CITY OF ALGONAC

St. Clair County, Michigan

AUDITED FINANCIAL STATEMENTS

For The Year Ended June 30, 2006

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 Algonac	St Clair

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
06/30/06	9/09/06	11/15/06

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
MCBRIDE, MANLEY, & MIILLER PC	(810) 765 4095

Street Address	City	State	Zip
PO BOX 26	MARINE CITY	MI	48039

Authorizing CPA Signature	Printed Name	License Number
Glen E McBride CPA	GLEN E MCBRIDE, CPA	110100818

CITY OF ALGONAC

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CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2006

Using this Annual Report

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

The City as a Whole

The City combined net assets increased 5% from a year ago from $14,573,000 to $15,320,000. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of approximately $153,000 during the year (3% increase). This was the result of a decrease in accounts payable and long-term obligations. The business-type activities experienced a 6% increase in net assets, primarily as a result of decreased long-term obligations and a prior period adjustment of approximately $449,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	$ 2,266	$ 2,203	$ 2,186	$ 1,600	$ 4,329	$ 3,803
Noncurrent Assets	3,055	3,036	11,853	11,988	14,906	15,024
Total Assets	5,323	5,239	14,039	13,588	19,237	18,827
Long-Term Debt Outstanding	110	142	3,314	3,523	3,424	3,665
Other Liabilities	145	182	473	407	493	589
Total Liabilities	255	324	3,787	3,930	3,917	4,254
Net Assets						
Invested in Capital Assets - Net of Debt	3,021	3,036	8,353	8,312	11,374	11,348
Restricted	240	418	856	208	1,096	626
Unrestricted	1,807	1,461	1,043	1,138	2,850	2,599
Total Net Assets	$ 5,068	$ 4,915	$ 10,252	$ 9,658	$ 15,320	$ 14,573

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, increased by $346,000 for the governmental activities. This represents an increase of approximately 23%. The current level of unrestricted net assets for our governmental activities stands at $1,807,000, or about 65% of expenditures. This is well above the targeted range set by the City during its last budget process.

CITY OF ALGONAC

Management's Discussion and Analysis

June 30, 2006

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	$ 612	$ 376	$ 1,547	$ 1,450	$ 2,159	$ 1,826
Operating Grants and Contributions	362	375	–	–	362	375
Capital Grants and Contributions	–	131	–	–	–	131
General Revenues						
Property Taxes and Payments in Lieu of Taxes	1,495	1,244	160	310	1,655	1,554
State-Shared Revenues	436	–	–	–	436	–
Unrestricted Grants and Contributions	–	464	–	–	–	464
Unrestricted Investment Earnings	92	48	52	27	144	75
Loss on Sale of Assets	(15)	–	–	–	(15)	–
Transfers	(70)	–	(25)	–	(95)	–
Other	18	–	–	–	18	–
Total Revenues	2,930	2,638	1,734	1,787	4,664	4,425
Program Expenses						
Legislative	20	–	–	–	20	–
General Government	517	281	–	–	517	281
Public Safety	1,129	1,232	–	–	1,129	1,232
Highways and Streets	124	–	–	–	124	–
Public Works	597	883	–	–	597	883
Planning and Economic Development	6	–	–	–	8	–
Recreation and Cultural	273	223	–	–	273	223
Other	112	128	–	–	112	128
Interest on Long-Term Debt	–	1	–	–	–	1
Water and Sewer	–	–	1,588	1,626	1,588	1,626
Total Expenses	2,778	2,746	1,588	1,626	4,366	4,372
Change in Net Assets	152	(108)	146	161	298	53
Prior Period Adjustment to Net Assets	–	–	449	–	449	–
Change in Net Assets	$ 152	$ (108)	$ 595	$ 161	$ 747	$ 53

Included in governmental activities revenues and business-type activities expenses is a transfer of approximately $25,000 between these activities for future retiree health care costs.

The City's net assets continue to remain healthy. Net assets grew by $747,000. This was primarily because of increases in Net Assets of Business-Type Activities.

Governmental Activities

The City's total governmental revenues increased by approximately $292,000 primarily due to increased charges for services. Expenses of the governmental activities increased by $32,000 over those of the previous year, primarily due to an increase in public works expenses.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. We provide water and sewer treatment to all City residents. We experienced a decrease in our net operating profit. This was primarily due to a decrease in property tax revenues.

The City's Funds

Our analysis of the City's major funds begins on page 5, following the entity-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds include the General Fund and the Major & Local Street Funds.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately $1,013,142. These two services are supported by general tax revenues of the City and State Revenue Sharing. In addition, the General Fund expended approximately $694,740 on Public Works. These three areas represent approximately 63% of the General Fund's total expenditures.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The total budgeted expenditures for the General Fund were decreased by approximately 7% during the year. The City's departments overall stayed within the budget, resulting in total expenditures $13,126 less than those budgeted. The General Fund's fund balance decreased from $1,602,859 a year ago to $1,376,663 at June 30, 2006. This decrease was primarily a result of transfers to other funds amounting to $210,000.

Capital Asset and Debt Administration

At the end of June 30, 2006, the City had $14,880,211 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in streets. Streets constructed prior to July 1, 2003, are not reported on the City's financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for the year ending June 30, 2007, calls for no change in property tax rates. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions.

Water usage rates have also remained unchanged for the year ending June 30, 2007.

Due to the State of Michigan's budget problems, the City of Algonac remains concerned about State Revenue Sharing funds.

Management is also concerned about setting aside enough money to fund other post employment benefits, identifying funding sources to improve Lion's Field, and initiating a comprehensive improvement to the road, storm water management, and sidewalk system.

Today, operating costs are nearly in line with operating revenues. However, facts are well documented that inflationary pressures on operational expenditures have outpaced corresponding increases in revenues. Therefore, consideration should be given to the employment of various mechanisms to rein in future increases in operational costs, up to and including attrition and consolidation of services.

Contacting the City Management

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

McBride, Manley
& Miiller P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

September 9, 2006

Honorable Mayor and City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Algonac, as of and for the year ended June 30, 2006, 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 Algonac's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Algonac, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iv 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. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 9, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

1115 S. PARKER ST., P.O. BOX 26, MARINE CITY, MI 48039-0026 PH. (810) 765-4095 FAX (810) 765-4201 www.mcbridecpa.com

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

Respectfully submitted,

McBride, Manley & Miller

McBRIDE, MANLEY & MIILLER P.C.
Certified Public Accountants

CITY OF ALGONAC

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
ASSETS				
Current Assets				
Cash - checking and on hand	$ 1,243,712	$ 765,717	$ 2,009,429	$ 35,684
- savings and cash equivalent investments	340,295	--	340,295	--
Restricted cash ($5,000 nonexpendable)	244,538	519,289	763,827	--
Restricted receivables	--	634,734	634,734	--
Accounts receivable	40,503	202,517	243,020	--
Taxes receivable (net of allowance of $1,974)	944	--	944	--
Due from agency	3,302	--	3,302	--
Due from component unit	--	161	161	--
Due from primary government	--	--	--	454
Internal balances*	124,731	--	--	--
Due from State of Michigan	186,903	--	186,903	--
Due from other units of government	26,235	55,751	81,986	--
Prepaid expenses and other assets	53,830	7,435	61,265	--
Inventory	3,080	--	3,080	--
Total Current Assets	2,268,073	2,185,604	4,328,946	36,138
Other Assets				
Restricted nonexpendable cash	--	28,000	28,000	--
Capital assets, net of accumulated depreciation	3,054,627	11,825,584	14,880,211	--
TOTAL ASSETS	**$ 5,322,700**	**$ 14,039,188**	**$ 19,237,157**	**$ 36,138**
LIABILITIES				
Current Liabilities				
Accounts payable	$ 53,904	$ 99,374	$ 153,278	$ 2,596
Due to component unit	454	--	454	--
Due to primary government	--	--	--	161
Internal balances*	--	124,731	--	--
Accrued wages and benefits	39,606	5,904	45,510	--
Accrued vacation pay	7,564	2,260	9,824	--
Accrued interest payable	859	28,564	29,423	--
Current portion of long-term obligations	15,960	211,745	227,705	--
Due to other units and taxpayers	27,054	--	27,054	1,762
Total Current Liabilities	145,401	472,578	493,248	4,519
Noncurrent Liabilities				
Accrued sick pay	59,785	53,372	113,157	--
Long-term obligations net of current portion	49,807	3,261,128	3,310,935	--
TOTAL LIABILITIES	**$ 254,993**	**$ 3,787,078**	**$ 3,917,340**	**$ 4,519**
NET ASSETS				
Investment in capital assets, net of related debt	$ 3,021,424	$ 8,352,711	$ 11,374,135	$ --
Restricted for:				
Asset replacement	--	856,217	856,217	--
Historical preservation	239,538	--	239,538	--
Unrestricted	1,806,745	1,043,182	2,849,927	31,619
TOTAL NET ASSETS	**$ 5,067,707**	**$ 10,252,110**	**$ 15,319,817**	**$ 31,619**

