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 Corunna	Shiawassee County

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2006	September 1, 2006	November 7, 2006

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	☒	Not Required
Other (Describe)	☒	Single Audit

Certified Public Accountant (Firm Name)	Telephone Number		
Abraham & Gaffney, P.C.	(517) 351-6836		
Street Address	**City**	**State**	**Zip**
3511 Coolidge Road, Suite 100	East Lansing	MI	48823
Authorizing CPA Signature	**Printed Name**	**License Number**	
Abraham & Gaffney, P.C. Steven R. Kirinovic CPA	Steven R. Kirinovic, CPA	1101022020	

City of Corunna
Shiawassee County, Michigan

FINANCIAL STATEMENTS

June 30, 2006

City of Corunna

Shiawassee County, Michigan

June 30, 2006

CITY COUNCIL AND ADMINISTRATION

Steve Corey	Mayor
Dan Wagner	Council Member
Donald Mehigh	Council Member
Chuck Spring	Council Member
Dawn Johnson	Council Member
Nina Hall	Council Member
Arnie Jessen	Council Member
Joseph Sawyer	City Manager
Nichole Cowdrey	Clerk/Treasurer

City of Corunna

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City of Corunna, Michigan

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Principals
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ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Corunna, Michigan, 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 Corunna, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Corunna, Michigan 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the City of Corunna, Michigan's internal control over financial reporting and 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 considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Corunna, Michigan's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary 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.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 1, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of City of Corunna's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2006. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were $11,855,326 (excluding component units).
- Governmental activities net assets were $7,961,052.
- Business-type activity net assets were $3,894,274.
- Component Unit net assets were $434,122.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of $2,410,924 with $92,167 being reserved, designated, or otherwise earmarked for specific purposes.
- The General Fund realized $572,942 more in revenues and other financing sources than anticipated for the fiscal year. This was mainly due to loan proceeds of $450,000 that were not budgeted for in the General Fund and the sale of a building for $80,000. General Fund operations expended $376,616 more than appropriated due to the loan proceeds of $450,000 being contributed to the Downtown Development Authority.
- Overall, the General Fund balance increased by $196,326 to $515,239 - all undesignated and available for general purposes.
- Fund Equity in the Sewer and Water funds ended the year at $2,874,287 and $1,019,987, respectively.
- Fund Equity in the Local and Major Street funds ended the year at $213,860 and $125,814 respectively.
- Fund Equity in the Municipal Building and Parks Improvement funds ended the year at $46,449 and $49,809 respectively.

Capital and Long-term Debt Activities:

- The primary government issued two (2) new debt issues for the fiscal year in the form of an installment note for the purchase of a fire truck and MEDC loan for Downtown Development Authority activities in the amount of $187,500 and $450,000, respectively.
- The total long-term debt for the primary government was $3,659,144 with a net increase of $183,443 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government was $1,287,653 and included water, sewer, and street improvements, as well as various equipment and building improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: I) *Independent Auditors Report;* 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting,* similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2005/2006. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, law enforcement, economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations and blended component units are reported under these activities.

- ***Business-type Activities*** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Water System Fund and the Sewer System Fund are examples of these activities.

- ***Discretely Presented Component Units*** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority. The remaining component units are blended into the primary government governmental activities as required.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period, expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.

- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the City's general capital assets such as buildings, land, cars, computer equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) Statement No. 34 in separate columns. Statement No. 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Corunna include the General Fund, the Economic Development Fund, the City Improvement Fund, the Industrial Development Fund, the Sewer System Fund, and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The City includes detailed information on its nonmajor funds in the other supplementary information section of this report.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- ***Governmental Funds*** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund,* as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).

- ***Proprietary Funds*** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

- ***Fiduciary Funds*** - The City acts as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 13. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 14 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental, proprietary, and fiduciary funds. These funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Corunna's combined net assets were $11,855,326 at the end of this fiscal year's operations. The net assets of the governmental activities were $7,961,052; the business type activities were $3,894,274.

Net Assets as of June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	$ 3,157,083	$ 2,278,179	$ 1,233,363	$ 1,552,590	$ 4,390,446	$ 3,830,769
Capital Assets	6,989,315	7,023,163	4,372,910	3,527,129	11,362,225	10,550,292
Total Assets	**$10,146,398**	**$ 9,301,342**	**$ 5,606,273**	**$ 5,079,719**	**$15,752,671**	**$14,381,061**
Current Liabilities	$ 430,435	$ 382,212	$ 343,953	$ 240,323	$ 774,388	$ 622,535
Noncurrent Liabilities	1,754,911	1,422,267	1,368,046	1,562,997	3,122,957	2,985,264
Total Liabilities	**$ 2,185,346**	**$ 1,804,479**	**$ 1,711,999**	**$ 1,803,320**	**$ 3,897,345**	**$ 3,607,799**
Net Assets						
Invested in Capital Assets (Net of related debt)	$ 5,385,190	$ 4,930,464	$ 2,830,153	$ 2,471,688	$ 8,215,343	$ 7,402,152
Restricted	1,544,810	642,039	86,282	1,123,499	1,631,092	1,765,538
Unrestricted	1,031,052	1,924,360	977,839	(318,788)	2,008,891	1,605,572
Total Net Assets	**$ 7,961,052**	**$ 7,496,863**	**$ 3,894,274**	**$ 3,276,399**	**$11,855,326**	**$10,773,262**

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	$ 655,249	$ 554,624	$ 1,152,910	$ 1,155,840	$ 1,808,159	$ 1,710,464
Grants and Contributions	362,411	299,066	483,522	-	845,933	299,066
General Revenues						
Property Taxes	1,015,251	974,591	-	-	1,015,251	974,591
State Shared Revenue	367,519	371,889	-	-	367,519	371,889
Investment Earnings	94,385	36,258	972	2,429	95,357	38,687
Miscellaneous	129,421	142,100	7,182	5,993	136,603	148,093
Total Revenues	**$ 2,624,236**	**$ 2,378,528**	**$ 1,644,586**	**$ 1,164,262**	**$ 4,268,822**	**$ 3,542,790**
Expenses						
General Government	$ 612,459	$ 603,639	$ -	$ -	$ 612,459	$ 603,639
Public Safety	463,158	573,377	-	-	463,158	573,377
Public Works	548,726	699,254	-	-	548,726	699,254
Health and Welfare	48,120	38,915	-	-	48,120	38,915
Community and Economic Develop.	40,184	159,018	-	-	40,184	159,018
Recreation & Cultural	239,802	293,635	-	-	239,802	293,635
Other	208,831	129,328	1,026,711	1,061,582	1,235,542	1,190,910
Total Expenses	**2,161,280**	**2,497,166**	**1,026,711**	**1,061,582**	**3,187,991**	**3,558,748**
Increase (Decrease) in Net Assets	**462,956**	**(118,638)**	**617,875**	**102,680**	**1,080,831**	**(15,958)**
Restated Net Assets - Beginning	7,498,096	7,615,501	3,276,399	3,173,719	10,774,495	10,789,220
Net Assets - Ending	**$ 7,961,052**	**$ 7,496,863**	**$ 3,894,274**	**$ 3,276,399**	**$11,855,326**	**$10,773,262**

Governmental Activities:

The result of 2005/2006 governmental activity was a net increase of $464,189 in net assets to $7,961,052. This increase is made up of a $462,956 increase in net assets due to activities and a $1,233 restatement of beginning net assets to include a new agreement of fire capital acquisition fund which was not included for the prior year due to the City's not being required to present this information. Of the total governmental activities' net assets, $5,385,190 is invested in capital assets less related debt, $1,544,810 is reported as restricted, meaning these assets are legally committed for a specific purpose through statue, or by another authority outside the City government. The balance of $1,031,052 is listed as unrestricted, having no legal commitment.

Revenues:

The three largest revenue categories were state shared revenue at 14%, property taxes at 39%, and charges for services at 25%. The City levied two property tax millages for the year ended June 30, 2006, one being for general government operations at 13.3044 mills, which is not assigned to any particular activity, and one for City Public Improvements at 4.8342 mills. Charges for services, which reimburse the City for specific activities, are the second largest source of governmental activity revenue. Examples include rentals, recreation fees, fire protection, and permits.

Expenses:

General Government is the largest governmental activity, expending approximately 28% of the governmental activities total on general government operations. Public Works is the second largest area, expending approximately 25% of the governmental activities total and includes the Public Works department as well as public street maintenance and improvement activities.

Business-type Activities:

Net assets in business-type activities increased by $617,875 during 2005/2006. Of the business-type activities' net assets, $2,830,153 is invested in capital assets less related debt, $86,282 is reported as restricted, meaning these assets are legally committed for a specific purpose through statue, or by another authority outside the City government. The balance of $977,839 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2005/2006, its governmental funds reported *combined* fund balances of $2,867,516. This is a net increase of $1,032,770. The net changes are summarized in the following chart:

	General Fund	Economic Development	City Improvement	Industrial Development	Nonmajor Governmental Funds
Fund Balance 06/30/05	$ 318,913	$ 36,271	$ 256,258	$ 633,549	$ 589,755
Fund Balance 06/30/06	$ 515,239	$ 80,231	$ 235,557	$ 645,582	$ 934,315
Net Change	$ 196,326	$ 43,960	$ (20,701)	$ 12,033	$ 344,560

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statue, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2006, the General Fund reported a fund balance of $515,239. This amount is an increase of $196,326 from the fund balance of $318,913 reported as of June 30, 2005 mainly due to the sale of a building for $80,000 and operational costs coming in lower than anticipated. The 2005/2006 original budget called for a $7,500 use of fund balance.

General Fund Budgetary Highlights:

The City of Corunna's budget is a dynamic document. Although adopted in June (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled $2,096,941, $572,942 above the final amended budget. The reasons for a majority of this difference were described in the previous paragraphs.

The City's expenditure budget was increased by $29,277 (2% change from the original budget) during 2005/2006.

Actual City operational expenditures for 2005/2006 were $79,976 (5.25%) under budget. This is due to several reasons including:

- $13,000 less than planned expenditures in the Fire Department.
- $7,900 less in the Public Works and Municipal Building Departments.
- $12,800 less than planned expenditures in the Police and Crossing Guards Departments.
- $5,300 less in Retiree's Benefits
- $13,000 less in the City Services (Council Contingency) and City Council Departments
- $8,000 less in the Parks & Recreation, Activities & Events and related programs and facilities departments.
- $19,200 less in the City Manager, Clerk/Treasurer, Internal Services, Assessor and related departments.

In total the General Fund expenditures were over budget, which was caused by a journal entry that was recorded to reflect the $450,000 loan dollars disbursed to the DDA for economic development projects. This transaction was not budgeted but had no net impact on General Fund operations.

Economic Development Fund:

As of June 30, 2006, the Economic Development Fund reported a fund balance of $80,231, an increase of $43,960 from the prior year. The total fund balance is undesignated/unreserved.

City Improvement Fund:

As of June 30, 2006, the City Improvement Fund reported a fund balance $235,557, which is a decrease of $20,701 from the prior year. The total fund balance is undesignated/unreserved.

