax by June, 2007.

The taxable value of the City totaled $14,584,756, on which ad valorem taxes consisted of 18.7502 mills for the City's operating purposes and .632 mills for debt retirement, raising $287,662 for operating purposes and $9,343 for courthouse bond debt retirement. Property taxes are recognized in the fiscal year in which they are levied.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are defined by the government as assets with an approximate initial individual cost of $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 market value at the date of donation.

Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Interest expense incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the year ended March 31, 2007, $77,150 of interest expense was capitalized as part of the cost of the sewer system assets under construction.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	10 – 40 years
Equipment and vehicles	5 – 20 years
Water and sewer systems	40 - 50 years
Infrastructure	20 years

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused sick time benefits, subject to certain limitations. All sick time pay is accrued when incurred in the government-wide statements. A liability for these amounts is reported in the government funds only if they have matured, for example, as a result of employee resignations or retirements.

POST-EMPLOYMENT BENEFITS

Other than the pension benefits described in Note 8, the City does not provide its employees with any other post employment benefits.

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Issuance costs are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND EQUITY

Reserved fund balances for governmental funds indicate that a portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that a portion of fund equity for which the City has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and budgetary accounting

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

1. Prior to the beginning of the fiscal year, the City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing on April 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the City Commission. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). All annual appropriations lapse at the end of the fiscal year.

The City Board's budgetary procedures are in compliance with P.A 621 of 1978 (The Uniform Budgeting Act).

Bond reserve requirements

The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2007. Revenue Bond Ordinance Nos. 2002-05, 2003-02 and 2005-01 require the sum of $131,700 to be set aside as of March 31, 2007. The City expects to fund the required amounts when the sewer system is completed and becomes fully operational.

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

The caption on the statement of net assets and statement of fiduciary net assets relating to cash, cash equivalents and investments represent deposits in varying amounts as follows:

Cash and cash equivalents	$710,791
Cash and cash equivalents, restricted	11,160
Restricted investments	16,500
	$738,451

The restricted investments amounts consist of certificates of deposit with over a 90 day maturity.

Custodial Credit Risk – Deposits: At year-end the carrying amounts of cash, cash equivalents and investments were classified as to risk as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	$130,135	$130,231
Uninsured – uncollateralized	608,316	613,672
	$738,451	$743,903

All accounts are in the name of the City and a specific fund. They are recorded in City records at cost. Interest is recorded when deposits mature or is credited to the applicable account. The City may experience significant fluctuations in deposit balances through the year.

Concentration of Credit Risk: The City's policy does not quantify the limit on the amount it may invest in any one issuer.

Interest Rate Risk: The City's policy does not limit investor maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase;

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Statutory Authority (continued)

obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

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

NOTE 4: CAPITAL ASSETS

Capital asset activity was as follows for the year ended March 31, 2007:

Governmental Activities:	Beginning Balance	Additions	(Deletions)	Ending Balance
Being depreciated:				
Buildings	$1,334,701	$6,113	$ -	$1,340,814
Vehicles-police	36,969	21,753	-	58,722
Equipment-furniture and office	6,493	-	-	6,493
Equipment – fire	76,884	219,583	-	296,467
Equipment–vehicles and machinery	317,787	117,119	(126,604)	308,302
Infrastructure	138,904	-	-	138.904
Subtotal	1,911,738	364,568	(126,604)	2,149,702
Less accumulated depreciation	(349,014)	(66,592)	126,604	(289,002)
Governmental activities capital assets, net	$1,562,724	$297,976	($ -)	$1,860,700

NOTE 4: CAPITAL ASSETS (CONTINUED)

Business-type Activities:	Beginning Balance	Additions	(Deletions)	Ending Balance
Not being depreciated:				
Land	$20,574	$ -	$ -	$20,574
Construction in Progress-water	243,078	-	(243,078)	-
Construction in Progress-sewer	2,335,810	2,127,017	(2,335,810)	2,127,017
Being depreciated:				
Water system	1,074,284	250,244	-	1,324,528
Sewer system	6,749,535	2,335,810		9,085,345
Water equipment	10,174	-	(975)	9,199
Sewer equipment	20,532	941	-	21,473
Subtotal	10,453,987	4,714,012	(2,579,863)	12,588,136
Less accumulated depreciation	(536,398)	(162,830)	975	(698,253)
Business –type activities capital assets, net	$9,917,589	$4,551,182	($2,578,888)	$11,889,883

Depreciation was charged to the City's governmental activities as follows:

General government	$31,801
Public safety	15,351
Public works	6,945
Capital assets held by the government's Internal service fund are charged to the Various functions based on their usage Of the assets.	12,495
	$66,592