* amounts have been offset in total column

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF ACTIVITIES

For the year ended June 30, 2006

	Expenses	Program Revenues: Charge for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue: Primary Government: Governmental Activities	Net (Expense) Revenue: Primary Government: Business-type Activities	Net (Expense) Revenue: Primary Government: Total	Net (Expense) Revenue: Component Unit: Downtown Development Authority
PRIMARY GOVERNMENT								
Governmental Activities								
Legislative	$ 20,378	$ –	$ –	$ –	$ (20,378)	$ –	$ (20,378)	
General government	516,807	312,989	9,000	–	(194,818)	–	(194,818)	
Public safety	1,129,208	66,391	6,923	–	(1,055,894)	–	(1,055,894)	
Highways and streets	124,007	12,565	275,646	–	164,204	–	164,204	
Public works	596,465	197,717	4,000	–	(394,748)	–	(394,748)	
Planning and economic development	5,757	2,696	–	–	(3,061)	–	(3,061)	
Recreation and cultural	272,966	19,242	66,879	–	(186,845)	–	(186,845)	
Other	112,179	–	–	–	(112,179)	–	(112,179)	
Total Governmental Activities	2,777,767	611,600	362,448	–	(1,803,719)	–	(1,803,719)	
Business-type Activities								
Sewer	507,915	518,224	–	–	–	10,309	10,309	
Water	1,079,987	1,029,012	–	–	–	(50,975)	(50,975)	
Total Business-type Activities	1,587,902	1,547,236	–	–	–	(40,666)	(40,666)	
TOTAL PRIMARY GOVERNMENT	**$ 4,365,669**	**$ 2,158,836**	**$ 362,448**	**$ –**	**$ (1,803,719)**	**$ (40,666)**	**$ (1,844,385)**	
COMPONENT UNIT								
Downtown Development Authority	$ 19,194	$ –	$ –	$ –				$ (19,194)
TOTAL COMPONENT UNIT	**$ 19,194**	**$ –**	**$ –**	**$ –**				**(19,194)**
GENERAL PURPOSE REVENUES								
Property taxes and payments in lieu of taxes					1,495,151	159,313	1,654,464	21,104
State shared revenues					436,182	–	436,182	–
Investment earnings					91,649	51,776	143,425	1,162
Loss on sale of assets					(14,500)	–	(14,500)	–
Other					17,726	–	17,726	495
Transfers					(70,000)	(25,000)	(95,000)	(5,000)
TOTAL GENERAL PURPOSE REVENUES AND TRANSFERS					**1,956,208**	**186,089**	**2,142,297**	**17,761**
CHANGE IN NET ASSETS					**152,489**	**145,423**	**297,912**	**(1,433)**
Net Assets at July 1, 2005					4,915,218	9,658,086	14,573,304	33,052
Prior period adjustment					–	448,601	448,601	–
Restated net assets at July 1, 2005					4,915,218	10,106,687	15,021,905	33,052
NET ASSETS AT JUNE 30, 2006					**$ 5,067,707**	**$ 10,252,110**	**$ 15,319,817**	**$ 31,619**

See accompanying notes.

CITY OF ALGONAC

BALANCE SHEET -
GOVERNMENTAL FUNDS

June 30, 2006

	General	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash - checking and on hand	$ 730,982	$ 221,729	$ 262,558	$ 130,404	$ 1,345,673
- savings and cash equivalent investments	209,891	--	--	--	209,891
Restricted cash - ($5,000 nonexpendable)	239,538	--	--	5,000	244,538
Accounts and assessments receivable	41,447	--	--	--	41,447
Due from other funds	121,610	2,343	1,948	--	125,901
Due from State of Michigan	141,389	32,625	12,889	--	186,903
Due from other units of government	26,235	--	--	--	26,235
Prepaid expenses	28,883	--	--	--	28,883
Inventory	3,080	--	--	--	3,080
TOTAL ASSETS	**$ 1,543,055**	**$ 256,697**	**$ 277,395**	**$ 135,404**	**$ 2,212,551**
LIABILITIES					
Accounts payable	$ 41,873	$ 1,168	$ --	$ 5,863	$ 48,904
Due to other funds and component units	23,471	1,153	377	--	25,001
Accrued wages and benefits	39,106	230	270	--	39,606
Due to other units and taxpayers	27,054	--	--	--	27,054
Deferred revenues	2,324	--	--	--	2,324
Restitution reimbursement payable	32,564	--	--	--	32,564
Non-ajudicated funds	--	--	--	5,000	5,000
TOTAL LIABILITIES	**166,392**	**2,551**	**647**	**10,863**	**180,453**
FUND EQUITY					
Reserved for:					
Historical preservation	239,538	--	--	--	239,538
Inventory and prepaid expenses	31,963	--	--	--	31,963
Unreserved, designated	151,158	--	--	--	151,158
Unreserved, undesignated in:					
General fund	954,004	--	--	--	954,004
Capital projects funds	--	--	--	124,541	124,541
Special revenue funds	--	254,146	276,748	--	530,894
TOTAL FUND EQUITY	**1,376,663**	**254,146**	**276,748**	**124,541**	**2,032,098**
TOTAL LIABILITIES AND FUND EQUITY	**$ 1,543,055**	**$ 256,697**	**$ 277,395**	**$ 135,404**	**$ 2,212,551**

See accompanying notes.

CITY OF ALGONAC

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balance - Governmental Funds		$ 2,032,098
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:		
Cost of capital assets	$ 6,211,016	
Less: accumulated depreciation	(3,156,389)	
Net Capital Assets		3,054,627
Delinquent personal property taxes receivable and miscellaneous revenues receivable were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds.		2,324
Prepaid liability insurance is not recorded in the governmental funds.		24,947
Assets of Internal Service Fund are treated as Proprietary Funds in the fund statements and are treated as Governmental Funds in the Statement of Net Assets.		55,122
Long-term liabilities, including loans payable, are not due in the current period and, therefore, are not reported as liabilities in the governmental funds:		
Loans payable	$ 33,203	
Accrued interest on loans	859	
Compensated absences	67,349	
Total Long-Term Liabilities		(101,411)
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		$ **5,067,707**

See accompanying notes.

CITY OF ALGONAC

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

For the year ended June 30, 2006

	General	Major Street Fund	Local Street Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tax collections	$ 1,432,596	$ –	$ –	$ –	$ 1,432,596
Payment in lieu of taxes	61,611	–	–	–	61,611
Distributions from State of Michigan	440,002	197,588	78,058	–	715,648
Distributions from local governments	41,235	–	–	–	41,235
Licenses, permits, fines, and fees	109,087	–	–	–	109,087
Miscellaneous revenue	57,654	–	12,565	–	70,219
Donations	22,747	–	–	15,000	37,747
Garbage collection	197,717	–	–	–	197,717
Interest revenue	72,579	7,079	9,910	1,794	91,362
Administrative charges	230,389	–	–	–	230,389
Intergovernmental reimbursements	21,726	–	–	–	21,726
TOTAL REVENUES	**2,687,343**	**204,667**	**100,533**	**16,794**	**3,009,337**
Other Financing Sources:					
Transfers from other funds	–	–	–	140,000	140,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	**2,687,343**	**204,667**	**100,533**	**156,794**	**3,149,337**
Expenditures:					
City council	20,378	–	–	–	20,378
General government	491,493	–	–	–	491,493
Public safety	1,133,131	–	–	–	1,133,131
Public works	694,740	–	–	–	694,740
Planning and economic development	5,757	–	–	–	5,757
Recreation and cultural	221,356	–	–	–	221,356
Insurance	136,684	–	–	–	136,664
Construction	–	52,135	19,957	–	72,092
Routine maintenance	–	18,384	30,113	–	48,497
Bridge maintenance	–	745	–	–	745
Traffic services	–	4,600	3,688	–	8,288
Winter maintenance	–	10,641	10,428	–	21,069
Other	–	19,741	7,801	412	27,954
Capital outlay	–	–	–	46,587	46,587
TOTAL EXPENDITURES	**2,703,539**	**106,246**	**71,987**	**46,999**	**2,926,771**
Other Financing Uses:					
Transfers to other funds	210,000	–	–	–	210,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	**2,913,539**	**106,246**	**71,967**	**46,999**	**3,136,771**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	**(226,196)**	**98,421**	**28,546**	**109,795**	**10,566**
Fund Balance at July 1, 2005	1,602,859	155,725	248,202	14,746	2,021,532
FUND BALANCE AT JUNE 30, 2006	**$ 1,376,663**	**$ 254,146**	**$ 276,746**	**$ 124,541**	**$ 2,032,098**

See accompanying notes.