Industrial Development Fund:

As of June 30, 2006, the Industrial Development Fund reported a fund balance of $645,582, which is an increase of $12,033 from the prior year. The total fund balance is undesignated/unreserved.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2005/2006, the City had invested $11,362,225, and $796,389 for the component unit, net of accumulated depreciation, in a broad range of capital assets (see table below). Accumulated depreciation was $7,254,277 for the primary government. Depreciation charges for the fiscal year totaled $475,720 for the primary government and $19,875 for the component unit. Additional information related to capital assets is detailed in Note G of the Financial Statements. Net Book value of capital assets at June 30, 2006 was as follows:

	Governmental Activities	Business-type Activities	Component Unit - DDA	Total
Land	$ 200,000	$ 127	$ -	**$ 200,127**
Assets held for resale	-	-	300,000	**300,000**
Buildings, net	883,569	-	475,283	**1,358,852**
Vehicles and equipment, net	493,894	67,576	1,714	**563,184**
Construction in progress	-	1,030,482	16,521	**1,047,003**
Infrastructure, net	5,411,852	-	-	**5,411,852**
Sewer system, net	-	2,355,593	-	**2,355,593**
Water system, net	-	919,132	-	**919,132**
Improvements, net	-	-	2,871	**2,871**
Capital assets, net	**$ 6,989,315**	**$ 4,372,910**	**$ 796,389**	**$ 12,158,614**

Long-term Debt - As of June 30, 2006, the City had $3,659,144 in loans outstanding for the primary government. This level of net obligation is $183,443 more than the obligation recorded as of June 30, 2005.

Outstanding Debt as of June 30, 2006:

Primary Government	July 1, 2005	Additions	Deletions	June 30, 2006
Governmental Activities				
General Obligation Bonds	$ 1,320,000	$ -	$ 195,000	$ 1,125,000
Transportation Bonds	140,000	-	15,000	125,000
Installment Purchases	215,915	187,500	49,290	354,125
Capital Lease	16,784	-	16,784	-0-
MEDC Loan	-	450,000	-	450,000
Compensated absences	28,212	13,810	-	42,022
Business-type Activities				
General Obligation Bonds	985,000	-	110,000	875,000
Improvement Bonds	615,000	-	40,000	575,000
Installment Purchase	116,150	-	23,393	92,757
Contract payable	38,640	-	18,400	20,240
Total Primary Government	**3,475,701**	**651,310**	**467,867**	**3,659,144**
Component Unit				
Installment Loan	220,631	-	21,110	199,521
Note Payable	80,000	-	80,000	-0-
Land Contract Payable	-	300,000	200,000	100,000
Total Reporting Entity	**$ 3,776,332**	**$ 951,310**	**$ 768,977**	**$ 3,958,665**

A more detailed discussion of the City's long-term debt obligations is presented in Note H to the financial statements.

CITY OF CORUNNA GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing has remained frozen after having declined steadily in past five years and may face additional cuts due to state budget problems.
- Other General Fund state and federal revenues and/or grants have seen reductions or elimination over the past five years.
- Property tax revenue has stabilized (4.11% growth) from previous years in which it did not kept pace with inflation and experienced taxable value losses.
- Investment earnings rose this year from historically low levels due to higher market interest rates.
- Health and dental insurance premiums continue rising much faster than the rate of inflation.
- Retirement costs are increasing due to additional retirees and market factors.
- Utility costs continue rising faster than the rate of inflation.
- Hazard/Liability Insurance costs continue rising faster than the rate of inflation.

These factors were considered in adopting the Budget for 2006/2007. A usage of $40,000 of the City's fund balance was included to balance the General Fund Budget. Given these current trends, the City has made a firm commitment to operate within current revenues while at the same time investing in economic development opportunities of the City. The City continues to look for ways to increase efficiencies and reduce the cost of doing business.

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Corunna's Treasurer's Office at (989) 743-3650.

BASIC FINANCIAL STATEMENTS

City of Corunna

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit (DDA)
ASSETS				
Current assets				
Cash and cash equivalents	$ 1,356,747	$ 359,361	$ 1,716,108	$ 259,084
Receivables	199,152	271,470	470,622	26,607
Due from other governmental units	123,565	483,522	607,087	31,852
Internal balances	(15,210)	15,210	-0-	-
Total current assets	1,664,254	1,129,563	2,793,817	317,543
Noncurrent assets				
Cash and cash equivalents - restricted	-	6,618	6,618	4,670
Investments	1,042,829	50,000	1,092,829	100,000
Treatment rights, net	-	47,182	47,182	-
Due from other governmental units	450,000	-	450,000	-
Capital assets not being depreciated	200,000	1,030,609	1,230,609	316,521
Capital assets being depreciated, net	6,789,315	3,342,301	10,131,616	479,868
Total noncurrent assets	8,482,144	4,476,710	12,958,854	901,059
TOTAL ASSETS	10,146,398	5,606,273	15,752,671	1,218,602
LIABILITIES				
Current liabilities				
Accounts payable	34,949	134,092	169,041	21,523
Accrued liabilities	29,329	-	29,329	-
Accrued interest payable	24,921	14,910	39,831	-
Due to other governmental units	-	-	-0-	8,766
Rental deposits	-	-	-0-	4,670
Contract payable	-	20,240	20,240	-
Current portion of compensated absences	33,618	-	33,618	-
Current portion of long-term debt	307,618	174,711	482,329	122,412
Total current liabilities	430,435	343,953	774,388	157,371
Noncurrent liabilities				
Due to other governmental unit	-	-	-0-	450,000
Noncurrent portion of compensated absences	8,404	-	8,404	-
Noncurrent portion of long-term debt	1,746,507	1,368,046	3,114,553	177,109
Total noncurrent liabilities	1,754,911	1,368,046	3,122,957	627,109
TOTAL LIABILITIES	2,185,346	1,711,999	3,897,345	784,480
NET ASSETS				
Invested in capital assets, net of related debt	5,385,190	2,830,153	8,215,343	496,868
Restricted for				
Debt service	-	86,282	86,282	-
Other purposes	1,544,810	-	1,544,810	-
Unrestricted	1,031,052	977,839	2,008,891	(62,746)
TOTAL NET ASSETS	$ 7,961,052	$ 3,894,274	$ 11,855,326	$ 434,122

See accompanying notes to financial statements.

City of Corunna

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Unit
Primary government								
Governmental activities								
General government	$ 612,459	$ 64,689	$ -	$ -	$ (547,770)	$ -	$ (547,770)	$ -
Public safety	463,158	154,098	3,435	77,278	(228,347)	-	(228,347)	-
Public works	548,726	221,722	242,476	920	(83,608)	-	(83,608)	-
Health and welfare	48,120	27,974	-	-	(20,146)	-	(20,146)	-
Community and economic development	40,184	56,615	-	-	16,431	-	16,431	-
Recreation and cultural	239,802	130,151	38,302	-	(71,349)	-	(71,349)	-
Other	132,090	-	-	-	(132,090)	-	(132,090)	-
Interest on long-term debt	76,741	-	-	-	(76,741)	-	(76,741)	-
Total governmental activities	2,161,280	655,249	284,213	78,198	(1,143,620)	-0-	(1,143,620)	-0-
Business-type activities								
Sewer system	556,483	608,220	-	483,522	-	535,259	535,259	-
Water system	470,228	544,690	-	-	-	74,462	74,462	-
Total business-type activities	1,026,711	1,152,910	-0-	483,522	-0-	609,721	609,721	-0-
Total primary government	$ 3,187,991	$ 1,808,159	$ 284,213	$ 561,720	(1,143,620)	609,721	(533,899)	-0-
Component unit								
Downtown development authority (DDA)	$ 136,384	$ 78,403	$ -0-	$ 3,329	-	-	-0-	(54,652)
General revenues								
Property taxes					1,015,251	-	1,015,251	60,956
State shared revenue					367,519	-	367,519	-
Investment earnings					94,385	972	95,357	5,401
Miscellaneous					129,421	7,182	136,603	1,507
Total general revenues					1,606,576	8,154	1,614,730	67,864
Change in net assets					462,956	617,875	1,080,831	13,212
Net assets, beginning of the year					7,496,863	3,276,399	10,773,262	413,332
Prior period adjustments					1,233	-	1,233	7,578
Net assets, end of the year					$ 7,961,052	$ 3,894,274	$ 11,855,326	$ 434,122

See accompanying notes to financial statements.

City of Corunna

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Economic Development	City Improvement
ASSETS			
Cash and cash equivalents	$ 209,312	$ 54,916	$ 155,287
Investments	275,000	25,000	75,000
Accounts receivable	960	-	-
Accrued interest receivable	1,895	315	374
Contracts receivable	-	172,283	-
Special assessment receivable	16,325	-	-
Due from other governmental units			
State	46,800	-	-
Local	464,577	-	-
Due from other funds	295	-	4,896
TOTAL ASSETS	$ 1,015,164	$ 252,514	$ 235,557
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 10,828	$ -	$ -
Accrued liabilities	17,876	-	-
Deferred revenue	466,325	172,283	-
Due to other funds	4,896	-	-
TOTAL LIABILITIES	499,925	172,283	-0-
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in			
General fund	515,239	-	-
Special revenue funds	-	80,231	235,557
Debt service funds	-	-	-
Capital projects	-	-	-
TOTAL FUND BALANCES	515,239	80,231	235,557
TOTAL LIABILITIES AND FUND BALANCES	$ 1,015,164	$ 252,514	$ 235,557

See accompanying notes to financial statements.

Industrial Development	Nonmajor Governmental Funds	Total Governmental Funds
$ 38,590	$ 853,668	$ 1,311,773
600,000	67,829	1,042,829
-	-	960
7,000	-	9,584
-	-	172,283
-	-	16,325
-	62,188	108,988
-	-	464,577
-	-	5,191
$ 645,590	$ 983,685	$ 3,132,510
$ 8	$ 22,412	$ 33,248
-	11,453	29,329
-	-	638,608
-	15,505	20,401
8	49,370	721,586
-	86,934	86,934
-	5,233	5,233
-	-	515,239
-	775,227	1,091,015
-	3,286	3,286
645,582	63,635	709,217
645,582	934,315	2,410,924
$ 645,590	$ 983,685	$ 3,132,510

City of Corunna

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

June 30, 2006

Total fund balance - governmental funds		$ 2,410,924
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 11,417,255	
Accumulated depreciation is	(4,427,940)	
Capital assets, net		6,989,315
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets		
Net assets of governmental activities accounted for in Internal Service Funds	187,503	
Net capital assets of Internal Service Funds included in total capital assets above	(173,428)	
Long-term liabilities of Internal Service Fund included in total long-term liabilities below	28,135	
		42,210
Long-term assets are not available to pay for current period expenditures and are therefore deferred in the funds.		638,608
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:		
Bonds, loans, and leases payable	2,054,125	
Accrued interest payable (governmental funds portion)	23,858	
Compensated absences	42,022	
		(2,120,005)
Net assets of governmental activities		$ 7,961,052

See accompanying notes to financial statements.

