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 Bad Axe	Huron

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2006	September 14, 2006	11/08/2006

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	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number		
Hyzer, Hill, Kuzak & Co., P. C.	989-269-9541		
Street Address	**City**	**State**	**Zip**
1242 Sand Beach Road	Bad Axe	MI	48413

Authorizing CPA Signature	Printed Name	License Number
Donald P. Kuzak	Donald P. Kuzak	1101007059

City of Bad Axe, Michigan

Financial Report

for the Fiscal Year ended

June 30, 2006

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Bad Axe, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Bad Axe, 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 Bad Axe, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

The management's discussion and analysis, retirement system schedule of funding progress and budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental 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 supplemental 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 Bad Axe, Michigan's basic financial statements. The accompanying other supplemental 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 supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hyzer, Hill, Hurzak & Co., P.C.

September 14, 2006

As management of the City of Bad Axe, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $9,132,951 (*net assets*). Of this amount, $3,437,999 (unrestri*cted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors
- The government's total net assets increased by $280,482.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $1,444,687. Over seventy-four percent of this total amount, or $1,062,758 is *available for spending* at the government's discretion (*unrestricted fund balance*).
- At the end of the current fiscal year, unrestricted fund balance for the general fund was $1,002,468 or fifty-six percent of total general fund expenditures.
- The City's total debt decreased by $467,927 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction and overview to the City's basic financial statements.

The City's basic financial statements are made up of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private sector business.

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

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

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

The government-wide financial statements can be found on pages 10 - 12 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare this information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

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

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

The basic governmental fund financial statements can be found on pages 13 - 18 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer operations, which is considered to be a major fund of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 19 - 22 of this report.

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

The basic fiduciary fund financial statements can be found on page 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26 - 43 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees and the budgetary information for the three major governmental funds. This required supplemental information can be found on pages 44 - 48 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining, individual fund statements and schedules can be found on pages 49 - 57 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $9,132,951 at the close of the fiscal year.

A significant portion of the City's net assets (55% or $5,036,526) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Of the remaining balance of net assets, approximately (6% or $588,443) are restricted resources that are subject to external restrictions on how they may be used. Of the remaining balance, (1% or $69,980) is designated for water tower capital improvements and the remaining *unrestricted net assets* (38% or $3,437,999) may be used to meet the government's ongoing obligations to citizens and creditors. The table below shows the City's net assets as of June 30, 2006 and 2005.

City's Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 2,470,669	$ 2,314,929	$ 2,095,113	$ 2,327,302	$ 4,565,782	$ 4,642,231
Capital assets	3,573,198	3,764,798	4,452,828	4,220,073	8,026,026	7,984,871
Total assets	6,043,867	6,079,727	6,547,941	6,547,375	12,591,808	12,627,102
Long-term liabilities outstanding	937,754	1,085,775	1,786,173	1,992,404	2,723,927	3,078,179
Other liabilities	363,093	309,224	371,837	387,230	734,930	696,454
Total liabilities	1,300,847	1,394,999	2,158,010	2,379,634	3,458,857	3,774,633
Net assets:						
Invested in capital assets, net of related debt	2,587,138	2,634,778	2,449,391	1,892,669	5,036,529	4,527,447
Restricted	588,443	650,280	-	-	588,443	650,280
Unrestricted	1,567,439	1,399,670	1,940,540	2,275,072	3,507,979	3,674,742
Total net assets	$ 4,743,020	$ 4,684,728	$ 4,389,931	$ 4,167,741	$ 9,132,951	$ 8,852,469

The City's net assets increased by $280,482 during fiscal year 2006. Business type activities increased net assets by $222,190, which represents 79 percent of the total growth in net assets for the City of Bad Axe. The Water and Sewer Fund accounts for the majority of this increase and is attributable to water and sewer lines contributed by developers and system-connection related fees. Key elements of this increase are shown in the following table.