CITY OF ALGONAC

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

June 30, 2006

Total Net Change in Fund Balances - Governmental Funds		$ 10,566
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of net activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of net activities.		
Capital outlay	$ 213,916	
Less: depreciation	(227,402)	
		(13,486)
The gains or losses on the sale of assets are not recorded in the governmental funds.		(14,500)
Delinquent personal property taxes receivable and miscellaneous revenue were not available soon enough after year end to pay the current period expenditures and, therefore, are deferred in the governmental funds.		2,324
Prepaid liability insurance is expensed in the governmental funds.		24,947
Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.		
Loan principal payments		107
Revenues of Internal Service Fund are treated as Proprietary Funds in the fund statements and are treated as Governmental Funds in the Statement of Activities.		68,567
Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used.		74,823
Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due in the statement of activities.		(859)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		**$ 152,489**

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS

June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
ASSETS				
Current Assets				
Cash - checking and on hand	$ 398,592	$ 367,125	$ 765,717	$ 28,443
Restricted cash - expendable	117,277	402,012	519,289	--
Accounts and assessments receivable	108,644	93,873	202,517	--
Restricted receivables and deposits-expendable	77,365	557,369	634,734	--
Due from other funds and component unit	69	92	161	26,679
Due from other units of government	--	55,751	55,751	--
Prepaid expenses and other assets	113	7,322	7,435	--
Total Current Assets	702,060	1,483,544	2,185,604	55,122
Other Assets				
Restricted nonexpendable cash	--	28,000	28,000	--
Capital assets, net of accumulated depreciation	2,613,426	9,212,158	11,825,584	46,648
TOTAL ASSETS	$ **3,315,486**	$ **10,723,702**	$ **14,039,188**	$ **101,770**
LIABILITIES				
Current Liabilities				
Accounts payable	$ 85,521	$ 13,853	$ 99,374	$ --
Due to other funds	78,775	45,956	124,731	--
Accrued wages and benefits	516	5,388	5,904	--
Accrued vacation pay	--	2,260	2,260	--
Accrued interest	10,972	17,592	28,564	--
Current portion of long-term debt	65,620	146,125	211,745	15,960
Total Current Liabilities	241,404	231,174	472,578	15,960
Noncurrent Liabilities				
Accrued sick pay	--	53,372	53,372	--
Long-term obligations net of current portion	975,778	2,285,350	3,261,128	17,243
TOTAL LIABILITIES	$ **1,217,182**	$ **2,569,896**	$ **3,787,078**	$ **33,203**
NET ASSETS				
Investment in capital assets, net of related debt	$ 1,572,028	$ 6,780,683	$ 8,352,711	$ 13,445
Restricted for:				
Asset replacement	--	856,217	856,217	--
Unrestricted	526,276	516,906	1,043,182	55,122
TOTAL NET ASSETS	$ **2,098,304**	$ **8,153,806**	$ **10,252,110**	$ **68,567**

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF REVENUES, EXPENSES, AND
CHANGE IN NET ASSETS - PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
Operating Revenues:				
User charges	$ 464,981	$ 758,194	$ 1,223,175	$ --
Hydrant rental and city usage	--	3,000	3,000	--
Water taps	--	17,300	17,300	--
Sewer taps and other permits	2,850	--	2,850	--
Maintenance charge	--	75,079	75,079	--
Equipment rental	--	--	--	73,493
Contributed capital	--	96,398	96,398	--
Other revenue	3,521	4,185	7,706	--
TOTAL OPERATING REVENUES	**471,352**	**954,156**	**1,425,508**	**73,493**
Operating Expenses:				
Wages and benefits	20,495	317,891	338,386	--
Plant operation	223,758	21,940	245,698	--
Administrative charges	87,790	115,072	202,862	--
Depreciation	107,588	262,202	369,790	5,183
Other expenses	22,328	295,137	317,465	30
TOTAL OPERATING EXPENSES	**461,959**	**1,012,242**	**1,474,201**	**5,213**
NET INCOME (LOSS) FROM OPERATIONS	**9,393**	**(58,086)**	**(48,693)**	**68,280**
Nonoperating Revenue (Expense):				
Property tax revenue	68,649	90,664	159,313	--
Debt service revenue	46,872	74,856	121,728	--
Interest revenue	19,443	32,333	51,776	287
Interest expense and agent fees	(45,956)	(67,745)	(113,701)	--
Transfers to other funds	(12,500)	(12,500)	(25,000)	--
TOTAL NONOPERATING REVENUE (EXPENSES)	**76,508**	**117,608**	**194,116**	**287**
CHANGE IN NET ASSETS	**85,901**	**59,522**	**145,423**	**68,567**
Net Assets at July 1, 2005	2,012,403	7,645,683	9,658,086	--
Prior period adjustments	--	448,601	448,601	--
Restated net assets at July 1, 2005	2,012,403	8,094,284	10,106,687	--
NET ASSETS AT JUNE 30, 2006	**$ 2,098,304**	**$ 8,153,806**	**$ 10,252,110**	**$ 68,567**

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2006

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Sewer Fund	Water Fund	Total Enterprise Funds	Motor Pool Fund
Cash Flows From Operating Activities:				
Receipts from customers	$ 468,066	$ 948,461	$ 1,416,527	$ --
Payments to suppliers	(279,671)	(345,867)	(625,538)	--
Payments to employees	(20,828)	(317,687)	(338,515)	--
Receipts from interfund services provided	--	--	--	73,493
Payments for interfund administrative services	(87,790)	(115,072)	(202,862)	--
Other receipts (payments)	--	--	--	(30)
Net Cash Provided By Operating Activities	**79,777**	**169,835**	**249,612**	**73,463**
Cash Flows From Noncapital Financing Activities:				
Transfers to other funds	(8,662)	(9,032)	(17,694)	--
Transfers from other funds	(69)	(92)	(161)	(26,679)
Net Cash Used In Noncapital Financing Activities	**(8,731)**	**(9,124)**	**(17,855)**	**(26,679)**
Cash Flows From Capital and Related Financing Activities:				
Acquisition of capital assets	(11,759)	(195,335)	(207,094)	(51,831)
Principal paid on bonds	(62,414)	(141,375)	(203,789)	--
Interest and paying agent fees paid on bonds	(46,614)	(68,754)	(115,368)	--
Debt service charges	115,521	165,520	281,041	--
Due from other units of government	(2,194)	(128,636)	(130,830)	--
Proceeds from lease	--	--	--	51,831
Payments on lease	--	--	--	(18,628)
Net Cash Used In Capital and Related Financing Activities	**(7,460)**	**(368,580)**	**(376,040)**	**(18,628)**
Cash Flows From Investing Activities:				
Interest on investments	19,443	32,333	51,776	287
Net Cash Provided By Investing Activities	**19,443**	**32,333**	**51,776**	**287**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**83,029**	**(175,536)**	**(92,507)**	**28,443**
Cash and Cash Equivalents at July 1, 2005	432,840	972,673	1,405,513	--
CASH AND CASH EQUIVALENTS AT JUNE 30, 2006	**$ 515,869**	**$ 797,137**	**$ 1,313,006**	**$ 28,443**
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:				
Operating income (loss)	$ 9,393	$ (58,086)	$ (48,693)	$ 68,280
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	107,588	262,202	369,790	5,183
Change in assets and liabilities:				
Accounts receivable	(3,286)	(5,695)	(8,981)	--
Prepaid expenses and other assets	(113)	(402)	(515)	--
Accounts payable	(33,472)	(28,388)	(61,860)	--
Accrued wages and benefits	(333)	204	(129)	--
Net Cash Provided By Operating Activities	**$ 79,777**	**$ 169,835**	**$ 249,612**	**$ 73,463**

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Retiree Health Trust	Tax Collection Fund
ASSETS		
Cash and cash equivalents	$ 67,958	$ 3,302
TOTAL ASSETS	$ **67,958**	$ **3,302**
LIABILITIES		
Due to other funds	$ –	$ 3,302
TOTAL LIABILITIES	$ –	$ **3,302**
NET ASSETS		
Held in Trust for Benefits	$ **67,958**	

See accompanying notes.