City of Corunna

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	General	Economic Development	City Improvement
REVENUES			
Taxes	$ 740,059	$ -	$ 275,192
Licenses and permits	22,950	-	-
Intergovernmental	368,809	-	-
Charges for services	250,896	-	-
Fines and forfeits	10,398	-	-
Interest and rents	108,547	1,611	6,322
Other	145,282	45,945	12,256
TOTAL REVENUES	1,646,941	47,556	293,770
EXPENDITURES			
Current			
General government	418,568	-	-
Public safety	387,146	-	-
Public works	282,428	-	-
Health and welfare	-	-	-
Community and economic development	451,189	3,596	35,399
Recreation and cultural	111,181	-	-
Other	113,818	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	1,764,330	3,596	35,399
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(117,389)	43,960	258,371
OTHER FINANCING SOURCES (USES)			
Sale of capital assets	-	-	-
Loan proceeds	450,000	-	-
Transfers in	-	-	-
Transfers out	(136,285)	-	(279,072)
TOTAL OTHER FINANCING SOURCES (USES)	313,715	-0-	(279,072)
NET CHANGE IN FUND BALANCES	196,326	43,960	(20,701)
Fund balances, beginning of year	318,913	36,271	256,258
Prior period adjustment	-	-	-
Fund balances, end of year	$ 515,239	$ 80,231	$ 235,557

See accompanying notes to financial statements.

Industrial Development	Nonmajor Governmental Funds	Total Governmental Funds
$ -	$ -	$ 1,015,251
-	21,038	43,988
-	310,643	679,452
-	188,199	439,095
-	-	10,398
15,718	10,081	142,279
-	83,290	286,773
15,718	613,251	2,617,236
-	8,274	426,842
-	201,652	588,798
10,686	198,239	491,353
-	48,120	48,120
-	-	490,184
-	103,003	214,184
-	4,462	118,280
38,152	283,889	322,041
48,838	847,639	2,699,802
(33,120)	(234,388)	(82,566)
7,000	-	7,000
-	187,500	637,500
38,153	500,215	538,368
-	(110,000)	(525,357)
45,153	577,715	657,511
12,033	343,327	574,945
633,549	589,755	1,834,746
-	1,233	1,233
$ 645,582	$ 934,315	$ 2,410,924

City of Corunna

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

Year Ended June 30, 2006

Net change in fund balances - total governmental funds		$ 574,945
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Depreciation expense	$ (315,184)	
Capital outlay	281,336	
Excess of depreciation expense over capital outlay		(33,848)
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
(Decrease) in Net Assets of Internal Service Funds	(37,310)	
Depreciation expense of Internal Service Funds included in the total above	56,301	
Loan principal retirement of Internal Service Funds included in the total below	(29,940)	
		(10,949)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Loan principal retirement	276,074	
Loan proceeds	(637,500)	
		(361,426)
Some items reported in the statement of activities do not result in the use of or provide current financial resources and therefore are reported differently than in the governmental funds. These activities consist of:		
(Increase) in accrued interest payable (governmental funds portion)	(834)	
(Increase) in accrued compensated absences	(13,810)	
Increase in deferred revenue	308,878	
		294,234
Change in net assets of governmental activities		$ 462,956

See accompanying notes to financial statements.

City of Corunna

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2006

	Business-type Activities			Governmental Activities
	Sewer System	Water System	Total	Internal Service (Motor Pool)
ASSETS				
Current assets				
Cash and cash equivalents	$ 987	$ 358,374	$ 359,361	$ 44,974
Accounts receivable	195,501	75,969	271,470	-
Due from other governmental units	483,522	-	483,522	-
Due from other funds	15,505	-	15,505	-
Total current assets	695,515	434,343	1,129,858	44,974
Noncurrent assets				
Cash and cash equivalents - restricted	6,618	-	6,618	-
Investments	25,000	25,000	50,000	-
Treatment rights, net	47,182	-	47,182	-
Capital assets not being depreciated	1,030,483	126	1,030,609	-
Capital assets being depreciated, net	2,417,540	924,761	3,342,301	173,428
Total noncurrent assets	3,526,823	949,887	4,476,710	173,428
TOTAL ASSETS	4,222,338	1,384,230	5,606,568	218,402
LIABILITIES				
Current liabilities				
Accounts payable	116,337	17,755	134,092	1,701
Accrued interest payable	11,474	3,436	14,910	1,063
Due to other funds	-	295	295	-
Contract payable	20,240	-	20,240	-
Current portion of long-term debt	100,000	74,711	174,711	13,755
Total current liabilities	248,051	96,197	344,248	16,519
Noncurrent liabilities				
Installment loans payable	-	-	-0-	14,380
Revenue bonds payable	1,100,000	268,046	1,368,046	-
Total noncurrent liabilities	1,100,000	268,046	1,368,046	14,380
TOTAL LIABILITIES	1,348,051	364,243	1,712,294	30,899
NET ASSETS				
Invested in capital assets, net of related debt	2,248,023	582,130	2,830,153	145,293
Restricted for				
Debt service	86,282	-	86,282	-
Unrestricted	539,982	437,857	977,839	42,210
TOTAL NET ASSETS	$ 2,874,287	$ 1,019,987	$ 3,894,274	$ 187,503

See accompanying notes to financial statements.

City of Corunna

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

	Business-type Activities			Governmental Activities
	Sewer System	Water System	Total	Internal Service (Motor Pool)
OPERATING REVENUES				
Charges for services	$ 381,791	$ 359,240	$ 741,031	$ 120,468
Capital charges	225,683	173,019	398,702	-
Meter charges	-	9,331	9,331	-
State construction grant	483,522	-	483,522	-
Other revenue	746	3,100	3,846	-
TOTAL OPERATING REVENUES	1,091,742	544,690	1,636,432	120,468
OPERATING EXPENSES				
Personal services	65,087	82,684	147,771	19,259
Employee benefits	23,972	28,958	52,930	6,681
Other operating costs	288,403	276,590	564,993	61,459
Depreciation and amortization	122,793	57,704	180,497	56,301
TOTAL OPERATING EXPENSES	500,255	445,936	946,191	143,700
OPERATING INCOME (LOSS)	591,487	98,754	690,241	(23,232)
NONOPERATING REVENUES AND EXPENSES				
Interest expense and fees	(56,228)	(24,292)	(80,520)	(1,067)
Rent earned	7,182	-	7,182	-
Interest earned	505	467	972	-
TOTAL NONOPERATING (EXPENSES)	(48,541)	(23,825)	(72,366)	(1,067)
INCOME (LOSS) BEFORE TRANSFERS	542,946	74,929	617,875	(24,299)
TRANSFER (OUT)	-	-	-	(13,011)
CHANGE IN NET ASSETS	542,946	74,929	617,875	(37,310)
Net assets, beginning of year	2,331,341	945,058	3,276,399	224,813
Net assets, end of year	$ 2,874,287	$ 1,019,987	$ 3,894,274	$ 187,503

See accompanying notes to financial statements.

City of Corunna

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

	Business-type Activities			Governmental Activities
	Sewer System	Water System	Total	Internal Service (Motor Pool)
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash receipts from customers	$ 619,198	$ 556,886	$ 1,176,084	$ 120,468
Cash paid to suppliers	(186,594)	(277,179)	(463,773)	(62,097)
Cash paid for employee benefits	(24,039)	(28,958)	(52,997)	(6,745)
Cash paid to employees	(65,087)	(83,365)	(148,452)	(19,259)
NET CASH PROVIDED BY OPERATING ACTIVITIES	343,478	167,384	510,862	32,367
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Rent earned	7,182	-	7,182	-
Transfers out	-	-	-0-	(13,011)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	7,182	-0-	7,182	(13,011)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital purchases	(1,006,317)	-	(1,006,317)	-
Interest expense and fees	(56,228)	(24,292)	(80,520)	(1,067)
Payments on borrowings	(118,400)	(73,393)	(191,793)	(29,940)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,180,945)	(97,685)	(1,278,630)	(31,007)
CASH FLOWS FROM INVESTING ACTIVITIES				
Sale of investments	4,200	4,200	8,400	-
Interest earned	505	467	972	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,705	4,667	9,372	-0-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(825,580)	74,366	(751,214)	(11,651)
Cash and cash equivalents, beginning of year	833,185	284,008	1,117,193	56,625
Cash and cash equivalents, end of year	$ 7,605	$ 358,374	$ 365,979	$ 44,974

See accompanying notes to financial statements.

City of Corunna

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2006

	Business-type Activities			Governmental Activities
	Sewer System	Water System	Total	Internal Service (Motor Pool)
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	$ 591,487	$ 98,754	$ 690,241	$ (23,232)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	122,793	57,704	180,497	56,301
Decrease in accounts receivable	10,978	12,196	23,174	-
(Increase) in due from other governmental units	(483,522)	-	(483,522)	-
Increase in accounts payable	102,347	130	102,477	173
(Decrease) in accrued liabilities	(67)	(681)	(748)	(64)
(Decrease) in accrued interest payable	(538)	(719)	(1,257)	(811)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 343,478	$ 167,384	$ 510,862	$ 32,367

City of Corunna

Fiduciary Funds

STATEMENT OF NET ASSETS

June 30, 2006

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 237,159
Investments	25,000
TOTAL ASSETS	$ 262,159
LIABILITIES	
Due to individuals and agencies	$ 262,159

See accompanying notes to financial statements.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Corunna is located in Shiawassee County, Michigan and has a population of approximately 3,381. The City of Corunna operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the City Manager, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to City governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Corunna (primary government), and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Unit

The component unit columns in the government-wide financial statements include the financial data of the City's component unit (Downtown Development Authority). It is reported in a separate column to emphasize that it is legally separate from the City.

The governing body of the Downtown Development Authority (DDA) is appointed by the City Council, the Authority's budget is subject to the approval of the City Council, the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues), and the City has pledged its full faith and credit toward payment of the Authority's debt.

3. Blended Component Units

Corunna-Caledonia Fire Department - The City of Corunna, in conjunction with Caledonia Charter Township, has entered into an agreement that created the Corunna-Caledonia Fire Department. The Fire Department is governed by a five (5) member board. The City and the Township each appoint two individuals to the governing board. The appointed board members select an additional individual to serve on the Board as an at-large member. The Board's majority alternates between the City and the Township every four years based on the appointment of the at-large member.

Based on the agreement creating the Fire Department, the Township and the City are each responsible for 50% of the annual expenditures of the Department. The City of Corunna acts as the fiscal agent to the Fire Department and is reimbursed by the Township for the Township's share of operating expenditures. The Special Revenue Fire Capital Acquisition Fund accounts for the City's share of revenue generated from fire runs and the City's portion of the repayment of loan proceeds borrowed to finance the acquisition of a fire truck. The Agency Fire Capital Acquisition Fund accounts for the Township's portion of the same.

The financial activities of the City of Corunna Building Authority have been blended with the City's Debt Service Funds. The financial activities of the Corunna Historical Commission, Softball Commission, Corunna Fourth of July Commission, and Corunna Softball Commission have been blended with the City's Special Revenue Funds.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Joint Venture

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to there being ongoing financial interest or responsibility:

Owosso Community Airport Board - The City of Corunna along with the City of Owosso, Shiawassee County, and Owosso and Caledonia Townships have entered into an agreement, which created the Owosso Community Airport Board. The Airport Board is composed of one (1) member from each of the member municipalities. The Airport has been reported as a fund in the December 31, 2005 financial statements of Shiawassee County. The Airport is expected to be self-sufficient but based on a "10 Year Funding Model" approved by the Board each participating municipality shall make a direct appropriation to cover operations and development costs. The percentage share for the funding model for each municipality is Shiawassee County and the City of Owosso 33%, Owosso and Caledonia Townships 13%, and the City of Corunna 8%. The City paid $2,765 to the Board for the year ended June 30, 2006.