Depreciation was charged to the City's Business-type activities as follows:

Sewer	$138,464
Water	24,366
	$162,830

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The amounts of interfund receivables and payables in the governmental activities as follows:

Fund	Interfund Receivable	Interfund Payable
General fund	$52	$ -
Fiduciary fund – Tax Collection	-	52
Total	$52	$52

Interfund transfers consisted of the following for the year ended March 31, 2007:

Fund	Transfer Out	Transfer In
General Fund	$56,500	$ -
Special Revenue-Major Street Fund	21,743	-
Special Revenue-Local Street Fund		21,743
Internal Service Fund		7,500
Sewer Fund		45.000
Water Fund	-	4,000
Total	$78,243	$78,243

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) use unrestricted resources collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6: LONG-TERM DEBT

A summary of long term obligations at March 31, 2007, and transactions related thereto for the year then ended is as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental activities:					
$150,000 U.S.D.A. 2004 general obligation unlimited tax bonds for construction of courthouse building, payable in annual installments of $2,000 to $8,000, bearing interest semi-annually at 4.375%, through September, 2032.	$146,000	$ -	($2,000)	$144,000	$2,000

NOTE 6: LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
1992 Michigan Transportation Bonds. Dated September 1, 1992, payable serially beginning March 1, 1993 and bear interest from 4.0% to 6.0%.	$8,000	$ -	($8,000)	$ -	$ -
Act 99 installment contract payable – Fire equipment, annual payments of $5,491, including interest at 4.68%.	5,246	-	(5,246)	-	-
Act 99 installment contract payable – Fire Station Facility, annual payments of $17,105, including interest at 5.51% through September 15, 2007.	114,108	-	(10,817)	103,291	11,414
Act 99 installment contract payable – Fire vehicle, annual payments of $8,995, including interest at 4.65%.	-	40,806	-	40,806	8,648
Internal Service Fund: U.S.D.A. Act 99 installment contract payable, plow truck– annual payments ranging from $2,500 to $4,500, plus interest at 4.125%, through February, 2021.	50,000	-	(2,500)	47,500	2,500
Internal Service Fund: U.S.D.A. Act 99 installment contract payable, plow truck– annual payments ranging from $1,500 to $2,500, plus interest at 4.375%, through November, 2021.	-	27,500	-	27,500	1,500
Liability for accrued compensated absences	52,367	6,016	-	58,383	-
Total governmental activities long-term debt	375,721	74,322	(28,563)	421,480	26,062
Business-type activities:					
Enterprise Funds:					
1974 U.S.D.A. Water Revenue Bonds, due in annual installments ranging from $5,000 to $15,000 each January 1 through 2013; bearing interest at 5%.	94,000	-	(12,000)	82,000	12,000
$1,125,000 U.S.D.A. Sewer System Revenue Bonds, Series A, due in annual installments ranging from $12,000 to $56,000 each April 1 and October 1 through 2042; bearing interest at 4.50%.	1,113,000	-	(12,000)	1,101,000	13,000

NOTE 6: LONG-TERM DEBT (CONTINUED)

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
$84,000 Sewer System Revenue Bonds, Series B, due in annual installments ranging from $4,000 to $12,000 each April 1 and October 1 through 2011; bearing interest at 5.60%.	$64,000	$ -	($10,000)	$54,000	$10,000
$283,000 U.S.D.A.Sewer System Revenue Bonds, Series C, due in annual installments ranging from $3,000 to $16,500 each April 1 and October 1 through 2042; bearing interest at 4.50%.	280,000	-	(3,000)	277,000	3,000
$1,095,000 U.S.D.A.Sewer System Revenue Bonds, Series D, due in annual installments ranging from $11,000 to $62,000 each April 1 and October 1 through 2045; bearing interest at 4.125%.	1,095,000	-	-	1,095,000	-
Total business-type activities long-term debt	2,646,000	-	(37,000)	2,609,000	38,000
Total long-term debt	$3,021,721	$ 74,322	($65,563)	$3,030,480	$64,062

Annual debt service requirements for the above obligations, except for the liability for accrued compensated absences, as follows:

Year Ended March 31,	Governmental Principal	Activities Interest	Business-type Principal	Activities Interest
2008	$26,062	$16,899	$38,000	$113,663
2009	26,543	17,198	50,500	111,545
2010	27,555	15,886	53,500	109,095
2011	29,120	14,521	56,500	106,474
2012	30,241	13,080	58,000	103,743
2013-2017	86,076	56,374	198,000	487,796
2018-2022	54,500	35,422	229,000	442,470
2023-2027	35,000	14,591	285,000	386,844
2028-2032	40,000	6,125	354,000	317,657
2033-2037	8,000	175	442,500	231,332
2038-2042	-	-	550,500	123,823
2043-2046	-	-	293,500	20,586
Total	$363,097	$190,271	$2,609,000	$2,555,028

Interest expense for the year in the statement of activities, governmental activities, was $16,493, which includes $278 of amortization of finance costs. Interest expense for business-type activities was $87,958. Additionally, interest expense of $77,150 of was capitalized as part of the cost of the sewer system assets under construction in the business-type activities.