CITY OF ALGONAC

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the year ended June 30, 2006

	Retiree Health Trust
ADDITIONS	
Contributions:	
Employer	$ 100,000
Total Contributions	**100,000**
Investment Income:	
Interest, dividends, and realized gains	910
Total Investment Gain	910
TOTAL ADDITIONS	**100,910**
DEDUCTIONS	
Benefits	32,916
Administrative expenses	36
TOTAL DEDUCTIONS	**32,952**
NET CHANGE	**67,958**
Net Assets at July 1, 2005	--
NET ASSETS AT JUNE 30, 2006	$ **67,958**

See accompanying notes.

CITY OF ALGONAC

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final	Amounts	Final to Actual
Revenues:				
Tax collections	$ 1,507,170	$ 1,427,479	$ 1,432,596	$ 5,117
Payment in lieu of taxes	51,700	71,156	61,611	(9,545)
Distributions from State of Michigan	446,095	442,098	440,002	(2,096)
Distributions from local governments	48,816	33,235	41,235	8,000
Licenses, permits, fines, and fees	92,850	98,729	109,087	10,358
Miscellaneous revenue	151,176	57,808	57,654	(154)
Donations	16,200	22,711	22,747	36
Garbage collection	200,000	197,717	197,717	–
Interest revenue	39,997	63,850	72,579	8,729
Administrative charges and other	242,000	232,000	230,389	(1,611)
Intergovernmental reimbursements	38,204	22,000	21,726	(274)
TOTAL REVENUES	**2,834,008**	**2,668,783**	**2,687,343**	**18,560**
Expenditures:				
City council	20,150	20,250	20,378	(128)
General Government:				
City manager	92,396	87,969	87,649	320
Finance	161,775	182,392	182,751	(359)
Property tax service	5,500	3,250	2,554	696
City clerk	82,750	87,407	84,071	3,336
General administration	98,900	34,329	34,800	(471)
Data processing	8,900	8,511	8,388	123
Assessing	24,998	24,798	25,295	(497)
Elections	3,150	2,337	2,199	138
Buildings and grounds	43,157	54,165	50,654	3,511
Attorney	–	16,250	13,132	3,118
Total General Government	521,526	501,408	491,493	9,915
Public Safety:				
Police	815,428	778,588	769,646	8,942
Fire	238,459	231,907	243,496	(11,589)
Building inspection department	120,616	124,266	119,989	4,277
Total Public Safety	1,174,503	1,134,761	1,133,131	1,630
Public works	422,526	694,623	694,740	(117)
Planning and economic development	7,350	5,850	5,757	93
Recreation and Cultural:				
Parks and recreation	98,686	101,954	103,984	(2,030)
Pool	36,958	72,020	74,413	(2,393)
Library	22,406	29,314	27,078	2,236
Community center	22,400	19,801	15,881	3,920
Total Recreation and Cultural	180,450	223,089	221,356	1,733
Insurance and other	601,930	136,684	136,684	–
TOTAL EXPENDITURES	**2,928,435**	**2,716,665**	**2,703,539**	**13,126**
Other Financing Uses:				
Transfers to other funds	–	210,000	210,000	–
TOTAL EXPENDITURES AND OTHER FINANCING USES	**2,928,435**	**2,926,665**	**2,913,539**	**13,126**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**(94,427)**	**(257,882)**	**(226,196)**	**31,686**
Fund Balance at July 1, 2005	1,602,859	1,602,859	1,602,859	–
FUND BALANCE AT JUNE 30, 2006	**$ 1,508,432**	**$ 1,344,977**	**$ 1,376,663**	**$ 31,666**

See accompanying notes.

CITY OF ALGONAC

MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenues:				
Distributions from State Motor Vehicle Highway Fund	$ 209,080	$ 209,080	$ 197,588	$ (11,492)
Interest earned	4,200	5,000	7,079	2,079
TOTAL REVENUES	**213,280**	**214,080**	**204,667**	**(9,413)**
Expenditures:				
Construction	–	47,275	52,135	(4,860)
Routine maintenance	31,921	25,788	18,384	7,404
Bridge maintenance	491	869	745	124
Traffic services	5,677	5,926	4,600	1,326
Winter maintenance	17,353	11,664	10,641	1,023
Other functions	21,500	21,500	19,741	1,759
TOTAL EXPENDITURES	**76,942**	**113,022**	**106,246**	**6,776**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	**136,338**	**101,058**	**98,421**	**(2,637)**
Fund Balance at July 1, 2005	155,725	155,725	155,725	--
FUND BALANCE AT JUNE 30, 2006	**$ 292,063**	**$ 256,783**	**$ 254,146**	**$ (2,637)**

See accompanying notes.

CITY OF ALGONAC

LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended June 30, 2006

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenues:				
Distributions from State Motor Vehicle Highway Fund	$ 82,613	$ 82,613	$ 78,058	$ (4,555)
Miscellaneous	13,000	12,000	12,565	565
Interest earned	4,200	7,500	9,910	2,410
TOTAL REVENUES	**99,813**	**102,113**	**100,533**	**(1,580)**
Expenditures:				
Construction	120,000	136,800	19,957	116,843
Routine maintenance	30,370	37,464	30,113	7,351
Bridge maintenance	1,683	1,683	–	1,683
Traffic services	5,692	5,714	3,688	2,026
Winter maintenance	20,409	11,858	10,428	1,430
Other functions	9,000	9,000	7,801	1,199
TOTAL EXPENDITURES	**187,154**	**202,519**	**71,987**	**130,532**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	**(87,341)**	**(100,406)**	**28,546**	**128,952**
Fund Balance at July 1, 2005	248,202	248,202	248,202	–
FUND BALANCE AT JUNE 30, 2006	**$ 160,861**	**$ 147,796**	**$ 276,748**	**$ 128,952**

See accompanying notes.

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

DESCRIPTION OF CITY OPERATIONS AND FUND TYPES: The City of Algonac, Michigan, was incorporated December 6, 1967, under the provisions of Act 279, PA 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, fire, and inspection), highways and streets, sanitation, community development, culture-recreation, public improvements, planning and zoning, water supply and sewage disposal systems, and general administrative services.

REPORTING ENTITY: The financial reporting entity consists of the primary government of the City of Algonac and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of the reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a discretely presented component unit of the City of Algonac.

JOINT VENTURES: The Downriver Recreation Commission was organized for the purpose of providing community services to include educational, vocational, and recreational aspects for the residents of the City of Algonac, Township of Clay, and the Algonac Community School System. The Commission is dependent upon these entities for its existence as they jointly provide annual financial resources for its operation. The joint venture was made March 25, 1991, pursuant to the Authority granted by the Urban Cooperation Act of 1967, being MCL 124.501 and by Authority granted by MCL 124.531.

The Commission is a separate legal and administrative entity with nine commission members, three each appointed by the City of Algonac, Clay Township, and Algonac Community Schools.

The City of Algonac appropriates funds annually to assist with the day-to-day operations of the Commission. For the year ended June 30, 2006, the City of Algonac appropriated $41,250. Complete financial statements may be obtained from the administrative offices of the Algonac Middle School, 9185 Marsh Road, Algonac, MI 48001.

RELATED ORGANIZATIONS: The Algonac Housing Authority (AHA), is a related organization as the City Commission appoints the board of the AHA, but is not financially accountable.

There were no related party transactions between the City of Algonac and the Housing Authority for the fiscal year ended June 30, 2006.