5. Jointly Governed Organizations

The City participates in the following activities which are considered to be jointly governed organizations in relation to the City, due to there being no ongoing financial interest or responsibility:

Corunna Area Ambulance Service, Inc. - The City of Corunna along with the Townships of New Haven and Caledonia have entered into a service agreement with Corunna Area Ambulance Service, Inc., a Michigan nonprofit Corporation. The Corporation's board is composed of seven (7) members appointed by the corporation and one each from the City of Corunna, and New Haven and Caledonia Townships. The City is responsible to pay a per dwelling or equivalent unit charge for all dwellings in the City limits which is assessed to all residents on their summer tax bills. The City paid $41,275 in per dwelling charges to Corunna Area Ambulance Service, Inc. for the year ended June 30, 2006.

6. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the City are:

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

b. The Economic Development Fund is a Special Revenue Fund used to account for financial resources to be used to further develop the economic growth of the City.

c. The City Improvement Fund is a Special Revenue Fund used to account for financial resources to be used for the betterment of the City and its properties.

d. The Industrial Development Fund is a Capital Projects Fund used to account for the financial resources to be used to promote industrial growth in the City.

e. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

f. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

7. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

8. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Basis of Accounting - continued

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

9. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with the modified accrual basis used to reflect actual results in the Fund financial statements. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The City employs the following procedures in establishing budgets:

a. On the council meeting nearest but no later than the third Monday in May, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

b. A Public Hearing is conducted to obtain taxpayers' comments.

c. Prior to July 1, the budget is legally adopted with passage by Council vote.

d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.

e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.

f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Cash and Cash Equivalents

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and disclosed as part of the City's investments. Cash equivalents consist of temporary investments in mutual funds and certificates of deposit with original maturities of 90 days or less.

11. Restricted Cash

Restricted cash for the primary government consists of amounts to be used to fund Sewer System improvements. Restricted cash for the component unit is related to rental deposits being held.

12. Investments

Investments during the year consisted of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* In the government-wide and proprietary fund financial statements, investments are shown as current and noncurrent based on maturities within the next fiscal year.

13. Receivables

Receivables consist of amounts due from governmental units for various financial assistance programs and charges for services, and accounts receivable related to charges for services, interest receivable and other amounts owed to the City at year-end.

14. Property Tax

The City of Corunna bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City of Corunna on July 1 and December 1 and are payable without penalty through September 15 and February 14, respectively. The July 1 levy is composed of the City's millage, special assessments, and the school taxes. The December 1 levy is composed of county and schools taxes. All real property taxes not paid to the City by March 1 are turned over to the Shiawassee County Treasurer for collection. The Shiawassee County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted to levy taxes up to 15 mills ($15 per $1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenses and up to an additional five (5) mills ($5 per $1,000 of taxable valuation) for City Public Improvements. For the year ended June 30, 2006, the City levied 13.3044 mills per $1,000 of assessed valuation for general governmental services and 4.8342 mills for City Public Improvements. The total Taxable Value for the 2005 levy for property within the City was $56,512,351.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Motor Pool) records charges for equipment rental to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

16. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days. Employees are not paid for accumulated sick leave. All employees with accumulated unused vacation pay at June 30, 2006 were vested and the total due to them, along with the related payroll taxes, is recorded entirely in the government-wide financial statements.

17. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNIT

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of $1,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	20 - 40 years
Equipment and fixtures	5 - 40 years
Water and sewer systems	10 - 40 years
Infrastructure	40 years

18. Deferred Revenue

Deferred revenue recorded in the General Fund consists of amounts related to special assessments receivable and amounts owed from other governmental units which will be received in future periods. Deferred revenue recorded in the Economic Development Fund consists of amounts related to contracts receivable for future periods. None of these amounts are deferred in the government-wide financial statements.

19. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year are reported as current liability with the remaining amounts shown as long-term.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

20. Treatment Rights

The City of Corunna has contracted with the Owosso Township - Caledonia Township Utility Authority for the right to distribute wastewater through Authority pipe to the City of Owosso for the treatment rights to treat its wastewater.

These rights are being amortized over the period of the related contract's liability.

21. Comparative Data

Comparative data for the prior year has been presented in some of the accompanying financial statements in order to provide an understanding of changes in financial position and operations.

NOTE B: POOLING OF CASH AND CASH OVERDRAFT

Fund	Pooled Cash Overdraft	Nonpooled Cash & Cash Equivalents	Financial Statements
PRIMARY GOVERNMENT			
Special Revenue Funds			
Fire Operations	$(8,312)	$ -	$(8,312)
Debt Service Funds			
1996 G.O. Limited Tax Bonds	(3,999)	4,674	675
Proprietary Funds			
Sewer System	(740)	1,727	987
COMPONENT UNITS			
DDA Parking Fund	(5,548)	-	(5,548)
TOTAL REPORTING ENTITY	$(18,599)	$ 6,401	$(12,198)

Negative cash balances in the financial statements are presented as accounts payable as they are not material to the financial statements as a whole.

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

The City's pooled cash accounts and investments are utilized by the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Enterprise Funds, Internal Service Fund, and the Trust and Agency Funds. Each fund's portion of these pooled accounts is included in the cash and cash equivalents and investments captions on the basic financial statements.

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The other funds of the City utilize separate savings and interest bearing checking accounts. In addition, certificates of deposit are held separately by several of the City's funds.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

4. The United States government or federal agency obligations repurchase agreements.

5. Bankers acceptances of United States banks.

6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured bank for savings deposits and $100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2006, the carrying amounts and bank balances for each type of bank account are as follows:

Account Type	Carrying Amount	Bank Balance
PRIMARY GOVERNMENT		
Regular checking	$ 1,387,761	$ 1,489,145
Savings and certificates of deposit	1,316,805	1,316,804
Total Primary Government	2,704,566	2,805,949
COMPONENT UNITS		
Regular checking	263,754	298,839
Certificates of deposit	100,000	100,000
Total Component Units	363,754	398,839

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits - continued

Account Type	Carrying Amount	Bank Balance
FIDUCIARY FUNDS		
Regular checking	$ 27,798	$ 37,143
Savings and certificates of deposit	234,361	234,361
Total Fiduciary Funds	262,159	271,504
TOTAL REPORTING ENTITY	$ 3,330,479	$ 3,476,292

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2006, the City accounts were insured by the FDIC for $1,512,775, and the amount of $1,963,517 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

As of June 30, 2006, the carrying amount and market value for the investment is as follows:

INVESTMENT TYPE	Carrying Amount	Market Value	Weighted Average Maturity
Primary Government			
Uncategorized pooled investment funds			
MBIA - Michigan Class	$ 110,989	$ 110,989	29 days

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the MBIA - Michigan Class investment is not rated.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer by:

- Limiting investments to the types of securities as listed in the Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006:

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and cash equivalents	$ 1,716,108	$ 259,084	$ 237,159	$ 2,212,351
Cash and cash equivalents - restricted	6,618	4,670	-	11,288
Investments	1,092,829	100,000	25,000	1,217,829
	$ 2,815,555	$ 363,754	$ 262,159	$ 3,441,468

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at June 30, 2006:

Due to General Fund from:	
Water System Fund	$ 295
Due to City Improvement Fund from:	
General Fund	4,896
Due to Sewer System Fund from:	
Nonmajor governmental funds	15,505
Total interfund receivable and payables	$ 20,696

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and component units have been eliminated.

NOTE E: INTERFUND TRANSFERS - CONTINUED

Transfers to nonmajor governmental funds from:	
General Fund	$ 98,132
City Improvement Fund	279,072
Nonmajor governmental funds	110,000
Internal service fund	13,011
	500,215
Transfers to Industrial Development Fund from:	
General Fund	38,153
Transfers to component unit funds from:	
Component unit funds	178,732
	$ 717,100

NOTE F: LONG-TERM CONTRACTS RECEIVABLE

The City has several loans to individuals and businesses made through the Economic Development Fund. The amounts attributable to these long-term contracts receivable have been recorded in the Economic Development (Special Revenue) Fund as contracts receivable and deferred revenue. The following is a summary of future annual revenue from debtors that currently have signed promissory notes with the City:

Years ending June 30,	Principal	Interest	Total
2007	$ 28,071	$ 9,430	$ 37,501
2008	27,554	8,446	36,000
2009	28,363	7,637	36,000
2010	30,399	5,601	36,000
2011	54,431	6,404	60,835
2012	3,465	48	3,513
	$ 172,283	$ 37,566	$ 209,849

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated				
Land	$ 200,000	$ -	$ -	$ 200,000
Capital assets being depreciated				
Buildings and additions	2,783,234	-	-	2,783,234
Vehicles and equipment	1,539,413	172,011	-	1,711,424
Infrastructure	6,613,272	109,325	-	6,722,597
Subtotal	10,935,919	281,336	-0-	11,217,255

NOTE G: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities - continued				
Less accumulated depreciation for				
Buildings and additions	$(1,854,484)	$(45,181)	$ -	$(1,899,665)
Vehicles and equipment	(1,114,225)	(103,305)	-	(1,217,530)
Infrastructure	(1,144,047)	(166,698)	-	(1,310,745)
Subtotal	(4,112,756)	(315,184)	-0-	(4,427,940)
Net capital assets being depreciated	6,823,163	(33,848)	-0-	6,789,315
Capital assets, net	$ 7,023,163	$(33,848)	$ -0-	$ 6,989,315

Depreciation expense was charged to the following governmental activities:

General government	$ 76,497
Public safety	46,371
Public works	166,698
Recreation and cultural	25,618
Total depreciation expense	$ 315,184

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities (Sewer system)				
Capital assets not being depreciated				
Land	$ 1	$ -	$ -	$ 1
Construction in progress	24,165	1,006,317	-	1,030,482
Subtotal	24,166	1,006,317	-0-	1,030,483
Capital assets being depreciated				
Sewer system	4,288,285	-	-	4,288,285
Equipment	88,995	-	-	88,995
Subtotal	4,377,280	-0-	-0-	4,377,280
Less accumulated depreciation for				
Sewer system	(1,832,760)	(99,932)	-	(1,932,692)
Equipment	(24,148)	(2,900)	-	(27,048)
Subtotal	(1,856,908)	(102,832)	-0-	(1,959,740)
Net capital assets being depreciated	2,520,372	(102,832)	-0-	2,417,540
Capital assets, net	$ 2,544,538	$ 903,485	$ -0-	$ 3,448,023