NOTE 7: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City has issued revenue bonds to finance construction of two enterprise funds, which provide water services and, when completed, sewer services. Because both of these individual funds account separately for each activity, are segments and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

NOTE 8: PENSION PLAN

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

Funding Policy. The obligation to contribute to and maintain the system for the City employees was established by the City Council. The City is required to contribute at an actuarially determined rate of 9.55% for department heads, of which the City contributes 6.92% and the department heads contribute 2.63%; and 10.81% for the department of public works employees of which the City contributes 6.81% and the public works employees contribute 4.00%. The contribution requirements of plan members and the City 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 March 31, 2007 the City's annual pension cost of $14,801 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8% investment rate of return, and (b) projected salary increases of 4.5%, compounded annually, attributable to inflation. The actuarial value of assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial 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 last actuarial valuation, was 29 years.

NOTE 8: PENSION PLAN (CONTINUED)

Three-year trend information and funding progress, as follows:

	Year - ended December 31, 2004	2005	2006
Annual pension cost (APC)	$ 12,969	$ 17,880	$ 21,602
Percentage of APC contributed	100%	100%	100%
Net pension obligation	$ -	$ -	$ -
Actuarial value of assets	$344,865	$376,769	$420,635
Actuarial Accrued Liability (AAL)	$349,632	$387,238	$438,336
Unfunded (Excess) AAL	$ 4,767	$10,469	$17,701
Funded ratio	99	97%	96%
Covered payroll	$172,927	$195,553	$213,856
UAAL (Excess) as a percentage of covered payroll	3%	5%	8%

NOTE 9: AMBULANCE SERVICE

The City has entered into an agreement with ten area units of government to provide ambulance service to local residents. The expenses involved in overall operations of the ambulance service are split equally between the nine units, and the expenses associated with ambulance runs within a governmental jurisdiction are absorbed by that governmental unit. For the year ended March 31, 2007, the City's share of expenditures was $15,862. Financial statements can be obtained through the Onaway Area Ambulance Service at P.O. Box 454, Onaway, MI 49765.

NOTE 10: FIRE SERVICE

The City has entered into an agreement with two local townships to form an Onaway Area Fire Board to provide fire service to local residents. All expenses are charged to the Fire Board to the participating units according to a formula based on comparative SEV and population. Long-term debt incurred to purchase a fire station facility and fire vehicles are shown in long-term debt (Note 6). For the year ended March 31, 2007, the City's share of expenditures was $15,794. The Onaway Area Fire Board does not issue separate financial statements.

NOTE 11: COMMITMENTS

The City has approximately $689,000 remaining on a grant and construction contracts to finish construction of Phase III of a wastewater treatment plant.

NOTE 12: CONTINGENCIES

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 13: RISK MANAGEMENT

The City of Onaway participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the City. The City pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan. The City carries coverage for general liability, wrongful acts, law enforcement, automobile, crime, inland marine liability and bonding for public official errors and omissions. Additionally, the City has purchased commercial insurance for workman's compensation benefits. Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 14: LEASING ARRANGEMENTS