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, 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 the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

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

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

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied on July 1, and become a lien on July 1. These taxes are due on August 31, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

The government reports the following major governmental funds:

GENERAL FUND – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

MAJOR AND LOCAL STREET FUNDS – The Major Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on major streets. The Local Street Fund accounts for all financial resources of state gas and weight tax revenues that are restricted for use on local streets.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS – The Water Fund and the Sewer Fund report operations that provide services which are financed by user charges or activities where periodic measurements of net income is appropriate for capital maintenance, public policy, management control, or other purposes.

Additionally, the government reports on following fund types:

SPECIAL REVENUE FUNDS – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

CAPITAL PROJECTS FUND – This fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary fund operations and special assessments.

INTERNAL SERVICES FUND – This fund provides fixed assets to other departments on a cost reimbursement basis.

RETIREE HEALTH TRUST – This fund is an agent for health insurance contributions for the City's employees.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

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

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

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.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts, totaling $41,447.

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

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Infrastructure assets acquired prior to July 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10-50 years
Utility systems	5-50 years
Machinery and equipment	5-20 years
Vehicles	8-15 years
Infrastructure	10-20 years

CAPITALIZED INTEREST: The City capitalizes interest during the construction phase of proprietary fund assets if financed by revenue bonds. Interest is not capitalized for assets constructed with general obligation debt. There was no interest capitalized for the period.

COMPENSATED ABSENCES: The City accrues the liability for future vacation, sick, and other leave benefits that are attributable to employee services already rendered if this obligation relates to vested obligations, the payment of which is probable and can be reasonably estimated. It is the policy of the City to show unpaid vacation benefits as current, as they are payable within one year.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

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

	Unavailable	Unearned
Delinquent property taxes	$ 944	$ –
Sale of property	700	--
Restitution	680	–
	$2,324	$ --

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

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

It is the policy of the City to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: *STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY*

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended, of the City for these budgetary funds were adopted to the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the City Council. Actual expenditures exceeded those budgeted as follows:

General Fund:	
City Council	$ 128
Finance	359
General administration	471
Assessing	497
Fire	11,589
Public Works	117
Parks and recreation	2,030
Pool	2,393
Major Street Fund:	
Construction	4,860
Downtown Development Authority:	
Professional services	4,098
Community promotion	473

NOTE 3: *CASH AND INVESTMENTS*

Deposits are carried at cost. Deposits are at Michigan banks in the name of the City of Algonac Treasurer. Michigan Act 20 P.A. 1943 allows a city to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days
4. U.S. or agency repurchase agreements
5. Mutual funds - investments which local unit can make directly
6. Bankers' acceptances of U.S. banks
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the City are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "checking and on hand," "savings and cash equivalent investments," and "restricted cash."

CUSTODIAL CREDIT RISK: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006, $2,492,700 of the government's bank balance of $2,726,530 was exposed to custodial credit risk as follows:

Deposits	Insured (FDIC)	Uninsured and Uncollateralized	Carrying Amount	Bank Balance/ Market Value
Demand deposits	$200,000	$2,492,148	$2,649,620	$2,692,148
Savings and CD's	34,382	--	34,382	34,382
Cash on hand	--	552	552	--
	$234,382	$2,492,700	2,684,554	$2,726,530
Investments				
Mutual funds - nonrisk category			579,834	
GRAND TOTAL CASH AND INVESTMENTS			$3,264,388	

NOTE 3: *CASH AND INVESTMENTS (Continued)*

Other fund mutual fund investments are limited to those under SEC Rule 2a7 or like investment pools. In accordance with GASB Statement No. 31, these are carried at amortized cost for financial reporting purposes.

INTEREST RATE RISK: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the City made no investments that have market value risk during the current fiscal year.

CREDIT RISK: State law limits investments as stated above. The City's investment policy does not limit its investment choices beyond the statute. The authority to make investment decisions has been granted to the City Treasurer.

CONCENTRATION OF CREDIT RISK: The City places no limit on the amount the City may invest in any one issuer.

NOTE 4: *RESTRICTED ASSETS AND INVESTMENTS*

As of June 30, 2006, the City had the following assets restricted for specific purposes:

General Fund:	
Per donor placed restriction for historical preservation	$ 239,538
Drug law enforcement forfeitures	5,000
Total General Fund	244,538
Sewer Fund:	
Cash restricted for debt retirement	117,277
Deposit with St. Clair County for debt retirement	2,613
Deposit with St. Clair County for sewer improvements	26,460
Deposit with St. Clair County for Waste Water Treatment Plant	42,816
Restricted receivables	5,476
Total Sewer Fund	194,642
Water Fund:	
Cash restricted for asset replacement by Clay Township supply agreement	33,750
Cash restricted for debt retirement	85,361
Per ordinance 151 - cash restricted for asset replacement and debt service	310,901
Receivable from Clay Township restricted for asset replacement and debt service	544,998
Deposit with St. Clair County for debt retirement	693
Restricted receivables	11,678
Total Water Fund	987,381
Total Restricted Assets and Investments	$1,426,561

NOTE 5: *FIXED ASSETS*

Governmental Activities Fixed Assets:

A summary of changes in governmental fixed assets follows:

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
General Government:				
Buildings and improvements	$ 558,590	$ --	$ --	$ 558,590
Machinery and equipment	53,452	1,424	--	54,876
Land	310,559	--	--	310,559
Public Safety:				
Buildings and improvements	15,699	--	--	15,699
Machinery and equipment	109,475	5,785	--	115,260
Vehicles	1,468,638	51,831	46,000	1,474,469
Public Works:				
Buildings and improvements	322,392	--	--	322,392
Machinery and equipment	197,153	79,891	--	277,044
Vehicles	216,662	--	--	216,662
Recreation and Cultural:				
Buildings and improvements	1,382,637	53,324	--	1,435,961
Machinery and equipment	27,476	1,400	--	28,876
Infrastructure	116,441	--	--	116,441
Streets:				
Infrastructure	1,212,095	72,092	--	1,284,187
	5,991,269	265,747	46,000	6,211,016
Accumulated Depreciation	2,955,304	232,585	31,500	3,156,389
	$3,035,965	$ 33,162	$14,500	$3,054,627

The above amounts include land with a cost of $310,559 not subject to depreciation.

The assets above include assets acquired through capital leases with a cost of $51,831 and accumulated depreciation of $5,183.

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

General Government	$ 19,116
Public Safety	67,273
Public Works	22,478
Recreation and Cultural	61,309
Streets	62,409
Total	$232,585

The above amounts include $5,183 amortization of capitalized leases.

NOTE 5: *FIXED ASSETS (Continued)*

Business-Type Activities Fixed Assets:

	Balance 6/30/05	Additions	Disposals	Balance 6/30/06
Water Fund:				
Water plant, mains, hydrants, and service lines	$11,730,365	$182,436	$ --	$ 11,912,801
Machinery and equipment	205,346	12,899	--	218,245
	11,935,711	195,335	--	12,131,046
Sewer Fund:				
Sewer plants, mains, and service sewers	4,995,462	--	--	4,995,462
Machinery and equipment	67,799	11,759	--	79,558
	5,063,261	11,759	--	5,075,020
Total Capital Assets	16,998,972	207,094	--	17,206,066
Accumulated Depreciation	5,010,686	369,790	--	5,380,476
	$11,988,280	($ 162,696)	$ --	$11,825,584

Depreciation for the Water Fund and Sewer Fund totaled $262,202 and $107,588, respectively, for the year ended June 30, 2006.

NOTE 6: *LONG-TERM DEBT*

Changes in Indebtedness by Type:

	Payable at June 30, 2005	Increase	Decrease	Payable at June 30, 2006
General Obligation:				
General obligation bonds	$1,103,812	$ --	$ 62,414	$1,041,398
Copier lease	107	--	107	--
Police car leases	--	51,831	18,628	33,203
Restitution reimbursement payable	--	32,564	--	32,564
Accrued sick pay	191,968	3,576	82,387	113,157
Total General Obligation	1,295,887	87,971	163,536	1,220,322
Drinking Water Revolving Fund Bonds	2,330,850	--	129,375	2,201,475
Revenue Bonds	242,000	--	12,000	230,000
Total Indebtedness	$3,868,737	$87,971	$304,911	$3,651,797

NOTE 6: *LONG-TERM DEBT (Continued)*

Changes in Indebtedness by Fund:

Total Water and Sewer Fund Indebtedness	$3,726,458	$ 3,576	$203,789	$3,526,245
Total Governmental Indebtedness	142,279	84,395	101,122	125,552
Total Indebtedness	$3,868,737	$87,971	$304,911	$3,651,797

Significant details regarding outstanding long-term liabilities are presented below:

Revenue Bonds:

Water Supply System Revenue Series II Bond, dated May 1, 1979, due in annual installments ranging from $13,000 to $24,000 through March 1, 2019, with interest of 5%, payable semi-annually.	$230,000

Water Supply and Sewage Disposal System – Contracts Payable:

St. Clair County has issued three General Obligation Bonds for the purpose of expanding the systems and treatment facilities in the City of Algonac.