City's Change in Net Assets

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	$ 145,642	$ 142,521	$ 1,502,099	$ 1,203,282	$ 1,647,741	$ 1,345,803
Operating grants and contributions	275,498	315,896	-	-	275,498	315,896
General revenue:						
Property taxes	1,503,021	1,469,049	107,752	109,368	1,610,773	1,578,417
Grants and contributions not restricted to specific programs	397,920	401,363	4,856	5,037	402,776	406,400
Other	237,201	144,709	69,804	45,047	307,005	189,756
Total revenue	2,559,282	2,473,538	1,684,511	1,362,734	4,243,793	3,836,272
Expenses:						
General government	548,579	577,324	-	-	548,579	577,324
Public safety	782,492	722,574	-	-	782,492	722,574
Public works	864,780	748,462	-	-	864,780	748,462
Economic development	23,459	25,886	-	-	23,459	25,886
Recreation and cultural	224,812	211,084	-	-	224,812	211,084
Interest on long-term debt	56,868	59,430	121,741	142,106	178,609	201,536
Other	-	7,070	-	-	-	7,070
Water and sewer	-	-	1,486,555	1,091,246	1,486,555	1,091,246
Total expenses	2,500,990	2,351,830	1,608,296	1,233,352	4,109,286	3,585,182
Increase in net assets	58,292	121,708	76,215	129,382	134,507	251,090
Capital assets donated	-	-	145,975	357,302	145,975	357,302
Change in net assets	58,292	121,708	222,190	486,684	280,482	608,392
Net assets, beginning of year	4,684,728	4,563,020	4,167,741	3,681,057	8,852,469	8,244,077
Net assets, end of year	$ 4,743,020	$ 4,684,728	$ 4,389,931	$ 4,167,741	$ 9,132,951	$ 8,852,469

Governmental Activities

Program revenues, which include user fees and charges, restricted operating/capital grants and contributions, represent 16 percent of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and state revenue sharing. The decrease in operating grants and contributions resulted from the loss of the federal COPS grant of $40,000 and decrease in State funding for Act 51 money. The increase in other revenue is due to a $51,000 increase in interest income and an increase in revenues in the Parks and Recreation programs.

Business Type Activities

Business type activities increased the City's net assets by $222,190. The Water and Sewer Fund accounts for the majority of this increase and represents water and sewer lines contributed by developers and system connection related fees. The increase in Water and Sewer expenses is due to rate increases required to pay for the additional cost of purchasing water from the Huron Regional Water Authority which became operational in January 2006.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $1,444,687, an increase of $45,398 in comparison with the prior year. Seventy-four percent ($1,062,758) of this amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects, capital expenditures and debt service.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund was $1,002,468. As a measure of the General Fund's liquidity, it may be useful to compare unrestricted fund balance to total fund expenditures: unrestricted fund balance represents 56% of total General Fund expenditures. The fund balance of the City's General Fund increased by $74,239 during the current fiscal year.

The primary funds utilized by the City for street construction and maintenance are the Major and Local Street Funds. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of $180,467 (an increase of $16,592); the Local Street Fund had a balance of $59,574 (an increase of $8,750). The fund balance of the Brick Street Assessment Fund decreased by $11,730 as a result of delinquent special assessments.

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

Unrestricted net assets of Water and Sewer funds at the end of the year amounted to $1,940,540. The Water and Sewer Fund had an increase in net assets for the year of $222,190. Other factors concerning the finances of this fund have already been addressed in the discussion of the City's business type activities.

The Equipment Rental Internal Service Fund has unrestricted net assets of $622,689 which represents an increase of $76,594 during the current fiscal year.

General Fund Budgetary Highlights

Revenue was above budget expectations by $43,780 for the fiscal year ended June 30, 2006. City departments overall stayed below budget, resulting in total expenditures below budget by $67,206. Differences between the original budget and the final amended budget were minimal.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to $8,026,026. This investment in capital assets includes land, buildings and improvements, systems, equipment, and infrastructure. The total increase in the City's investment in capital assets for the fiscal year was $41,155.