The City leases space to both a public library and the local chamber of commerce. Leases are renewable annually and require no security deposit. Future minimum lease payments on these leases are $9,480, annually.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES				
Taxes	$270,500	$270,500	$287,662	$17,162
Federal revenues	15,000	15,000	15,000	-
State-shared revenues	131,450	131,450	134,931	3,481
Licenses and permits	500	500	800	300
Charges for services	49,400	49,400	48,247	(1,153)
Fines and forfeits	1,200	1,200	978	(222)
Interest income	500	500	1,208	708
Rents	10,920	10,920	11,271	351
Donations	5,000	5,000	7,683	2,683
Other	6,000	6,000	4,455	(1,545)
TOTAL REVENUES	490,470	490,470	512,235	21,765
EXPENDITURES:				
LEGISLATIVE - City Council	14,507	16,007	15,301	706
GENERAL GOVERNMENT				
City Administrator	107,864	111,364	111,334	30
Elections	2,500	2,500	2,093	407
Assessor	7,100	7,100	7,040	60
Professional services	20,385	20,885	18,526	2,359
Board of review	1,286	1,286	1,278	8
City hall and grounds	49,015	58,815	58,752	63
Cemetery	7,630	5,530	3,155	2,375
Promotion	16,192	19,192	18,213	979
TOTAL GENERAL GOVERNMENT	211,972	226,672	220,391	6,281
PUBLIC SAFETY				
Police Department	73,963	72,663	70,036	2,627
Fire	16,300	16,300	15,794	506
Ambulance	16,000	16,000	15,862	138
TOTAL PUBLIC SAFETY	106,263	104,963	101,692	3,271
PUBLIC WORKS				
Sidewalks	3,347	3,347	1,711	1,636
Street lighting	12,500	13,100	13,084	16
Sanitation	43,200	43,200	41,210	1,990
TOTAL PUBLIC WORKS	59,047	59,647	56,005	3,642
RECREATION AND CULTURE-PARKS	24,721	22,721	17,714	5,007
CAPITAL OUTLAY	22,000	22,000	21,753	247
TOTAL EXPENDITURES	438,510	452,010	432,856	19,154
REVENUES OVER (UNDER) EXPENDITURES	51,960	38,460	79,379	40,919
OTHER FINANCING SOURCES (USES)				
Operating transfers in (out)	(55,000)	(65,000)	(56,500)	8,500
NET CHANGE IN FUND BALANCE	(3,040)	(26,540)	22,879	49,419
FUND BALANCE, BEGINNING OF YEAR,	293,500	293,500	293,500	-
FUND BALANCE, END OF YEAR	$290,460	$266,960	$316,379	$49,419

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

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Federal revenue	$ -	$35,500	$35,483	($17)
State-shared revenue	62,000	62,000	58,750	(3,250)
Interest income	500	500	1,038	538
TOTAL REVENUES	62,500	98,000	95,271	(2,729)
EXPENDITURES:				
Public works - Highways and Streets:				
Routine maintenance	13,597	49,097	45,144	3,953
Traffic services	2,089	2,089	613	1,476
Winter maintenance	11,692	11,692	10,805	887
Administration	6,200	6,200	4,824	1,376
TOTAL EXPENDITURES	33,578	69,078	61,386	7,692
REVENUES OVER (UNDER) EXPENDITURES	28,922	28,922	33,885	4,963
OTHER FINANCING (USES)				
Operating transfer (out)	(15,500)	(22,000)	(21,743)	257
NET CHANGE IN FUND BALANCE	13,422	6,922	12,142	5,220
FUND BALANCE, BEGINNING OF YEAR	129,385	129,385	129,385	-
FUND BALANCE, END OF YEAR	$142,807	$136,307	$141,527	$5,220

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

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
State-shared revenue	$32,000	$32,000	$34,007	$2,007
Interest income	200	200	241	41
TOTAL REVENUES	32,200	32,200	34,248	2,048
EXPENDITURES:				
Public works - Highways and Streets:				
Routine maintenance	18,110	16,110	16,110	-
Traffic services	1,589	1,289	323	966
Winter maintenance	15,768	17,868	17,849	19
Administration	3,200	3,200	2,866	334
Debt Service:				
Principal	8,000	8,000	8,000	-
Interest and paying agent fees	1,000	1,200	1,155	45
TOTAL EXPENDITURES	47,667	47,667	46,303	1,364
REVENUES OVER (UNDER) EXPENDITURES	(15,467)	(15,467)	(12,055)	3,412
OTHER FINANCING SOURCES				
Operating transfer in	15,500	22,000	21,743	(257)
NET CHANGE IN FUND BALANCE	33	6,533	9,688	3,155
FUND BALANCE, BEGINNING OF YEAR	26,581	26,581	26,581	-
FUND BALANCE, END OF YEAR	$26,614	$33,114	$36,269	$3,155

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

CITY OF ONAWAY
BUDGETARY COMPARISON SCHEDULE -
ONAWAY AREA FIRE BOARD FUND
FOR THE YEAR ENDED MARCH 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Charges for services	$53,348	$81,541	$82,554	$1,013
Interest income	5,600	5,600	1,771	(3,829)
Other ineome	-	-	1,367	1,367
TOTAL REVENUES	58,948	87,141	85,692	(1,449)
EXPENDITURES:				
Current:				
Publie safety	28,750	28,166	24,086	4,080
Capital outlay	-	219,583	219,583	-
Debt Service:				
Principal	22,598	16,065	16,063	2
Interest expense	-	6,533	6,533	-
TOTAL EXPENDITURES	51,348	270,347	266,265	4,082
REVENUE OVER (UNDER) EXPENDITURES	7,600	(183,206)	(180,573)	2,633
OTHER FINANCING SOURCES				
Loan proceeds	-	40,806	40,806	-
TOTAL OTHER FINANCING SOURCES	-	40,806	40,806	-
NET CHANGE IN FUND BALANCE	7,600	(142,400)	(139,767)	2,633
FUND BALANCE, BEGINNING OF YEAR	170,825	170,825	170,825	-
FUND BALANCE, END OF YEAR	$178,425	$28,425	$31,058	$2,633