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the City of Algonac and other applicable municipalities and the County of St. Clair have entered into contracts whereby the City has agreed to pay the County annual installments to retire the City's portion of the various bond issues, plus interest. In order to pay such amounts to the County, the City and other applicable municipalities are obligated, to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the City Council to pay the City's portion of the obligation from tax levies, debt retirement charges and operating revenue. The contract payables recorded in the Enterprise Fund (Water and Sewer Fund) are comprised of the following:

The City of Algonac upgraded and made various improvements to its Water Filtration Plant. In order to finance the cost of the improvements the St. Clair County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of $7,830,600. Through contracts with the City of Algonac and Clay Township, the City is required to repay 37.5% of the loan including interest and the Township 62.5%. As of June 30, 2006, the outstanding loan at the County is $5,870,600.	$2,201,475
General obligation bonds, dated November 1, 1999, in the amount of $2,160,000 were sold for the purpose of constructing improvements and new pump stations for the St. Clair County Sewage Disposal System No. 1, which services the City of Algonac, the Township of Clay, and the Township of Ira. The City of Algonac (17.06%), Clay Township (43.28%), and Ira Township (39.66%), repay their respective share of principle and interest. The City of Algonac share ranges from $30,708 to $40,091 through April 1, 2012, plus interest ranging from 5.0 to 5.125%, payable semi-annually.	$226,898

NOTE 6: *LONG-TERM DEBT (Continued)*

$3,000,000 were sold for the purpose of paying costs of construction of sewage disposal system improvements to service the City of Algonac, the Township of Clay, and the Township of Ira. The City of Algonac (30.00%), Clay Township (35.00%), and Ira Township (35.00%) repay their respective share of principle and interest. The City of Algonac share ranges from $28,500 to $69,000 through April 1, 2023, plus interest ranging from 3.375% to 4.6%, payable semi-annually.	$ 814,500
Restitution reimbursement payable represents an amount due from a lawsuit in which the City prevailed. The City's insurance company has reimbursed the City for the amount awarded in the lawsuit. As the City receives restitution, the City reimburses the insurance company. The balance represents the amount of restitution to be paid to the insurance company.	$ 32,564
	$3,505,437

The following is a summary of indebtedness and annual principal and interest requirements:

Summary of Indebtedness:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
General Obligations:				
2003 Limited Tax Bonds	1	3.375-4.600%	2023	$ 814,500
1999 Limited Tax Bonds	1	5.000-5.125	2012	226,898
Police car leases	2	8.027-8.040	2008	33,203
Restitution Reimbursement payable	N/A	N/A	N/A	32,564
Accrued sick pay	N/A	N/A	N/A	113,157
Total General Obligations				$1,220,322
Revenue Bonds – Water Supply System	1	5.00	2019	$ 230,000
Drinking Water Revolving Fund Bonds	1	2.50	2020	$2,201,475

Police Car Leases: These leases are capital leases. Interest has been imputed at the rate of 8.027-8.040% per annum. These leases have been included in "Summary of Principal and Interest Requirements" below, under General Obligations. Future minimum lease payments are as follows:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Imputed Interest	Future Minimum Lease Payments
2/10/06	$51,831	8.027-8.040%	2007	$15,960	$2,667	$18,627
and			2008	17,243	1,385	18,628
3/27/06				$33,203	$4,052	$37,255

Annual lease payments of $9,314 are due each February 10 and March 27. The interest expense for these leases is reflected in the public safety function in the Statement of Activities.

NOTE 6: *LONG-TERM DEBT (Continued)*

Summary of Principal and Interest Requirements:

	Year Ending June 30				
	2007	2008	2009	2010	2011
General Obligations	$160,699	$128,572	$110,246	$110,401	$109,550
Revenue Bonds	24,500	24,850	25,150	25,400	25,600
Drinking Water Revolving Fund Bonds	186,498	186,873	187,154	187,342	185,584
Total Principal and Interest Requirements	$371,697	$340,295	$322,550	$323,143	$320,734

	2012-2016	2017-2021	2022-2023	Total
General Obligations	$ 381,333	$ 353,550	$144,319	$1,498,670
Revenue Bonds	129,250	59,750	--	314,500
Drinking Water Revolving Fund Bonds	930,403	744,995	--	2,608,849
Total Principal and Interest Requirements	$1,440,986	$1,158,295	$144,319	$4,422,019

Complete details of bonded indebtedness are found on pages 37 through 39.

Debt Margin:

Michigan Compiled Law limits indebtedness incurred by cities to 10% of the total state equalized valuation of the city. For the fiscal year 05/06, the state equalized value of the City of Algonac was $138,918,708; therefore, the legal debt margin is $13,891,870.

NOTE 7: *INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES*

During the course of operations, numerous transactions occur between individual funds and component units for goods provided or services rendered. These receivables and payables are classified as "Due from other funds/component units" or "Due to other funds/component units" on the balance sheet. The amounts of interfund/component units receivables and payables are as follows:

Fund/Component Unit	Receivable	Fund/Component Unit	Payable
		Sewer Fund	$ 74,994
		Water Fund	43,314
		Current Tax Fund	3,302
General Fund	$121,610		$121,610
		General Fund	$ 905
		Sewer Fund	1,438
Major Street Fund	$ 2,343		$ 2,343
		General Fund	$ 948
		Sewer Fund	1,000
Local Street Fund	$ 1,948		$ 1,948

NOTE 7: *INTERFUND/COMPONENT UNIT RECEIVABLES AND PAYABLES (Continued)*

Fund/Component Unit	Receivable	Fund/Component Unit	Payable
Sewer Fund	$ 69	DDA	$ 69
Water Fund	$ 92	DDA	$ 92
		General Fund	$21,164
		Major Street Fund	1,153
		Local Street Fund	377
		Sewer Fund	1,343
		Water Fund	2,642
Motor Pool Fund	$ 26,679		$26,679
DDA	$ 454	General Fund	$ 454

NOTE 8: *FUND BALANCE/RETAINED EARNINGS RESERVATIONS, DESIGNATIONS, AND RESTRICTIONS*

Water Fund:	
Cash restricted for asset replacement	$ 33,750
Per ordinance 151 – cash and receivables restricted for asset replacement	276,776
Amount receivable from Clay Township for asset replacement	544,998
Deposit with St. Clair County – Water construction	693
Total Water Fund Restricted Retained Earnings	$856,217
General Fund:	
Reserved for inventory and prepaid expense	$ 31,963
Cash reserved for historical preservation per donor	$239,538

Fund balance designated by Council for:

Library	$ 42,265
Fire truck	45,288
Drug enforcement	3,505
Police training	833
Litigation	28,000
Tax tribunal	18,000
Emergency services	5,000
Memorial / gazebo	1,070
Unemployment	7,197
	$151,158

NOTE 9: *RISK FINANCING*

The City of Algonac purchases insurance coverage from independent third parties and is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage during the year.

NOTE 10: *EMPLOYEE PENSION PLAN*

PLAN DESCRIPTION

The City of Algonac participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

FUNDING POLICY

The City is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2006 ranged from 5.57% to 10.50%. The contribution requirements of plan members and the City are established and may be amended by the City Council, depending on the MERS contribution program adopted by the City.

ANNUAL PENSION COSTS

For the year ended June 30, 2006, the City's annual pension cost of $142,529 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three Year Trend Information

Fiscal Year Ending June 30	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2004	$ 90,152	100%	$ –
2005	83,299	100	–
2006	142,529	100	–

NOTE 10: *EMPLOYEE PENSION PLAN (Continued)*

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/(c)
2003	$2,332,706	$2,802,226	$469,520	83%	$1,295,468	36%
2004	2,629,079	3,120,202	491,123	84	1,262,770	39
2005	2,904,983	3,438,326	533,343	84	1,202,466	44

NOTE 11: *DEFERRED COMPENSATION PLAN*

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan available to all employees, permits them to defer a portion of their current salary until future years.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit or participants and their beneficiaries.