Major capital asset expenditures during the fiscal year included the following:

- The paving of a City alley
- An outdoor hockey scoreboard and lighting.

The table below shows the City's Capital Assets as of June 30, 2006 and 2005.

City's Capital Assets

(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 446,148	$ 436,400	$ -	$ -	$ 446,148	$ 436,400
Buildings and improvements	498,613	375,923	-	-	498,613	375,923
Systems	-	-	4,143,371	4,127,216	4,143,371	4,127,216
Equipment	231,502	290,896	-	-	231,502	290,896
Infrastructure	2,396,935	2,503,973	-	-	2,396,935	2,503,973
Constuction in progress	-	157,606	309,457	92,857	309,457	250,463
Total net assets	$ 3,573,198	$ 3,764,798	$ 4,452,828	$ 4,220,073	$ 8,026,026	$ 7,984,871

Additional information on the City's capital assets can be found in Note 5 on pages 33 - 35 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of $2,989,497. These amounts are summarized below.

City's Outstanding Debt

General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Drain assessments	$ 491,851	$ 575,242	$ -	$ -	$ 491,851	$ 575,242
Revenue/Special assessment bonds	-	-	2,003,437	2,217,404	2,003,437	2,217,404
General obligation bonds	-	-	-	110,000	-	110,000
Installment contracts	337,495	381,980	-	-	337,495	381,980
Land contracts	156,714	172,798	-	-	156,714	172,798
Total net assets	$ 986,060	$ 1,130,020	$ 2,003,437	$ 2,327,404	$ 2,989,497	$ 3,457,424

The City's total debt decreased by $467,927 during the current fiscal year, with no new debt incurred. The City retired the 1992 refunding debt in 2006, which was being financed with property tax issues.

Additional information on the City's long-term debt can be found in Note 7 on pages 37 - 39 of this report.

Economic Factors and Next Year's Budgets and Rates

- Governmental fund budgets for the fiscal year ending June 30, 2007 anticipate an overall gain of $16,000. This is a result of additional revenue, approximately $87,000 budgeted in the Drain fund for the installation of the Cleveland Street Drain, (Phase III) scheduled for completion in the Spring of 2009. The $87,000 gain is reduced however by the street paving projects which are financed by available cash surpluses from prior years.

- The 2007 budget is predicated based on total property tax levies of 19.56 mills which is the same amount levied in 2006.

- The City's governmental fund balances are expected to total $1,460,000 which represents about 55% of the budgeted expenditures of those funds for 2007.

- In late 2006, the City began improving its wastewater treatment plant. The total project costs are estimated to be $6,630,000 and expected to be completed in August 2007.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Kay Goebel, City Clerk, 300 E. Huron Avenue, Bad Axe, MI 48413.

Basic Financial Statements

Statement of Net Assets
June 30, 2006

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS:				
Cash and cash equivalents	$ 2,046,381	$ 1,466,517	$ 3,512,898	$ 167,762
Cash not qualifying as cash equivalents	-	349,547	349,547	25,622
Receivables, net of allowance	170,576	244,821	415,397	3,527
Special assessments	206,514	-	206,514	-
Internal balances	12,053	(12,053)	-	-
Due from component units	13,620	-	13,620	-
Due from fiduciary fund	3,969	-	3,969	-
Deferred charges	-	46,281	46,281	-
Prepaids	17,556	-	17,556	2,980
Capital assets, net	3,573,198	4,452,828	8,026,026	262,351
Total assets	6,043,867	6,547,941	12,591,808	462,242
LIABILITIES:				
Accounts payable	106,723	122,787	229,510	10,000
Accrued payroll and liabilities	88,449	23,443	111,892	2,128
Accrued interest	20,753	8,343	29,096	-
Due to primary government	-	-	-	13,620
Deferred revenue	1,607	-	1,607	166
Noncurrent liabilities:				
Due within one year	145,561	217,264	362,825	2,000
Due in more than one year	937,754	1,786,173	2,723,927	84,771
Total liabilities	1,300,847	2,158,010	3,458,857	112,685
NET ASSETS:				
Investment in capital assets, net	2,587,138	2,449,391	5,036,529	262,351
Restricted:				
Capital projects	207,243	-	207,243	-
Debt service	4,652	-	4,652	-
Other purposes	376,548	-	376,548	25,622
Unrestricted:				
Designated:				
Other purposes	-	69,980	69,980	-
Undesignated	1,567,439	1,870,560	3,437,999	61,584
Total net assets	$ 4,743,020	$ 4,389,931	$ 9,132,951	$ 349,557