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

OTHER SUPPLEMENTARY INFORMATION

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2007

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
GOVERNMENTAL ACTIVITIES:			
2004 Courthouse General Obligation Bonds			
Payments due:			
September 1 and March 1	6/15/04	$150,000	4.375%
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
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			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			4.375
			6.00
TOTAL 2004 COURTHOUSE GENERAL OBLIGATION BONDS			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2007
9/01/06	$2,000	$ -
9/01/07	2,000	2,000
9/01/08	3,000	3,000
9/01/09	3,000	3,000
9/01/10	3,000	3,000
9/01/11	3,000	3,000
9/01/12	4,000	4,000
9/01/13	4,000	4,000
9/01/14	4,000	4,000
9/01/15	4,000	4,000
9/01/16	5,000	5,000
9/01/17	5,000	5,000
9/01/18	5,000	5,000
9/01/19	5,000	5,000
9/01/20	5,000	5,000
9/01/21	6,000	6,000
9/01/22	6,000	6,000
9/01/23	6,000	6,000
9/01/24	7,000	7,000
9/01/25	8,000	8,000
9/01/26	8,000	8,000
9/01/27	8,000	8,000
9/01/28	8,000	8,000
9/01/29	8,000	8,000
9/01/30	8,000	8,000
9/01/31	8,000	8,000
9/01/32	8,000	8,000
		$144,000

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2007

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES:			
1974 Water Revenue Bonds			
Payments due:			
January 1 and July 1	**1/07/74**	**$275,000**	**5.0%**
			5.0
			5.0
			5.0
			5.0
			5.0
			5.0
TOTAL WATER REVENUE BONDED INDEBTEDNESS			
2003 Sanitary Sewer System Revenue Bond, Series B			
Payments due:			
April 1 and October 1	**9/16/2002**	**$84,000**	**5.60%**
			5.60
			5.60
			5.60
			5.60
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES B			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2007
1/01/07	$12,000	$ -
1/01/08	12,000	12,000
1/01/09	13,000	13,000
1/01/10	14,000	14,000
1/01/11	14,000	14,000
1/01/12	14,000	14,000
1/01/13	15,000	15,000
		82,000
4/01/07	$10,000	$10,000
4/01/08	10,000	10,000
4/01/09	10,000	10,000
4/01/10	12,000	12,000
4/01/11	12,000	12,000
		54,000

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2007

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES (CONTINUED):			
2003 Sanitary Sewer System Revenue Bond, Series A			
Payments due:			
April 1 and October 1	**5/6/2003**	**$1,125,000**	**4.50%**
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
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			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES A			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2007
4/01/07	$13,000	$13,000
4/01/08	13,000	13,000
4/01/19	14,000	14,000
4/01/10	15,000	15,000
4/01/11	15,000	15,000
4/01/12	16,000	16,000
4/01/13	17,000	17,000
4/01/14	17,000	17,000
4/01/15	18,000	18,000
4/01/16	19,000	19,000
4/01/17	20,000	20,000
4/01/18	21,000	21,000
4/01/19	22,000	22,000
4/01/20	23,000	23,000
4/01/21	24,000	24,000
4/01/22	25,000	25,000
4/01/23	26,000	26,000
4/01/24	27,000	27,000
4/01/25	28,000	28,000
4/01/26	30,000	30,000
4/01/27	31,000	31,000
4/01/28	32,000	32,000
4/01/29	34,000	34,000
4/01/30	35,000	35,000
4/01/31	37,000	37,000
4/01/32	39,000	39,000
4/01/33	40,000	40,000
4/01/34	42,000	42,000
4/01/35	44,000	44,000
4/01/36	46,000	46,000
4/01/37	48,000	48,000
4/01/38	50,000	50,000
4/01/39	52,000	52,000
4/01/40	55,000	55,000
4/01/41	57,000	57,000
4/01/42	56,000	56,000
		1,101,000