NOTE G: CAPITAL ASSETS - CONTINUED

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities (Water system)				
Capital assets not being depreciated				
Land	$ 126	$ -	$ -	$ 126
Capital assets being depreciated				
Water system	1,752,947	-	-	1,752,947
Equipment	38,411	-	-	38,411
Subtotal	1,791,358	-0-	-0-	1,791,358
Less accumulated depreciation for				
Water system	(776,943)	(56,872)	-	(833,815)
Equipment	(31,950)	(832)	-	(32,782)
Subtotal	(808,893)	(57,704)	-0-	(866,597)
Net capital assets being depreciated	982,465	(57,704)	-0-	924,761
Capital assets, net	$ 982,591	$(57,704)	$ -0-	$ 924,887
Component Unit (DDA)				
Capital assets not being depreciated				
Construction in progress	$ -	$ 16,521	$ -	$ 16,521
Assets held for resale	-	450,000	(150,000)	300,000
Subtotal	-0-	466,521	(150,000)	316,521
Capital assets being depreciated				
Buildings	786,670	20,000	(95,000)	711,670
Equipment and fixtures	18,952	-	-	18,952
Improvements	44,166	-	-	44,166
Subtotal	849,788	20,000	(95,000)	774,788
Less accumulated depreciation for:				
Buildings	(220,079)	(17,511)	1,203	(236,387)
Equipment and fixtures	(15,316)	(1,922)	-	(17,238)
Improvements	(40,853)	(442)	-	(41,295)
Subtotal	(276,248)	(19,875)	1,203	(294,920)
Net capital assets being depreciated	573,540	125	(93,797)	479,868
Capital assets, net	$ 573,540	$ 466,646	$(243,797)	$ 796,389

The DDA acquired in the previous year certain property at a cost of $95,000. That property was acquired on land contract, which was paid off during the year. The DDA also sold this property during the current year for $95,000. All of these amounts have been netted against expenses in preparation of the government-wide statements. The $1,203 depreciation is netted against depreciation expense as allowed by the GASB 34 Implementation Guide.

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
1996 General Obligation Improvement Bonds	$ 215,000	$ -	$ 105,000	$ 110,000	$ 110,000
1998 Transportation Bonds	140,000	-	15,000	125,000	15,000
2000 General Obligation Improvement Bonds	725,000	-	50,000	675,000	50,000
2001 General Obligation Improvement Bonds	380,000	-	40,000	340,000	45,000
Installment Purchase Agreement	4,776	-	4,776	-0-	-
2003 Installment Purchase Agreement	41,291	-	13,156	28,135	13,755
2003 Installment Purchase Agreement	169,848	-	31,358	138,490	32,613
Capital Lease	16,784	-	16,784	-0-	-
Installment Note - fire truck	-	187,500	-	187,500	18,750
MEDC Loan	-	450,000	-	450,000	22,500
Compensated absences	28,212	13,810	-	42,022	33,618
	1,720,911	651,310	276,074	2,096,147	341,236
Business-type Activities					
Water Supply and Sewage					
Improvement Bonds - 1996 (sewer)	380,000	-	25,000	355,000	25,000
Improvement Bonds - 1980 (sewer)	235,000	-	15,000	220,000	15,000
General Obligation Bonds (water)	300,000	-	50,000	250,000	50,000
2005 General Obligation Improvement Bonds (sewer)	685,000	-	60,000	625,000	60,000
Water Tower IPA - 1999 (water)	116,150	-	23,393	92,757	24,711
Contract Payable (sewer)	38,640	-	18,400	20,240	20,240
	1,754,790	-	191,793	1,562,997	194,951
TOTAL PRIMARY GOVERNMENT	3,475,701	651,310	467,867	3,659,144	536,187
COMPONENT UNIT FUNDS					
Downtown Development Authority					
Installment loan	220,631	-	21,110	199,521	22,412
Note payable	80,000	-	80,000	-0-	-
Land contract payable	-	300,000	200,000	100,000	100,000
TOTAL COMPONENT UNIT	300,631	300,000	301,110	299,521	122,412
	$ 3,776,332	$ 951,310	$ 768,977	$ 3,958,665	$ 658,599

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT AND BLENDED COMPONENT UNIT

General Obligation Bonds (Payable from Debt Service Funds)

$870,000 1996 County of Shiawassee, City of Corunna Public Improvement Bonds dated September 1, 1996, due in an annual installment of $110,000 due on September 1, 2006, with interest of 5.30 percent, payable semi-annually.	$ 110,000
$220,000 1998 County of Shiawassee, City of Corunna Transportation Bonds dated April 1, 1998, due in annual installments ranging from $15,000 to $20,000 through August 1, 2012, with interest ranging from 4.70 to 5.05 percent, payable annually.	125,000

NOTE H: LONG-TERM DEBT - CONTINUED

General Obligation Bonds (Payable from Debt Service Funds) - continued

$895,000 2000 County of Shiawassee, City of Corunna Public Improvement Bonds dated October 11, 2000, due in annual installments ranging from $50,000 to $85,000 through November 1, 2015, with interest ranging from 5.00 to 5.30 percent payable annually.	$ 675,000
$490,000 2001 County of Shiawassee, City of Corunna Public Improvement Bonds dated June 1, 2001, due in annual installments ranging from $45,000 to $90,000 through May 1, 2011, with interest ranging from 4.30 to 4.75 percent, payable semi-annually.	340,000
	$ 1,250,000

Installment Purchase Agreement (payable from Internal Service Fund)

$78,875 2003 Installment Purchase Agreement dated September 5, 2003, due in annual installments of $15,035 through September 5, 2007, with interest at 4.00 percent. The Agreement is for the purchase of a truck with snowplow costing $78,875.	$ 28,135

Installment Purchase Agreement (Payable from Industrial Development Fund)

$200,000 2003 Installment Purchase Agreement dated November 6, 2003, due in annual installments of $38,153 through November 6, 2009, with interest at 4.00 percent. The Agreement is for the purchase of land costing $200,000.	$ 138,490

Installment Note – Fire Truck

$187,500 2006 Installment Note for fire truck dated May 15, 2006, due in an annual installment of $18,750 through May 15, 2016, with interest at 4.50 percent payable annually.	$ 187,500

MEDC Loan

$450,000 2005 MEDC Loan Agreement dated September 1, 2005, due in annual installments ranging from $22,500 to $62,500 through December 13, 2015, with no interest.	$ 450,000

Compensated Absences - accrued vacation, sick leave, and longevity

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave, and also receive an annual longevity payment. The dollar amounts, including related payroll taxes, of these vested rights have been recorded in the government-wide financial statements. They amount to approximately $42,022 at June 30, 2006.

Water Supply and Sewage Disposal System Bonds

$550,000 1996 Wastewater Treatment System Revenue Bonds dated February 1, 1996, due in annual installments ranging from $25,000 to $40,000 through November 1, 2015, with interest ranging from 4.90 to 5.35 percent, payable annually.	$ 355,000
$420,000 USDA-FMHA Sewer Revenue Bonds dated August 15, 1980, due in annual installments ranging from $15,000 to $20,000 through August 1, 2020, with interest at 5.0 percent, payable annually.	220,000

NOTE H: LONG-TERM DEBT - CONTINUED

Water Supply and Sewage Disposal System Bonds - continued

$700,000 1992 Shiawassee County, City of Corunna Water Supply System (General Obligation) Improvement Bonds dated August 1, 1992, due in annual installments of $50,000 through May 1, 2011, with interest ranging from 6.10 to 6.25 percent, payable annually.	$ 250,000
$685,000 2005 County of Shiawassee, City of Corunna Capital Improvement Bonds dated April 1, 2005, due in annual installments ranging from $60,000 to $80,000, with interest ranging from 2.95 to 4.20 percent, payable semi-annually.	625,000
	$ 1,450,000

Installment Purchase Agreement - Enterprise (Water) Fund

$224,200 1999 Installment Purchase Agreement dated September 20, 1999, due in semi-annual installments ranging from $12,186 to $14,366 through November 1, 2009, with interest at 5.56 percent.	$ 92,757

Contract Payable

$107,180 City of Owosso contract payable dated July 18, 2001, due in an annual installment of $20,240 due on October 1, 2006, with no interest.	$ 20,240

COMPONENT UNIT - DISCRETELY PRESENTED

$346,227 Downtown Development Authority bank promissory note dated September 27, 2000, due in monthly payments of $4,243 the first of each month including monthly interest on the unpaid balance at .5 percent below the prime rate.	$ 199,521
$300,000 Land Contract dated December 31, 2005, due in an installment of $100,000 on January 5, 2007, with no interest.	$ 100,000

The annual requirements to pay the debt principal and interest outstanding for the bonds and contracts are as follows:

Primary Government

	General Obligation Bonds		Water Supply & Sewage Disposal System Bonds		Installment Purchases		Contract Payable	Loan Payable
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal
2007	$ 220,000	$ 57,175	$ 150,000	$ 65,600	$ 89,829	$ 20,076	$ 20,240	$ 22,500
2008	125,000	48,721	155,000	59,123	93,152	15,908	-	37,500
2009	145,000	42,270	160,000	51,780	81,600	11,582	-	32,500
2010	160,000	34,893	165,000	44,045	69,801	7,773	-	37,500
2011	175,000	26,670	170,000	34,355	18,750	5,063	-	42,500
2012-2016	425,000	54,809	580,000	79,359	93,750	12,656	-	277,500
2017-2020	-	-	70,000	7,500	-	-	-	-
	$ 1,250,000	$ 264,538	$ 1,450,000	$ 341,762	$ 446,882	$ 73,058	$ 20,240	$ 450,000

NOTE H: LONG-TERM DEBT - CONTINUED

Component Unit

Year Ending June 30,	Installment Loan Principal	Installment Loan Interest	Land Contract Principal
2007	$ 22,412	$ 13,696	$ 100,000
2008	23,794	12,314	-
2009	25,261	10,847	-
2010	26,820	9,288	-
2011	28,474	7,634	-
2012-2015	72,760	12,160	-
	$ 199,521	$ 65,939	$ 100,000

NOTE I: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Commission and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended June 30, 2006 the City's annual pension cost of $89,413 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ten (10) years.

Three (3) year trend information

	Year Ended December 31, 2003	2004	2005
Actuarial value of assets	$ 2,435,989	$ 2,535,490	$ 2,616,590
Actuarial accrued liability (AAL) (entry age)	3,391,065	3,361,549	3,579,958
Unfunded AAL	955,076	826,059	963,368
Funded ratio	72 %	75 %	73 %
Covered payroll	598,806	660,599	525,159
UAAL as a percentage of covered payroll	159 %	125 %	183 %

NOTE I: RETIREMENT PLAN - CONTINUED

	Year Ended June 30, 2004	2005	2006
Annual pension cost	$ 96,282	$ 117,034	$ 89,413
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE J: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance that the City has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2006:

Fund Balance	
General Fund	
Advances to other governmental units	$ 450,000
Nonmajor governmental funds	
Debt service	5,233
Perpetual care	86,934
	$ 92,167

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

Governmental Activities	
Other purposes	
City Improvements	$ 235,557
Major street	125,814
Local street	213,860
Cemetery perpetual care	86,934
Fire capital acquisition	237,063
Industrial development	645,582
	$ 1,544,810
Business-type Activities	
Restricted for debt service	
Sewer System Fund	$ 86,282

NOTE L: COMPONENT UNIT LONG-TERM OPERATING LEASES

The component unit Downtown Development Authority (lessor) owns the Corunna City Center and has long-term lease contracts with various tenants.