The notes to financial statements are an integral part of this statement.

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	$ 548,579	$ 19,399	$ -
Public safety	782,492	10,199	1,871
Public works	864,780	45,867	273,627
Economic development	23,459	7,454	-
Recreation and cultural	224,812	62,723	-
Interest on long-term debt	56,868	-	-
Total governmental activities	2,500,990	145,642	275,498
Business type activities:			
Water and sewer	1,486,555	1,502,099	-
Interest on long-term debt	121,741	-	-
Total business type activities	1,608,296	1,502,099	-
Total primary government	$ 4,109,286	$ 1,647,741	$ 275,498
Component units:			
Economic Development Corporation	$ -	$ -	$ -
Downtown Development Authority	68,128	-	-
Library	217,118	82,418	-
Total component units	$ 285,246	$ 82,418	$ -

General revenues:
- Property taxes
- State sources
- Special assessments
- Unrestricted investment income
- Gain on sale of equipment
- Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Capital contributions

Net assets, beginning of year

Net assets, end of year

The notes to financial statements are an integral part of this statement.

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Change in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Units
$ (529,180)	$ -	$ (529,180)	$ -
(770,422)	-	(770,422)	-
(545,286)	-	(545,286)	-
(16,005)	-	(16,005)	-
(162,089)	-	(162,089)	-
(56,868)	-	(56,868)	-
(2,079,850)	-	(2,079,850)	-
-	15,544	15,544	-
-	(121,741)	(121,741)	-
-	(106,197)	(106,197)	-
(2,079,850)	(106,197)	(2,186,047)	-
-	-	-	-
-	-	-	(68,128)
-	-	-	(134,700)
-	-	-	(202,828)
1,503,021	107,752	1,610,773	134,009
397,920	4,856	402,776	10,295
20,560	-	20,560	-
60,798	68,910	129,708	1,096
4,883	-	4,883	-
151,854	-	151,854	15,066
(894)	894	-	-
2,138,142	182,412	2,320,554	160,466
58,292	76,215	134,507	(42,362)
-	145,975	145,975	-
4,684,728	4,167,741	8,852,469	391,919
$ 4,743,020	$ 4,389,931	$ 9,132,951	$ 349,557

The notes to financial statements are an integral part of this statement.

	Major Funds		
	General	Major Street	Brick Street Assessment
ASSETS			
Assets			
Cash and cash equivalents	$ 976,596	$ 195,945	$ 25,919
Receivables:			
Taxes	1,219	-	-
Interest and accounts	-	-	-
Other governmental units	129,474	22,858	-
Special assessments	-	-	206,514
Due from other funds	125,405	1,352	-
Due from component units	13,620	-	-
Prepaids	17,556	-	-
Total assets	$ 1,263,870	$ 220,155	$ 232,433
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	$ 93,027	$ 485	$ 1,257
Accrued payroll and liabilities	71,307	11,254	-
Due to other funds	95,849	27,949	31,709
Deferred revenue	1,219	-	206,514
Total liabilities	261,402	39,688	239,480
Fund Balances			
Reserved:			
Capital projects	-	-	(7,047)
Debt service	-	-	-
Other purposes	-	180,467	-
Unreserved	1,002,468	-	-
Total fund balances	1,002,468	180,467	(7,047)
Total liabilities and fund balances	$ 1,263,870	$ 220,155	$ 232,433

The notes to financial statements are an integral part of this statement.