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2007

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES (CONTINUED):			
2003 Sanitary Sewer System Revenue Bond, Series C			
Payments due:			
April 1 and October 1	5/6/2003	$283,000	4.50%
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
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			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
			4.50
TOTAL 2003 SANITARY SEWER SYSTEM REVENUE BOND, SERIES C			

(Continued)

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2007
4/01/07	$3,000	$3,000
4/01/08	3,500	3,500
4/01/19	3,500	3,500
4/01/10	3,500	3,500
4/01/11	4,000	4,000
4/01/12	4,000	4,000
4/01/13	4,000	4,000
4/01/14	4,500	4,500
4/01/15	4,500	4,500
4/01/16	5,000	5,000
4/01/17	5,000	5,000
4/01/18	5,000	5,000
4/01/19	5,500	5,500
4/01/20	5,500	5,500
4/01/21	6,000	6,000
4/01/22	6,000	6,000
4/01/23	6,500	6,500
4/01/24	7,000	7,000
4/01/25	7,000	7,000
4/01/26	7,500	7,500
4/01/27	7,500	7,500
4/01/28	8,000	8,000
4/01/29	8,500	8,500
4/01/30	9,000	9,000
4/01/31	9,000	9,000
4/01/32	9,500	9,500
4/01/33	10,000	10,000
4/01/34	10,500	10,500
4/01/35	11,000	11,000
4/01/36	11,500	11,500
4/01/37	12,000	12,000
4/01/38	12,500	12,500
4/01/39	13,000	13,000
4/01/40	13,500	13,500
4/01/41	14,500	14,500
4/01/42	16,500	16,500
		277,000

CITY OF ONAWAY
SCHEDULE OF BONDED INDEBTEDNESS
MARCH 31, 2007

	DATE OF ISSUE	ORIGINAL AMOUNT OF ISSUE	INTEREST RATE
BUSINESS-TYPE ACTIVITIES (CONTINUED):			
2005 Sanitary Sewer System Revenue Bond, Series D			
Payments due:			
April 1 and October I	8/2/2005	$1,095,000	4.125%
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
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			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
			4.125
TOTAL 2005 SANITARY SEWER SYSTEM REVENUE BOND, SERIES D			
TOTAL BUSINESS-TYPE ACTIVITIES BONDED INDEBTEDNESS:			

DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING MARCH 31, 2007
4/01/08	$11,000	$11,000
4/01/09	12,000	12,000
4/01/10	12,000	12,000
4/01/11	13,000	13,000
4/01/12	14,000	14,000
4/01/13	14,000	14,000
4/01/14	15,000	15,000
4/01/15	15,000	15,000
4/01/16	16,000	16,000
4/01/17	17,000	17,000
4/01/18	18,000	18,000
4/01/19	18,000	18,000
4/01/20	19,000	19,000
4/01/21	20,000	20,000
4/01/22	21,000	21,000
4/01/23	22,000	22,000
4/01/24	23,000	23,000
4/01/25	24,000	24,000
4/01/26	25,000	25,000
4/01/27	26,000	26,000
4/01/28	27,000	27,000
4/01/29	29,000	29,000
4/01/30	30,000	30,000
4/01/31	31,000	31,000
4/01/32	33,000	33,000
4/01/33	34,000	34,000
4/01/34	36,000	36,000
4/01/35	37,000	37,000
4/01/36	39,000	39,000
4/01/37	41,000	41,000
4/01/38	43,000	43,000
4/01/39	44,000	44,000
4/01/40	46,000	46,000
4/01/41	49,000	49,000
4/01/42	51,000	51,000
4/01/43	53,000	53,000
4/01/44	55,000	55,000
4/01/45	62,000	62,000
		1,095,000
		$2,609,000

CITY OF ONAWAY
SCHEDULE OF CONTRACTUAL INDEBTEDNESS
MARCH 31, 2007

	INTEREST RATE	ACT 99 INSTALLMENT CONTRACTS PAYABLE APRIL 1, 2006	ACT 99 INSTALLMENT CONTRACT ISSUED
GOVERNMENTAL ACTIVITIES:			
International Truck	**4.125%**	**$50,000**	**$ -**
International Truck	**4.375%**	**-**	**27,500**
Fire Equipment	**4.68%**	**5,246**	**-**
Fire Equipment	**4.65%**	**-**	**40,806**
Fire Station Facility	**5.51%**	**114,108**	**-**
TOTAL INSTALLMENT CONTRACTS PAYABLE		**$169,354**	**$68,306**

PAYMENTS	ACT 99 INSTALLMENT CONTRACTS PAYABLE MARCH 31, 2007
$2,500	$47,500
-	27,500
5,246	-
-	40,806
10,817	103,291
$18,563	$219,097