It is the opinion of the City that the City has no liability for losses under the plan, but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 12: *WORKING CAPITAL*

The Sewer and Water Funds have working capital balances of $460,656 and $1,252,370, respectively, at June 30, 2006.

NOTE 13: *POSTRETIREMENT BENEFITS*

The City has agreed to provide postretirement hospitalization insurance to all of its employees as follows:

The City's obligations for these benefits are established by labor contracts. Currently, under these contracts, the City is responsible for 40% of the cost of these benefits for employees with 30 years of service.

The City has established a Retiree Health Trust Fund, and has funded the Retiree's Health Insurance on a pay-as-you-go basis.

This plan covers approximately 27 members. Contributions for the year were $100,000.

NOTE 14: *INTERFUND AND COMPONENT UNIT TRANSFERS*

Transfers In		Transfers Out	
		General Fund	$ 35,000
		DDA Fund	5,000
Capital Projects Fund	$ 40,000		$ 40,000
Sidewalk Construction Fund	$100,000	General Fund	$100,000
		General Fund	$ 75,000
		Sewer Fund	12,500
		Water Fund	12,500
Retiree Health Care Trust	$100,000		$100,000

NOTE 15: *SEWAGE DISPOSAL SYSTEM AGREEMENT*

In accordance with an agreement signed November 1976, the County acquired legal ownership of the City of Algonac Sewage Disposal System and, as of July 14, 1977, assumed responsibility for administering, operating, and maintaining the system. The City has agreed to pay the County charges sufficient to provide from the City's share of expenses incurred by the County and to provide for future maintenance, repairs, and replacement.

NOTE 16: *PRIOR PERIOD ADJUSTMENT*

In 1998, the City entered into an agreement with the Michigan Department of Environmental Quality and Clay Township for the building of a new Water Treatment Facility. This agreement required that the City and Clay Township annually set aside funds for asset replacement. According to the DEQ, these funds are to be held by the City in a separate account in an amount of $76,600 per year. The amounts due from Clay Township as of June 30, 2005, in the amount of $448,601, were not recorded as of that date.

SUPPLEMENTAL INFORMATION

CITY OF ALGONAC

COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2006

	Capital Projects Funds		Special Revenue Fund	
	Capital Projects	Sidewalk Construction	Drug Law Enforcement	Total Non-Major Funds
ASSETS				
Cash - checking and on hand	$ 29,840	$ 100,564	$ --	$ 130,404
Restricted cash	--	--	5,000	5,000
TOTAL ASSETS	**$ 29,840**	**$ 100,564**	**$ 5,000**	**$ 135,404**
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	$ 5,863	$ --	$ --	$ 5,863
Non-ajudicated funds	--	--	5,000	5,000
TOTAL LIABILITIES	**5,863**	**--**	**5,000**	**10,863**
Fund Balance:				
Reserved for capital projects	23,977	100,564	--	124,541
TOTAL FUND EQUITY	**23,977**	**100,564**	**--**	**124,541**
TOTAL LIABILITIES AND FUND BALANCE	**$ 29,840**	**$ 100,564**	**$ 5,000**	**$ 135,404**

See accompanying letter.

CITY OF ALGONAC

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

For the year ended June 30, 2006

	Capital Projects Funds		Special Revenue Fund	
	Capital Projects	Sidewalk Construction	Drug Law Enforcement	Total Non-Major Funds
Revenues:				
Contributions	$ 15,000	$ –	$ –	$ 15,000
Interest income	1,230	564	–	1,794
TOTAL REVENUES	**16,230**	**564**	**–**	**16,794**
Other Financing Sources:				
Transfers from other funds and component unit	40,000	100,000	–	140,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	**56,230**	**100,564**	**–**	**156,794**
Expenditures:				
Repair and maintenance	412	–	–	412
Capital outlay	46,587	–	–	46,587
TOTAL EXPENDITURES	**46,999**	**–**	**–**	**46,999**
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	**9,231**	**100,564**	**–**	**109,795**
Fund Balances at July 1, 2005	14,746	–	–	14,746
FUND BALANCES AT JUNE 30, 2006	$ **23,977**	$ **100,564**	$ **–**	$ **124,541**

See accompanying letter.

CITY OF ALGONAC

COMPONENT UNIT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

For the year ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfav.)
DOWNTOWN DEVELOPMENT AUTHORITY			
Revenues:			
Property taxes	$ 23,905	$ 21,104	$ (2,801)
Interest	1,050	1,162	112
Miscellaneous income	400	495	95
TOTAL REVENUES	**25,355**	**22,761**	**(2,594)**
Expenditures:			
Professional services	5,340	9,438	(4,098)
Community promotion	9,283	9,756	(473)
TOTAL EXPENDITURES	**14,623**	**19,194**	**(4,571)**
Other Financing Uses:			
Transfers to other funds	5,000	5,000	--
TOTAL EXPENDITURES AND OTHER FINANCING USES	**19,623**	**24,194**	**(4,571)**
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	**5,732**	**(1,433)**	**(7,165)**
Fund Balances at July 1, 2005	33,052	33,052	--
FUND BALANCES AT JUNE 30, 2006	$ **38,784**	$ **31,619**	$ **(7,165)**

See accompanying letter.

CITY OF ALGONAC

SCHEDULE OF INDEBTEDNESS

June 30, 2006

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 2003:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
3-1-03	$ 900,000	3.375 %	2007	$ 31,500	$ 32,442	$ 63,942
		3.375	2008	33,000	31,379	64,379
		3.400	2009	34,500	30,266	64,766
		3.450	2010	36,000	29,092	65,092
		3.500	2011	37,500	27,850	65,350
		3.500	2012	40,500	26,538	67,038
		3.650	2013	42,000	25,120	67,120
		3.800	2014	45,000	23,587	68,587
		3.900	2015	46,500	21,878	68,378
		4.000	2016	48,000	20,064	68,064
		4.000	2017	51,000	18,144	69,144
		4.100	2018	54,000	16,104	70,104
		4.200	2019	57,000	13,890	70,890
		4.300	2020	60,000	11,496	71,496
		4.400	2021	63,000	8,916	71,916
		4.500	2022	66,000	6,144	72,144
		4.600	2023	69,000	3,175	72,175
	Total Sewer Disposal System 2003 Bonds			**814,500**	**$ 346,085**	**$ 1,160,585**

Principal due April 1
Interest due April 1 and October 1

St. Clair County Sewage Disposal System No. 1 City of Algonac Bonds - Series 1999:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
11-1-99	$ 368,496	5.000 %	2007	$ 34,120	$ 11,445	$ 45,565
		5.000	2008	35,826	9,739	45,565
		5.000	2009	37,532	7,948	45,480
		5.000	2010	39,238	6,071	45,309
		5.125	2011	40,091	4,109	44,200
		5.125	2012	40,091	2,055	42,146
	Total Sewer Disposal System 1999 Bonds			**226,898**	**$ 41,367**	**$ 268,265**

Principal due April 1
Interest due April 1 and October 1

CITY OF ALGONAC

SCHEDULE OF INDEBTEDNESS
(Continued)

June 30, 2006

Water Supply System City of Algonac Bonds - Series 1979:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
8-6-79	$ 410,000	5.000 %	2007	$ 13,000	$ 11,500	$ 24,500
		5.000	2008	14,000	10,850	24,850
		5.000	2009	15,000	10,150	25,150
		5.000	2010	16,000	9,400	25,400
		5.000	2011	17,000	8,600	25,600
		5.000	2012	18,000	7,750	25,750
		5.000	2013	19,000	6,850	25,850
		5.000	2014	20,000	5,900	25,900
		5.000	2015	21,000	4,900	25,900
		5.000	2016	22,000	3,850	25,850
		5.000	2017	23,000	2,750	25,750
		5.000	2018	24,000	1,600	25,600
		5.000	2019	8,000	400	8,400
	Total Water Supply System 1979 Bonds			**230,000**	**$ 84,500**	**$ 314,500**

Principal due March 1
Interest due March 1 and September 1

Drinking Water Filtration System City of Algonac Bonds -Series 1998:

Date of Issue	Amount of Issue	Interest Rate	Payable In Fiscal Year Ending June 30	Principal	Interest	Total
9-29-98	$ 7,830,600	2.50 %	2007	$ 133,125	$ 53,373	$ 186,498
		2.50	2008	136,875	49,998	186,873
		2.50	2009	140,625	46,529	187,154
		2.50	2010	144,375	42,967	187,342
		2.50	2011	146,250	39,334	185,584
		2.50	2012	150,000	35,631	185,631
		2.50	2013	153,750	31,834	185,584
		2.50	2014	157,500	27,943	185,443
		2.50	2015	163,125	23,935	187,060
		2.50	2016	166,875	19,810	186,685
		2.50	2017	170,625	15,592	186,217
		2.50	2018	174,375	11,279	185,654
		2.50	2019	180,000	6,849	186,849
		2.50	2020	183,975	2,300	186,275
	Total Drinking Water System 1998 Bonds			**2,201,475**	**$ 407,374**	**$ 2,608,849**

Principal due April 1
Interest due April 1 and October 1

Total Bonded Indebtedness	**3,472,873**

See accompanying letter.