Governmental Funds
Balance Sheet
June 30, 2006

Other Nonmajor Governmental Funds	Total Governmental Funds
$ 212,058	$ 1,410,518
388	1,607
-	-
16,637	168,969
-	206,514
89,162	215,919
-	13,620
-	17,556
$ 318,245	$ 2,034,703
$ 6,196	$ 100,965
5,808	88,369
37,054	192,561
388	208,121
49,446	590,016
7,776	729
4,652	4,652
196,081	376,548
60,290	1,062,758
268,799	1,444,687
$ 318,245	$ 2,034,703

The notes to financial statements are an integral part of this statement.

Reconciliation of Fund Balance on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balance, total governmental funds		$ 1,444,687
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	5,980,671	
Accumulated depreciation	(2,585,232)	3,395,439
Long-term receivables such as special assessments are expected to be collected over several years in the governmental funds and are not available to pay for current year expenditures.		206,514
Internal Service Fund used by management to charge cost of equipment used. The assets and liabilities of the internal service fund are included in the governmental activities statement of net assets.		800,448
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Drain assessments	(491,851)	
Notes payable	(494,209)	
Accrued interest payable	(20,753)	
Accrued compensated absence	(97,255)	(1,104,068)
Net assets, governmental activities		$ 4,743,020

The notes to financial statements are an integral part of this statement.

	Major Funds		
	General	Major Street	Brick Street Assessment
Revenues:			
Property taxes	$ 1,179,936	$ -	$ -
Licenses and permits	16,199	-	-
State sources	390,797	199,222	-
Charges for services	7,454	-	-
Special assessments	-	-	19,902
Fines and forfeitures	8,190	-	-
Interest income	31,339	1,860	77
Rental income	3,200	-	-
Miscellaneous	153,863	631	-
Total revenues	1,790,978	201,713	19,979
Expenditures:			
General government	503,665	-	-
Public safety	779,742	-	-
Public works	352,341	176,689	-
Economic development	23,459	-	-
Recreation and cultural	95,824	-	-
Debt service:			
Principal	16,084	-	24,600
Interest and charges	9,748	-	7,109
Total expenditures	1,780,863	176,689	31,709
Excess of revenues over (under) expenditures	10,115	25,024	(11,730)
Other financing sources (uses):			
Transfers in	65,018	30,000	-
Transfers out	(894)	(38,432)	-
Total other financing sources (uses)	64,124	(8,432)	-
Excess of revenue and other financing sources over (under) expenditures and other financing uses	74,239	16,592	(11,730)
Fund balance, beginning of year	928,229	163,875	4,683
Fund balance, end of year	$ 1,002,468	$ 180,467	$ (7,047)

The notes to financial statements are an integral part of this statement.

Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2006

Other Nonmajor Governmental Funds	Total Governmental Funds
$ 323,085	$ 1,503,021
-	16,199
83,399	673,418
47,068	54,522
658	20,560
2,009	10,199
7,031	40,307
15,655	18,855
36,454	190,948
515,359	2,528,029
-	503,665
4,259	784,001
214,990	744,020
-	23,459
151,575	247,399
83,391	124,075
38,261	55,118
492,476	2,481,737
22,883	46,292
94,432	189,450
(151,018)	(190,344)
(56,586)	(894)
(33,703)	45,398
302,502	1,399,289
$ 268,799	$ 1,444,687