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2007

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD GRANT NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
U.S DEPARTMENT OF AGRICULTURE				
Direct Programs:				
Rural Development, Rural Utilities Service, Water and Waste Disposal Systems for Rural Communities, Other Federal Assistance, Sanitary Sewer System Grant	10.760	N/A	$2,154,752	$2,154,752
Rural Development Administration Community Facilities Loans and Grants Community Facilities Grant	10.766	N/A	15,000	15,000
Rural Development Administration Community Facilities Loans and Grants Community Facilities Grant	10.766	N/A	82,500	82,500
Rural Development Administration Community Facilities Loans and Grants Community Facilities Loan	10.766	N/A	27,500	27,500
TOTAL U.S DEPARTMENT OF AGRICULTURE			2,279,752	2,279,752
U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Michigan Strategic Fund:				
Community Development Block Grant - City Sewer and Water Project	14.228	MSC 203039-EDIG	35,483	35,483
Community Development Block Grant - Downtown Development Project	14.228	MSC 201082-EDIG	6,047	6,047
TOTAL U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			41,530	41,530
TOTAL FEDERAL FINANCIAL ASSISTANCE			$2,321,282	$2,321,282

See Accompanying Notes to Schedule of Expenditures of Federal Awards.

CITY OF ONAWAY
SCHEDULE OF EXPENDITURES OF NON-FEDERAL AWARDS
FOR THE YEAR ENDED MARCH 31, 2007

GRANTOR/PROGRAM TITLE	PROGRAM OR AWARD GRANT NUMBER	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES
Presque Isle County			
Onaway Wastewater Collection and Treatment System			
Sewer laterals/connections	N/A	$70,217	$70,217

CITY OF ONAWAY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended March 31, 2007

Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals

The following is a reconciliation of total federal expenditures and revenues reported on the Schedule of Expenditures of Federal Awards to the federal expenditures and revenues administered by the City.

Proprietary Funds:	
Enterprise Funds:	
Sewer:	
Recorded as construction in progress-sewer	$2,127,017
Recorded as equipment-sewer	941
Recorded as operating expenses-sewer	26,794
Total Federal Expenditures, Enterprise Fund – Sewer	2,154,752
Governmental Activities – Internal Service Fund:	
Recorded as equipment – vehicles and machinery	117,119
Recorded as finance costs	1,500
Less-non federal amount, City contribution	(8,619)
Total Federal Expenditures, Internal Service Fund	110,000
Total Proprietary Funds	**2,264,752**
Governmental Funds:	
General Fund:	
Recorded as capital outlay	21,753
Less-non federal amount, City contribution	(6,753
Total Federal Expenditures, General Fund	15,000
Major Street Fund:	
Recorded as public safety expenditures	61,386
Less – non federal expenditures	(25,903)
Total Federal Expenditures, Major Street Fund	35,483
Courthouse Construction Fund:	
Recorded as capital outlay	6,113
Less-non federal amount, City contribution	(66)
Total Federal Expenditures, Courthouse Construction Fund	6,047
Total Expenditures per Schedule of Expenditures of Federal Awards (SEFA)	**$2,321,282**

Note 1 - Reconciliation of Reported Expenditures and Revenues to Financial Statement Totals (Continued)

Reconciliation of financial statements to SEFA Current Year Receipts

Recorded in:	
Governmental funds as federal revenue	$56,530
Proprietary fund (sewer) as federal revenues	2,154,752
Governmental Activities – Internal Service Fund as federal revenues	82,500
Governmental Activities – Internal Service Fund as debt proceeds	27,500
Total federal revenues per financial statements	**$2,321,282**

Note 2-Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Onaway and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 3 - Loans Outstanding

The City of Onaway has outstanding federal loan balances in the amount of $2,774,000 at March 31, 2007, as shown at Note 6 in the accompanying notes to the financial statements.

Note 4 -Subrecipient's

The City of Onaway provided no federal award dollars to a subrecipient during the fiscal year.

RICHARD E. MAHLMEISTER
CERTIFIED PUBLIC ACCOUNTANT, P.C.

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

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*

December 6, 2007

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

I have audited the financial statements of the ***City of Onaway, Onaway, Michigan*** as of and for the year ended March 31, 2007, and have issued my report thereon dated December 6, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

My consideration of the 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, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiency described in Finding 2007-A of the accompanying schedule of findings and questioned costs, to be a significant deficiency in internal control over financial reporting.

P.O. Box 996 • Mackinaw City, MI 49701 • **phone: (231) 436-5223 • fax: (231) 436-5938**

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 entity's internal control.

My 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, I believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the ***City of Onaway's*** financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

I noted certain matters that I reported to management of the ***City of Onaway*** in a separate letter dated December 6, 2007.