NOTE L: COMPONENT UNIT LONG-TERM OPERATING LEASES - CONTINUED

The following is a summary of future annual rental revenue from the tenants that currently have non-cancelable lease agreements.

Years Ending June 30,	
2007	$ 54,121
2008	35,885
	$ 90,006

NOTE M: POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for employees who retire under the City's pension plan. All City employees may become eligible for those benefits if they reach the normal retirement age 50 with 25 years of credited service or age 55 with 15 years of credited service or after age 60 with 10 years of credited service with the City.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid.

For the year ended June 30, 2006, six retirees received benefits. The costs for the year ended June 30, 2006 totaled $95,274 and were paid from the General Fund.

UPCOMING REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

NOTE N: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, and crime losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE O: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning net assets. The effect on operations and other affected balances for the current and prior year are as follows:

NOTE O: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	June 30, 2006	June 30, 2005	
PRIMARY GOVERNMENT			
Nonmajor governmental funds			
Revenue over expenditures	$ -	$ 1,233	To restate Fire Capital Acquisition Fund for new agreement
Fund balance/net assets - beginning	1,233	-	
COMPONENT UNIT			
DDA			
Revenue over expenditures	-	7,578	To record PPA for 04/05 adjustment to DDA captured tax
Fund balance - beginning	7,578	-	

NOTE P: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2006, the City incurred expenditures in one (1) activity in the General Fund in excess of the amounts appropriated as follows:

	Amounts Appropriated	Amounts Expended	Variance
Community and Economic Development	$ 1,650	$ 451,189	$ 449,539

This overage was the direct result of an audit adjustment to record the distribution of loan dollars received by the City from the MEDC and distributed to the Downtown Development Authority.

NOTE Q: RELATED PARTY TRANSACTION

During the year the DDA purchased from one of its Board members a building for $300,000 which approximates fair value. The DDA Board member abstained from all votes while the DDA Board was deliberating on this matter.

REQUIRED SUPPLEMENTARY INFORMATION

City of Corunna

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND OTHER FINANCING SOURCES

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	$ 735,163	$ 735,163	$ 734,701	$ (462)
Industrial and commercial facilities	5,300	5,300	5,358	58
Total taxes	740,463	740,463	740,059	(404)
Licenses and permits				
City licenses and permits	2,106	2,106	2,391	285
Franchise fee	19,500	19,500	20,559	1,059
Total licenses and permits	21,606	21,606	22,950	1,344
Intergovernmental				
State				
Sales tax	376,332	376,332	367,519	(8,813)
Michigan justice training	1,500	1,500	1,290	(210)
Total intergovernmental	377,832	377,832	368,809	(9,023)
Charges for services				
Fire protection - Townships	-	11,776	50	(11,726)
Accident reports	750	750	-	(750)
Tax collection fees	26,904	26,904	35,420	8,516
Recreational fees	51,950	51,950	18,630	(33,320)
Administration charges	202,707	206,707	196,796	(9,911)
Total charges for services	282,311	298,087	250,896	(47,191)
Fines and forfeits				
Parking	750	750	645	(105)
Ordinance	12,000	12,000	9,753	(2,247)
Total fines and forfeits	12,750	12,750	10,398	(2,352)
Interest and rents				
Interest on investments	12,000	24,000	67,360	43,360
Rental fees	13,011	17,011	41,187	24,176
Total interest and rents	25,011	41,011	108,547	67,536

City of Corunna

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES AND OTHER FINANCING SOURCES - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Other				
Sidewalk and other	$ 6,000	$ 6,000	$ 13,358	$ 7,358
Fire board capital reimbursements	-	-	6,701	6,701
Fireworks proceeds	10,000	10,000	10,000	-
Private donations	-	-	13,726	13,726
Contributions from other governmental units	-	-	2,200	2,200
Reimbursements	4,000	4,000	-	(4,000)
Other	7,250	12,250	99,297	87,047
Total other	27,250	32,250	145,282	113,032
TOTAL REVENUES	1,487,223	1,523,999	1,646,941	122,942
OTHER FINANCING SOURCES				
Loan proceeds	-	-	450,000	450,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 1,487,223	$ 1,523,999	$ 2,096,941	$ 572,942

City of Corunna

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
General government				
Legislative	$ 33,256	$ 33,256	$ 31,046	$ 2,210
City Manager	97,209	98,135	96,235	1,900
Clerk/Treasurer	109,006	92,346	82,101	10,245
Assessor	65,219	66,819	65,986	833
Elections	4,000	4,000	3,010	990
Municipal building	54,516	52,016	50,517	1,499
Internal services	69,886	72,886	70,085	2,801
Other	48,206	30,388	19,588	10,800
Total general government	481,298	449,846	418,568	31,278
Public safety				
Police department	315,874	337,711	325,497	12,214
Crossing guard	2,278	2,278	1,612	666
Fire department	55,853	66,435	60,037	6,398
Total public safety	374,005	406,424	387,146	19,278
Public works				
General services	285,436	287,936	281,470	6,466
Drain at large	1,000	1,000	958	42
Total public works	286,436	288,936	282,428	6,508
Community and economic development				
Downtown development	-	-	450,000	(450,000)
Planning commission	1,650	1,650	1,189	461
	1,650	1,650	451,189	(449,539)
Recreation and cultural				
Parks maintenance	64,764	64,764	63,437	1,327
Summer recreation	22,374	22,374	19,506	2,868
Mitchell Fields	2,194	2,194	1,958	236
Activities and events	6,750	6,750	4,199	2,551
Historical village	1,268	1,268	376	892
Community center	22,170	22,170	21,705	465
Total recreation and cultural	119,520	119,520	111,181	8,339

City of Corunna

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND OTHER FINANCING USES BY ACTIVITY - CONTINUED

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Other				
Insurance	$ 20,711	$ 20,711	$ 18,544	$ 2,167
Retiree health benefits	100,627	100,627	95,274	5,353
Total other	121,338	121,338	113,818	7,520
TOTAL EXPENDITURES	1,384,247	1,387,714	1,764,330	(376,616)
OTHER FINANCING USES				
Transfers out				
Local street	15,000	15,000	15,000	-0-
Parks improvement fund	1,800	1,800	1,800	-0-
Cemetery	26,500	26,500	26,500	-0-
Forest fund	2,500	2,500	2,500	-0-
Heritage park fund	500	500	500	-0-
Industrial development fund	38,153	38,153	38,153	-0-
Dam construction fund	-	20,000	20,000	-0-
Building department	-	5,810	5,810	-0-
Municipal Building	26,022	26,022	26,022	-0-
TOTAL OTHER FINANCING USES	110,475	136,285	136,285	-0-
TOTAL EXPENDITURES AND OTHER FINANCING USES	$ 1,494,722	$ 1,523,999	$ 1,900,615	$ (376,616)

City of Corunna

Economic Development Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Interest and rents	$ 1,500	$ 1,500	$ 1,611	$ 111
Other				
Loan repayment	27,232	27,232	45,945	18,713
TOTAL REVENUES	28,732	28,732	47,556	18,824
EXPENDITURES				
Current				
Community and economic development	3,596	3,596	3,596	-0-
NET CHANGE IN FUND BALANCE	25,136	25,136	43,960	18,824
Fund balance, beginning of year	36,271	36,271	36,271	-0-
Fund balance, end of year	$ 61,407	$ 61,407	$ 80,231	$ 18,824

City of Corunna

City Improvement Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	$ 263,833	$ 263,833	$ 275,192	$ 11,359
Interest and rents	1,500	1,500	6,322	4,822
Other	8,000	8,000	12,256	4,256
TOTAL REVENUES	273,333	273,333	293,770	20,437
EXPENDITURES				
Current				
Community and economic development	40,000	40,000	35,399	4,601
EXCESS OF REVENUES OVER EXPENDITURES	233,333	233,333	258,371	25,038
OTHER FINANCING (USES)				
Transfers out	(279,072)	(279,072)	(279,072)	-0-
NET CHANGE IN FUND BALANCE	(45,739)	(45,739)	(20,701)	25,038
Fund balance, beginning of year	256,258	256,258	256,258	-0-
Fund balance, end of year	$ 210,519	$ 210,519	$ 235,557	$ 25,038

OTHER SUPPLEMENTARY INFORMATION

City of Corunna

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special		
	Major Street	Local Street	Fire Capital Acquisition
ASSETS			
Cash and cash equivalents	$ 112,698	$ 214,599	$ 212,063
Investments	-	-	25,000
Due from other governmental units			
State	28,354	9,938	-
TOTAL ASSETS	$ 141,052	$ 224,537	$ 237,063
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ 8,755	$ 1,655	$ -
Accrued liabilities	-	-	-
Due to other funds	6,483	9,022	-
TOTAL LIABILITIES	15,238	10,677	-0-
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	125,814	213,860	237,063
Debt service funds	-	-	-
Capital projects	-	-	-
TOTAL FUND BALANCES	125,814	213,860	237,063
TOTAL LIABILITIES AND FUND BALANCES	$ 141,052	$ 224,537	$ 237,063

Revenue				
Fire Operations Fund	Parks Improvement Fund	Cemetery Fund	Municipal Building	Stu Coutts Recreation Fund
$ -	$ 46,962	$ 8,899	$ 46,449	$ 22,286
-	2,846	-	-	-
23,896	-	-	-	-
$ 23,896	$ 49,808	$ 8,899	$ 46,449	$ 22,286
10,941	$ -	$ 6	$ -	$ 238
11,453	-	-	-	-
-	-	-	-	-
22,394	-0-	6	-0-	238
-	-	-	-	-
-	-	-	-	-
1,502	49,808	8,893	46,449	22,048
-	-	-	-	-
-	-	-	-	-
1,502	49,808	8,893	46,449	22,048
$ 23,896	$ 49,808	$ 8,899	$ 46,449	$ 22,286

City of Corunna

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2006

	Special		
	Forest Fund	Heritage Park Memorial	Fourth of July Commission
ASSETS			
Cash and cash equivalents	$ 1,882	$ 3,741	$ 14,478
Investments	-	-	-
Due from other governmental units			
State	-	-	-
TOTAL ASSETS	$ 1,882	$ 3,741	$ 14,478
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ -	$ -	$ -
Accrued liabilities	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in			
Special revenue funds	1,882	3,741	14,478
Debt service funds	-	-	-
Capital projects	-	-	-
TOTAL FUND BALANCES	1,882	3,741	14,478
TOTAL LIABILITIES AND FUND BALANCES	$ 1,882	$ 3,741	$ 14,478

Revenue				Debt Service
Softball Commission	Historical Commission	Building Department	Library	1996 G.O. Limited Tax Bonds
$ 19,708	$ 15,209	$ 10,158	$ 5,431	$ 675
-	-	-	-	-
-	-	-	-	-
$ 19,708	$ 15,209	$ 10,158	$ 5,431	$ 675
$ -	$ -	$ 715	$ 102	$ -
-	-	-	-	-
-	-	-	-	-
-0-	-0-	715	102	-0-
-	-	-	-	-
-	-	-	-	675
19,708	15,209	9,443	5,329	-
-	-	-	-	-
-	-	-	-	-
19,708	15,209	9,443	5,329	675
$ 19,708	$ 15,209	$ 10,158	$ 5,431	$ 675