CITY OF ALGONAC

SCHEDULE OF INDEBTEDNESS
(Continued)

June 30, 2006

Police Car Capitalized Leases:

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
2-10-06	$ 25,917	8.03%	2007	$ 7,981	$ 1,333	$ 9,314
Annual payments due each			2008	8,622	692	9,314
February 10 in the amount of $9,314				16,603	$ 2,025	$ 18,628

Date of Lease	Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
3-27-06	$ 25,914	8.04%	2007	$ 7,979	$ 1,335	$ 9,314
Annual payments due each			2008	8,621	693	9,314
March 27 in the amount of $9,314				16,600	$ 2,028	$ 18,628
	Total Leases			**33,203**		

Restitution Reimbursement Payable:

Amount	Interest Rate	Payable In Fiscal Year Ended June 30	Principal	Interest	Total
$ 32,564	–	as collected	$ 32,564	$ –	$ 32,564
TOTAL INDEBTEDNESS			$ **3,538,640**		

See accompanying letter.

McBride, Manley & Miiller P.C.

CITY OF ALGONAC

SCHEDULE OF CODE ENFORCEMENT ALLOCATION
PURSUANT TO PUBLIC ACT 245 OF 1999

For the year ended June 30, 2006

Code Enforcement Revenues:

Building	$	17,147
Electrical		8,327
Mechanical		10,145
Plumbing		5,453
Rental inspections		10,150
		51,222
Building department expenditures		(119,989)
NET EXCESS OF EXPENDITURES OVER REVENUES FOR CODE ENFORCEMENT AT JUNE 30, 2006	$	(68,767)

See accompanying letter.

McBride, Manley
& Miiller P.C.
Certified Public Accountants

September 9, 2006

Honorable Mayor and City Council
City of Algonac
Algonac, Michigan 48001

Honorable Members:

We have examined the financial statements of the City of Algonac for the year ended June 30, 2006, and have issued our report thereon dated September 9, 2006. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PURCHASES

During our examination, we discovered the need for a payment approval process. There was no evidence indicating merchandise receipt, no verification that invoices were footed or extended for mathematical accuracy, and no evidence indicating payment approval. Also, there was no indication that purchase orders were present for the request for merchandise. There were several instances where expenses were not posted to the appropriate accounts within a department. We suggest the City implement procedures that will require purchase orders for merchandise requests, provide evidence of merchandise receipt, verify mathematical accuracy of invoices, and provide evidence of payment approval. Also, care should be taken to post amounts to the correct expense accounts.

PAYROLL

During our testing, we noted that forms W-4 and other withholding authorizations did not agree to the master set up for some employees in the payroll system. There was no indication of City Manager approval for the department head's time sheets. Also, the City does not have a procedure for verifying the accuracy of pay rates for employees in the master file system. We suggest all withholding authorizations and pay rates be updated and verified with the master set up. The City Manager is to approve all department head time sheets.

We also noted that the City's general ledger did not always reflect the correct liabilities for taxes and other withholdings. This is primarily due to mispostings of related payments. This would be less likely to occur if the City's general ledger separated these liabilities. We recommend that the payroll tax liabilities be split so that they can be more easily reconciled on a monthly basis and out-of-balance problems can be more readily identified.

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The City has adopted a policy requiring the Mayor's signed approval of any pay rate changes for City employees. This approval is evidenced by the Mayor's initials on the time records of the affected employee for the first pay period affected by the change. This procedure has made it difficult to locate pay rate authorizations. The City should consider amending this procedure to either provide for a pay rate authorization form in each employee's file that is signed by both the City Manager and Mayor, or a master employee pay rate schedule that is authorized by the City Manager and Mayor each time it is updated.

INVESTMENTS

During our audit, we discovered that the formula used for allocating interest earned on investments was not calculating correctly. We verified with the City that the correct calculations are now used to allocate interest to the correct funds.

PERMITS

During our examination, we found that permits that were voided or deleted were removed from the permit binder. We suggest that all permits, including those that are voided or deleted, be kept in the binder in order to account for the complete number sequence of permits.

JOURNAL ENTRIES

During our audit, we noted that journal entries were being posted to previously closed periods. If journal entries are necessary to correct account balances, the entries must be dated in the current period with an explanation as to the reason for the adjustment. We recommend that system reports that include the complete journal entry session and the journal entry sequence numbers be printed and filed with all supporting documentation for all journal entries. Entries should only be posted to the current period.

WATER AND SEWER BILLING

During our testing, we noted one instance of a meter reading not entered into the system correctly. This entry was corrected the following month. Also, meter reading cards are not updated if meter size is changed. We suggest care be taken when entering meter readings and meter reading cards be updated to agree meter size to billing system.

CASH RECEIPTS

During our examination, we noted an instance where a deposit was not made in a timely manner. Generally, deposits should be made daily and clear the bank within two or three days.

STREET FUND ADMINISTRATIVE EXPENSES

The City is currently transferring ten percent of Act 51 funds to the General Fund for administrative expenses. The transfers should only be made for specific allocated expenditures, or based on related cost studies prepared on a regular basis, not less frequently than annually.

AMOUNTS DUE TO/FROM OTHER FUNDS

Amounts that are due between funds were being carried as adjustments on the City's monthly bank reconciliations. These amounts should be properly reflected on the Balance Sheet. We also noted these amounts were being carried from month to month. Amounts due between funds should be transferred promptly.

BANK RECONCILIATIONS AND RELATED MATTERS

The City currently does not segregate the duties relating to authorizing transactions, recordkeeping, and the custody of assets. We recommend that these duties be segregated and the individuals that receive money, make deposits, open bank statements and perform the monthly reconciliations, be segregated. The City should undertake a review of the various financial functions within the City to assure the appropriate segregation of duties.

BUDGETS

In attempting to determine the City's original and final budget amounts, it was not possible to determine the actual amounts approved by the Council. The City's resolutions and related minutes relating to budget adoptions and amendments need to be clear and complete. It is important that the City Council's intent be clearly reflected in the minutes.

CONCLUSION

Many of the conditions and issues encountered during our audit existed prior to the City's current efforts in these areas. Many of the conditions noted in these comments may have been corrected since June 30, 2006.

This report is intended solely for the information and use of the City Council, management, and others within the City. The restriction is not intended to limit the distribution of this report which is a matter of public record.

We would like to express our appreciation and thanks to the City officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,

McBride, Manley & Miller

McBRIDE, MANLEY & MIILLER P.C.
Certified Public Accountants

McBride, Manley
& Miiller P.C.

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*

September 9, 2006

Honorable Mayor and City Council
City of Algonac
805 St. Clair River Drive
Algonac, Michigan 48001

Honorable Members:

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CITY OF ALGONAC, as of and for the year ended June 30, 2006, which collectively comprise the City of Algonac's basic financial statements and have issued our report thereon dated September 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Algonac's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

Segregation of Duties

The City currently does not segregate the duties relating to authorizing transactions, recordkeeping, and the custody of assets. We recommend that these duties be segregated and the individuals that receive money, make deposits, open bank statements, and perform the monthly reconciliations, be segregated. The City should undertake a review of the various financial functions within the City to assure the appropriate segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe that the reportable condition described above is a material weakness.

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Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City of Algonac in a separate letter dated September 9, 2006.

This report is intended solely for the information and use of the Mayor, City Council, management, 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.

Respectfully submitted,

McBride, Manley & Miller

McBRIDE, MANLEY & MIILLER P.C.
Certified Public Accountants