The ***City of Onaway's*** response to the finding identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit the ***City of Onaway's*** response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, members of the commission, 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.

Richard E. Mahlmeister, C.P.A.

RICHARD E. MAHLMEISTER
CERTIFIED PUBLIC ACCOUNTANT, P.C.

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

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

December 6, 2007

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

Compliance

I have audited the compliance of the ***City of Onaway, Onaway, Michigan,*** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2007. The ***City of Onaway's*** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the ***City of Onaway's*** management. My responsibility is to express an opinion on the ***City of Onaway's*** compliance based on my audit.

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

In my opinion, the ***City of Onaway, Onaway, Michigan***, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended March 31, 2007.

P.O. Box 996 • Mackinaw City, MI 49701 • **phone: (231) 436-5223 • fax: (231) 436-5938**

Internal Control Over Compliance

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

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

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above period. The ***City of Onaway's*** response to the finding identified in my audit are described in the accompanying schedule of findings and questioned costs. I did not audit the ***City of Onaway's*** response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, members of the commission, 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.

Richard E. Mahlmeister, C.P.A.

CITY OF ONAWAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended March 31, 2007

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements.
2. One control deficiency disclosed during the audit of the financial statements is reported in the accompanying schedule of findings and questioned costs. The significant deficiency is considered a material weakness.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the accompanying schedule of findings and questioned costs.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion on all major federal programs.
6. There are no findings relative to the major federal award programs that are required to be reported under Section 510 (a) of OMB Circular A-133.
7. Identification of major programs:

CFDA#	Name of Federal Program or Cluster
10.760	U.S.D.A. Rural Development, Rural Utilities Service

8. The threshold used to distinguish between a Type A and B program was $300,000.
9. The City qualified as a low-risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS

1. Finding 2007-A: Management does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. This condition was caused by the City's determination that it is not cost effective to incur the time and expense, for management to acquire the expertise necessary to prepare its annual financial statements.

   Response: The City plans to continue relying on its external auditor to prepare the financial statements.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

1. No federal award findings or questioned costs are reported.

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

1. There were no prior year audit findings or questioned costs reported.

RICHARD E. MAHLMEISTER
CERTIFIED PUBLIC ACCOUNTANT, P.C.

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

December 6, 2007

Honorable Mayor and Members
of the City Commission
City of Onaway
Onaway, Michigan

In planning and performing my audit of the financial statements of the ***City of Onaway*** as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the ***City of Onaway's*** internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the ***City of Onaway's*** internal control. My consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, I do not express an opinion on the effectiveness of the ***City of Onaway's*** internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a significant deficiency in internal control that I consider to be a material weakness. This deficiency has been documented in the Independent Auditor's *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Governmental Auditing Standards.* Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following page.

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

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The following significant deficiency, Financial Statement Presentation, is considered a material weakness.

Financial Statement Preparation

The City does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles, and to present required financial statement disclosures. However, small organizations with limited resources and personnel find that it is more cost effective to outsource the preparation of the annual financial statements to the external auditors rather than incur the time and cost to perform this task internally. I understand that the City plans to continue relying on its external auditor to prepare the financial statements.

OTHER COMMENTS

Bond Reserves- The City has not provided for the funding of the Bond Retirement Reserve account for the Sewer Fund as of March 31, 2007. Revenue Bond Ordinance Nos. 2002-05 ($1,125,000, Sanitary Sewer System Revenue Bond, Series A), 2003-02 ($283,000, Sanitary Sewer System Revenue Bond, Series C) and 2005-01 ($1,095,000, Sanitary System Revenue Bond, Series D) require the sum of $131,700 to be set aside as of March 31, 2007.

I understand that the City expects to fund the required amounts when the sewer system is completed and becomes fully operational. I also understand that the U.S.D.A. is aware of this and has expressed willingness to work with the City on finding solutions for funding these required reserves once the sewer system becomes fully operational. I, of course, recommend that the City accept this assistance that has been offered.

I would also like to again remind the City that the $84,000 Sanitary Sewer System Revenue Bond, Series A, Ordinance No. 2002-06 has reserve requirements to meet, once the sewer system becomes fully operational

This communication is intended solely for the information and use of management, the Members of the Board and others with the ***City of Onaway***, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect my report dated December 6, 2007 on the financial statements of the ***City of Onaway.***

Thank you for the opportunity to serve the ***City of Onaway.*** Best wishes in the next year.

Sincerely,

Richard E. Mahlmeister, C.P.A.
Richard E. Mahlmeister, C.P.A., P.C.