City of Corunna

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2006

	Debt		
	1998 MTF Bonds Payable	2000 G.O. Limited Tax Bonds	2001 G.O. Limited Tax Bonds
ASSETS			
Cash and cash equivalents	$ 1	$ 478	$ 4,079
Investments	-	-	-
Due from other governmental units			
State	-	-	-
TOTAL ASSETS	$ 1	$ 478	$ 4,079
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ -	$ -	$ -
Accrued liabilities	-	-	-
Due to other funds	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Reserved for			
Perpetual care	-	-	-
Debt service	1	478	4,079
Unreserved			
Undesignated, reported in			
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects	-	-	-
TOTAL FUND BALANCES	1	478	4,079
TOTAL LIABILITIES AND FUND BALANCES	$ 1	$ 478	$ 4,079

Service	Capital Projects				
Building Authority	Streetscape Construction Fund	Bridge Construction Fund	North Shiawassee Construction Fund	King/ Kingsley/ McArthur Construction
$ 3,286	$ 6,951	$ 24,919	$ 6,659	$ 5,106
-	-	-	-	-
-	-	-	-	-
$ 3,286	$ 6,951	$ 24,919	$ 6,659	$ 5,106
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-0-	-0-	-0-	-0-	-0-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
3,286	-	-	-	-
-	6,951	24,919	6,659	5,106
3,286	6,951	24,919	6,659	5,106
$ 3,286	$ 6,951	$ 24,919	$ 6,659	$ 5,106

City of Corunna

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2006

	Capital Projects	Permanent	
	Dam Construction Fund	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	$ 20,000	$ 46,951	$ 853,668
Investments	-	39,983	67,829
Due from other governmental units			
State	-	-	62,188
TOTAL ASSETS	$ 20,000	$ 86,934	$ 983,685
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	$ -	$ -	$ 22,412
Accrued liabilities	-	-	11,453
Due to other funds	-	-	15,505
TOTAL LIABILITIES	-0-	-0-	49,370
FUND BALANCES			
Reserved for			
Perpetual care	-	86,934	86,934
Debt service	-	-	5,233
Unreserved			
Undesignated, reported in			
Special revenue funds	-	-	775,227
Debt service funds	-	-	3,286
Capital projects	20,000	-	63,635
TOTAL FUND BALANCES	20,000	86,934	934,315
TOTAL LIABILITIES AND FUND BALANCES	$ 20,000	$ 86,934	$ 983,685

City of Corunna

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special		
	Major Street	Local Street	Fire Capital Acquisition
REVENUES			
Intergovernmental			
Federal	$ -	$ -	$ 65,988
State	171,719	70,757	-
Local	-	-	-
Charges for services	-	-	12,380
Licenses and permits	-	-	-
Interest and rents	-	-	-
Other	-	-	11,290
TOTAL REVENUES	171,719	70,757	89,658
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	80,451
Public works	128,050	59,521	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Other	-	-	-
Debt service			
Principal	-	-	4,776
Interest and fiscal agent fees	-	-	66
TOTAL EXPENDITURES	128,050	59,521	85,293
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	43,669	11,236	4,365
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	187,500
Transfers in	-	125,000	-
Transfers out	(110,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(110,000)	125,000	187,500
NET CHANGE IN FUND BALANCES	(66,331)	136,236	191,865
Fund balances, beginning of year	192,145	77,624	43,965
Prior period adjustment	-	-	1,233
Fund balances, end of year	$ 125,814	$ 213,860	$ 237,063

Revenue				
Fire Operation Fund	Parks Improvement Fund	Cemetery Fund	Municipal Building	Stu Coutts Recreation Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
103,662	-	17,985	14,549	-
-	-	-	-	-
-	-	-	-	1,650
150	21,085	2,800	-	-
103,812	21,085	20,785	14,549	1,650
-	-	-	8,274	-
102,310	-	-	-	-
-	-	-	-	-
-	-	42,119	-	-
-	4,247	-	-	7,072
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
102,310	4,247	42,119	8,274	7,072
1,502	16,838	(21,334)	6,275	(5,422)
-	-	-	-	-
-	1,800	26,500	39,033	-
-	-	-	-	-
-0-	1,800	26,500	39,033	-0-
1,502	18,638	5,166	45,308	(5,422)
-	31,170	3,727	1,141	27,470
-	-	-	-	-
$ 1,502	$ 49,808	$ 8,893	$ 46,449	$ 22,048

City of Corunna

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2006

	Special		
	Forest Fund	Heritage Park Memorial	Fourth of July Commission
REVENUES			
Intergovernmental			
Federal	$ -	$ -	$ -
State	-	-	-
Local	-	-	-
Charges for services	-	-	-
Licenses and permits	-	-	-
Interest and rents	-	-	69
Other	-	1,565	30,637
TOTAL REVENUES	-0-	1,565	30,706
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	-
Recreation and cultural	2,733	9,466	35,067
Other	-	-	-
Debt service			
Principal	-	-	-
Interest and fiscal agent fees	-	-	-
TOTAL EXPENDITURES	2,733	9,466	35,067
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,733)	(7,901)	(4,361)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	-
Transfers in	2,500	500	-
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	2,500	500	-0-
NET CHANGE IN FUND BALANCES	(233)	(7,401)	(4,361)
Fund balances, beginning of year	2,115	11,142	18,839
Prior period adjustment	-	-	-
Fund balances, end of year	$ 1,882	$ 3,741	$ 14,478

Revenue				Debt Service
Softball Commission	Historical Commission	Building Department	Library	1996 G.O. Limited Tax Bonds
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
32,433	-	-	-	-
-	-	21,038	-	-
-	6,880	-	-	19
524	13,663	-	-	-
32,957	20,543	21,038	-0-	19
-	-	-	-	-
-	-	18,891	-	-
-	-	-	-	-
-	-	-	-	-
30,352	14,066	-	-	-
-	-	-	-	-
-	-	-	-	105,000
-	-	-	-	8,985
30,352	14,066	18,891	-0-	113,985
2,605	6,477	2,147	-0-	(113,966)
-	-	-	-	-
-	-	5,810	-	113,985
-	-	-	-	-
-0-	-0-	5,810	-0-	113,985
2,605	6,477	7,957	-0-	19
17,103	8,732	1,486	5,329	656
-	-	-	-	-
$ 19,708	$ 15,209	$ 9,443	$ 5,329	$ 675

City of Corunna

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2006

	Debt		
	1998 MTF Bonds Payable	2000 G.O. Limited Tax Bonds	2001 G.O. Limited Tax Bonds
REVENUES			
Intergovernmental			
Federal	$ -	$ -	$ -
State	-	-	-
Local	-	-	-
Charges for services	-	-	-
Licenses and permits	-	-	-
Interest and rents	-	-	-
Other	-	-	-
TOTAL REVENUES	-0-	-0-	-0-
EXPENDITURES			
Current			
General government	-	-	-
Public safety	-	-	-
Public works	-	-	-
Health and welfare	-	-	-
Recreation and cultural	-	-	-
Other	-	-	-
Debt service			
Principal	15,000	50,000	40,000
Interest and fiscal agent fees	6,780	36,640	16,642
TOTAL EXPENDITURES	21,780	86,640	56,642
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(21,780)	(86,640)	(56,642)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	-
Transfers in	21,780	86,640	56,667
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	21,780	86,640	56,667
NET CHANGE IN FUND BALANCES	-0-	-0-	25
Fund balances, beginning of year	1	478	4,054
Prior period adjustment	-	-	-
Fund balances, end of year	$ 1	$ 478	$ 4,079

Service	Capital Projects			
Building Authority	Streetscape Construction Fund	Bridge Construction Fund	North Shiawassee Construction Fund	King/ Kingsley/ McArthur Construction
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	2,179
-	-	-	-	-
-	-	-	-	-
24	5	-	-	-
-	1,576	-	-	-
24	1,581	-0-	-0-	2,179
-	-	-	-	-
-	-	-	-	-
-	4,715	5,953	-	-
-	-	-	-	-
-	-	-	-	-
4,461	-	-	-	-
-	-	-	-	-
-	-	-	-	-
4,461	4,715	5,953	-0-	-0-
(4,437)	(3,134)	(5,953)	-	2,179
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-0-	-0-	-0-	-	-0-
(4,437)	(3,134)	(5,953)	-0-	2,179
7,723	10,085	30,872	6,659	2,927
-	-	-	-	-
$ 3,286	$ 6,951	$ 24,919	$ 6,659	$ 5,106

City of Corunna

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2006

	Capital Projects	Permanent	
	Dam Construction Fund	Cemetery Perpetual Care	Total Nonmajor Governmental Funds
REVENUES			
Intergovernmental			
Federal	$ -	$ -	$ 65,988
State	-	-	242,476
Local	-	-	2,179
Charges for services	-	7,190	188,199
Licenses and permits	-	-	21,038
Interest and rents	-	1,434	10,081
Other	-	-	83,290
TOTAL REVENUES	-0-	8,624	613,251
EXPENDITURES			
Current			
General government	-	-	8,274
Public safety	-	-	201,652
Public works	-	-	198,239
Health and welfare	-	6,001	48,120
Recreation and cultural	-	-	103,003
Other	-	1	4,462
Debt service			
Principal	-	-	214,776
Interest and fiscal agent fees	-	-	69,113
TOTAL EXPENDITURES	-0-	6,002	847,639
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-0-	2,622	(234,388)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	-	-	187,500
Transfers in	20,000	-	500,215
Transfers out	-	-	(110,000)
TOTAL OTHER FINANCING SOURCES (USES)	20,000	-0-	577,715
NET CHANGE IN FUND BALANCES	20,000	2,622	343,327
Fund balances, beginning of year	-	84,312	589,755
Prior period adjustment	-	-	1,233
Fund balances, end of year	$ 20,000	$ 86,934	$ 934,315

City of Corunna

Agency Funds

COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

June 30, 2006

	Tax Collections	Fire Capital Acquisition	Payroll	Total
ASSETS				
Cash and cash equivalents	$ 14,513	$ 212,063	$ 10,583	$ 237,159
Investments	-	25,000	-	25,000
TOTAL ASSETS	$ 14,513	$ 237,063	$ 10,583	$ 262,159
LIABILITIES				
Due to individuals and agencies	$ 14,513	$ 237,063	$ 10,583	$ 262,159

City of Corunna

Sewer System

COMPARATIVE STATEMENT OF NET ASSETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 987	$ 826,593
Accounts receivable	195,501	206,479
Due from other governmental units	483,522	-
Due from other funds	15,505	15,505
Total current assets	695,515	1,048,577
Noncurrent assets		
Cash and cash equivalents - restricted	6,618	6,592
Investments	25,000	29,200
Treatment rights, net	47,182	67,143
Capital assets not being depreciated	1,030,483	24,166
Capital assets being depreciated, net	2,417,540	2,520,372
Total noncurrent assets	3,526,823	2,647,473
TOTAL ASSETS	$ 4,222,338	$ 3,696,050
LIABILITIES		
Current liabilities		
Accounts payable	$ 116,337	$ 13,990
Accrued liabilities	-	67
Accrued interest payable	11,474	12,012
Contract payable	20,240	-
Current portion of long-term debt	100,000	118,400
Total current liabilities	248,051	144,469
Noncurrent liabilities		
Contract payable	-	20,240
Revenue bonds payable	1,100,000	1,200,000
Total noncurrent liabilities	1,100,000	1,220,240
TOTAL LIABILITIES	1,348,051	1,364,709
NET ASSETS		
Invested in capital assets, net of related debt	2,248,023	1,905,373
Restricted for		
Debt service	86,282	86,469
City improvements	-	660,835
Other purposes	-	376,195
Unrestricted	539,982	(697,531)
TOTAL NET ASSETS	$ 2,874,287	$ 2,331,341

City of Corunna

Sewer System

COMPARATIVE STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Charges for services	$ 381,791	$ 445,204
Capital charges	225,683	172,879
State grant construction	483,522	-
Other revenue	746	2,473
TOTAL OPERATING REVENUES	1,091,742	620,556
OPERATING EXPENSES		
Personnel services	65,087	56,967
Employee benefits	23,972	23,815
Other operating costs	288,403	365,053
Depreciation and amortization	122,793	122,794
TOTAL OPERATING EXPENSES	500,255	568,629
OPERATING INCOME	591,487	51,927
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	505	1,700
Rent revenue	7,182	5,993
Interest expense and fees	(56,228)	(36,271)
TOTAL NONOPERATING (EXPENSES)	(48,541)	(28,578)
CHANGE IN NET ASSETS	542,946	23,349
Net assets, beginning of year	2,331,341	2,303,222
Prior period adjustment	-	4,770
Net assets, end of year	$ 2,874,287	$ 2,331,341

City of Corunna

Sewer System

COMPARATIVE STATEMENT OF CASH FLOWS

Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	$ 591,487	$ 51,927
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	122,793	122,794
Decrease (increase) in receivables	10,978	(7,393)
(Increase) in due from other governmental units	(483,522)	-
Increase in accounts payable	102,347	1,072
Increase (decrease) in accrued liabilities	(67)	42
Increase (decrease) in accrued interest payable	(538)	3,303
NET CASH PROVIDED BY OPERATING ACTIVITIES	343,478	171,745
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Rent earned	7,182	5,993
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest expense	(56,228)	(36,271)
Note proceeds	-	685,000
Capital purchases	(1,006,317)	(24,165)
Payments on borrowing	(118,400)	(58,860)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,180,945)	565,704
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase (sale) of investments	4,200	(730)
Interest revenue	505	1,700
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,705	970
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(825,580)	744,412
Cash and cash equivalents, beginning of year	833,185	88,773
Cash and cash equivalents, end of year	$ 7,605	$ 833,185

City of Corunna

Component Unit Funds

COMBINING BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

	General Fund	Custodial Fund	Parking Fund	Total
ASSETS				
Cash and cash equivalents	$ 109,084	$ 150,000	$ -	$ 259,084
Cash and cash equivalents - restricted	4,670	-	-	4,670
Investments	-	100,000	-	100,000
Due from other governmental units	7,000	-	24,852	31,852
Rental receivable	26,607	-	-	26,607
TOTAL ASSETS	$ 147,361	$ 250,000	$ 24,852	$ 422,213
LIABILITIES AND FUND BALANCES (DEFICIT)				
LIABILITIES				
Accounts payable	$ -	$ -	$ 21,523	$ 21,523
Due to other governmental units	8,766	-	-	8,766
Rental deposits	4,670	-	-	4,670
TOTAL LIABILITIES	13,436	-0-	21,523	34,959
FUND BALANCES				
Unreserved				
Undesignated	133,925	250,000	3,329	387,254
	$ 147,361	$ 250,000	$ 24,852	$ 422,213

City of Corunna

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

Total fund balances - governmental funds		$ 387,254
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 1,091,309	
Accumulated depreciation is	(294,920)	
Capital assets, net		796,389
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(749,521)
Net assets of governmental activities		$ 434,122

City of Corunna

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

	General Fund	Custodial Fund	Parking Fund	Total
REVENUES				
Taxes	$ 60,956	$ -	$ -	$ 60,956
Interest and rents	83,804	-	-	83,804
Intergovernmental				
State	-	-	3,329	3,329
Local	-	450,000	-	450,000
Reimbursements	1,507	-	-	1,507
TOTAL REVENUES	146,267	450,000	3,329	599,596
EXPENDITURES				
Community and economic development				
Taxes	18,127	-	-	18,127
Employee benefits	2,250	-	-	2,250
Contracted services	6,678	-	-	6,678
Insurance	4,571	-	-	4,571
Supplies	4,972	-	-	4,972
Repairs and maintenance	5,745	-	-	5,745
Utilities	6,825	-	-	6,825
Rent	7,000	-	-	7,000
Miscellaneous	8,327	7,210	-	15,537
Debt service				
Principal	101,110	200,000	-	301,110
Interest and fiscal charges	23,622	-	-	23,622
Capital outlay	37,383	450,000	21,523	508,906
TOTAL EXPENDITURES	226,610	657,210	21,523	905,343
EXCESS OF REVENUES (UNDER) EXPENDITURES	(80,343)	(207,210)	(18,194)	(305,747)
OTHER FINANCING SOURCES (USES)				
Land contract proceeds	-	300,000	-	300,000
Proceeds from sale of assets	244,999	1	-	245,000
Transfers in	-	157,209	21,523	178,732
Transfers out	(178,732)	-	-	(178,732)
TOTAL OTHER FINANCING SOURCES	66,267	457,210	21,523	545,000
NET CHANGE IN FUND BALANCES	(14,076)	250,000	3,329	239,253
Fund balances, beginning of year	140,423	-	-	140,423
Prior period adjustment	7,578	-	-	7,578
Fund balances, end of year	$ 133,925	$ 250,000	$ 3,329	$ 387,254

City of Corunna

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

Net change in fund balances - total governmental funds		$ 239,253
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay and related items (net)	$ 241,521	
Depreciation expense	(18,672)	
Excess of capital outlay over depreciation expense		222,849
Certain long-term amounts received from other governmental units (primary government) are reported as intergovernmental revenues in governmental funds, but are shown as noncurrent liabilities in the statement of net assets.		(450,000)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Land contract proceeds	(300,000)	
Payments on long-term obligations	301,110	
		1,110
Change in net assets of governmental activities		$ 13,212

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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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of City of Corunna as of and for the year ended June 30, 2006, which collectively comprise the City of Corunna's basic financial statements and have issued our report thereon dated September 1, 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 City of Corunna's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corunna'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 that are required to be reported under *Government Auditing Standards*.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 1, 2006

City of Corunna
Shiawassee County, Michigan

SUPPLEMENTARY INFORMATION TO FINANCIAL STATEMENTS (FEDERAL AWARDS)

June 30, 2006

City of Corunna

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

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

Compliance

We have audited the compliance of the City of Corunna with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) Circular A-133 *Compliance Supplement* that are applicable to the major Federal program for the year ended June 30, 2006. The City of Corunna's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major Federal program is the responsibility of the City of Corunna's management. Our responsibility is to express an opinion on the City of Corunna's compliance based on our audit.

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

In our opinion, the City of Corunna complied, in all material respects, with the requirements referred to above that are applicable to the major Federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Corunna is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Corunna's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Corunna as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Corunna's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 1, 2006

City of Corunna, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantors Number	Restated Program Award Amount	Current Year Revenues	Current Year Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					
Passed through State of Michigan Economic Development Corporation					
Community Development Block Grant (CDBG) Program					
States Program [a]	14.228				
Sewer Lining Project		MSC 203072-PW	$ 600,000	$ 455,448	$ 455,448
Ferry Street Pump Station		MSC 204037-PW	625,000	28,074	28,074
DDA Downtown Parking		MSC 204095-EOIG	240,000	3,329	3,329
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,465,000	486,851	486,851
U.S. DEPARTMENT OF HOMELAND SECURITY					
Emergency Preparedness and Response Directorate (FEMA)					
Assistance to Firefighters Grant (Direct Program)	97.044				
2004 Fire Prevention and Safety Program		EMW-2004-FG-06006	132,243	131,976	131,976
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 1,597,243	$ 618,827	$ 618,827

[a] Denotes program tested as a "major program"

City of Corunna

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Corunna and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note B.

NOTE B: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2006 Basic Financial Statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards.

	Intergovernmental Revenue	Less State/Local Revenue	Other Adjustments	Federal Expenditures
Nonmajor governmental funds				
Intergovernmental	$ 310,643	$(244,655)	$ 65,988	$ 131,976
Sewer System Fund				
State grant construction	483,522	-	-	483,522
Component unit funds - DDA				
State grant construction	3,329	-	-	3,329
	$ 552,839	$(244,655)	$ 65,988 [1]	$ 618,827

[1] The Fire Capital Acquisition Fund where this grant revenue is reported is reported 50% in the primary government financial statements and 50% as an agency fund due to participation of another government in the activities of this fund. All of the Federal expenditures are included in the Schedule of Expenditures of Federal Awards because the City is the fiscal agent and the same internal controls are in place as for the City as a whole.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

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Internal Control Over Financial Reporting

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Corunna'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*.

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 1, 2006

City of Corunna

SCHEDULE OF FINDINGS

Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	X No	
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes	X None reported	
Noncompliance material to financial statements noted?	_____ Yes	X No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ Yes	X No	
Reportable condition(s) identified that are not considered to be material weakness(es)?	_____ Yes	X None reported	
Type of auditor's report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported with Section 501(a) of Circular A-133?	_____ Yes	X No	

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000		
Auditee qualified as low-risk auditee?	_____ Yes	X No	

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

City of Corunna

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2006

There were no findings disclosed for the past two years.

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MANAGEMENT LETTER

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

As you know, we have recently completed our audit of the records of the City of Corunna, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. The City should encourage the Corunna Area Ambulance Service to make its records available for audit.

   During the course of our audit, we noted that independent auditors have not audited the Corunna Area Ambulance Service since the year ended May 31, 2004. This is a concern because the financial condition of the Ambulance Service has caused them to seek advances of tax dollars from the City in years past. These advances have been repaid as of June 30, 2006, but because no audit has been done the City cannot assess the financial condition of the Ambulance Service. Should the future of the Ambulance Service be in doubt, the City may be forced to take over this essential service for its residents. Similar issues have been noted and reported in our audit comments for prior years.

   We suggest the City, and the other municipalities involved, require the Corunna Area Ambulance Service to have an annual audit.

2. The City should prepare for implementation of GASB Statement No. 45.

   The Governmental Accounting Standards Board has recently issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the City of Corunna the year ended June 30, 2010.

   The City is subject to this new standard in that it pays for health care benefits for employees who retire under the City's pension plan.

   We would like the Council to be aware of this upcoming change and also suggest that the City begin to discuss options for implementing this new standard. The Council has the option of contracting with an actuary to determine the total liability and required contribution amount or calculating the liability and required contribution amount using the alternate method described in GASB Statement No. 45.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated September 1, 2006.

This report is intended solely for the information of the management and the Mayor, and the City Council of the City of Corunna and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 1, 2006