The notes to financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Funds to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balance, total governmental funds		$ 45,398
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	132,926	
Depreciation expense	(264,560)	(131,634)
Revenue, such as special assessment revenue, reported in the statement of activities in previous years did not provide current financial resources in the governmental funds until the current year.		(17,153)
Internal service fund used by management to charge costs of equipment used. The net revenues (expenses) attributable to this fund is reported with governmental activities.		16,628
The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction, however, has any effect on net assets.		
Principal payments on long term liabilities		143,960
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Increase in accrued interest payable	(1,750)	
Decrease in accrued compensated absences	2,843	1,093
Change in net assets, governmental activities		$ 58,292

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

Proprietary Funds
Statement of Net Assets
June 30, 2006

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Fund
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,466,517	$ 635,863
Cash not qualifying as cash equivalents	349,547	-
Receivables:		
Interest and accounts	244,821	-
Due from other funds	5,125	31,616
Total current assets	2,066,010	667,479
Non-current assets:		
Deferred charges	46,281	-
Capital assets, net	4,452,828	177,759
Total non-current assets	4,499,109	177,759
Total assets	6,565,119	845,238
Liabilities:		
Current liabilities:		
Accounts payable	122,787	5,758
Accrued payroll and liabilities	23,443	80
Accrued interest	8,343	-
Due to other funds	17,178	38,952
General obligation bonds	217,264	-
Total current liabilities	389,015	44,790
Long-term liabilities (net of current portion):		
General obligation bonds	1,786,173	-
Total liabilities	2,175,188	44,790
Net assets:		
Investment in capital assets, net	2,449,391	177,759
Unrestricted:		
Designated:		
Other purposes	69,980	-
Undesignated	1,870,560	622,689
Total net assets	$ 4,389,931	$ 800,448

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Fund
Operating revenues:		
Waste collection fees	$ 141,234	$ -
Water usage fees	778,930	-
Sewer usage fees	542,178	-
Equipment rentals	-	218,079
Permits and tap fees	2,888	-
Other	36,869	1,658
Total operating revenues	1,502,099	219,737
Operating Expenses:		
Cost of waste collection	134,060	-
Cost of water purchased	628,781	-
Cost of sewage treatment	427,293	-
Operations and maintenance	-	129,029
Depreciation	222,676	77,454
General and administrative	73,745	22,000
Total operating expenses	1,486,555	228,483
Operating income (loss)	15,544	(8,746)
Non-operating revenues (expenses):		
Property taxes	107,752	-
State sources	4,856	-
Interest income	68,910	20,491
Interest expense	(121,741)	-
Gain on sale of equipment	-	4,883
Total non-operating revenue (expenses)	59,777	25,374
Net income before contributions and transfers	75,321	16,628
Capital contributions	145,975	-
Transfers in	894	-
Change in net assets	222,190	16,628
Net assets, beginning of year	4,167,741	783,820
Net assets, end of year	$ 4,389,931	$ 800,448

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Fund
Cash flows from operating activities:		
Receipts from customers	$ 1,400,439	$ 228,836
Payments to employees	(273,744)	(13,892)
Payments to suppliers	(757,339)	(100,566)
Net cash provided by operating activities	369,356	114,378
Cash flows from noncapital financing activities:		
Property taxes	107,752	-
Interfund activity	894	-
State sources	4,856	-
Net cash provided by noncapital financing activities	113,502	-
Cash flows from capital and related financing activities:		
Sale of equipment	-	4,883
Acquisition and construction of capital assets	(309,457)	(17,488)
Principal paid on bond debt and leases	(335,000)	-
Interest paid on bond debt and leases	(112,162)	-
Net cash used by capital and related financing activities	(756,619)	(12,605)
Cash flows from investing activities:		
Investment income	68,910	20,491
Purchases of investments	(1,444,679)	-
Maturity of investments	1,978,457	-
Net cash provided by investing activities	602,688	20,491
Net increase in cash and cash equivalents for the year	328,927	122,264
Cash and cash equivalents, beginning of year	1,137,590	513,599
Cash and cash equivalents, end of year	$ 1,466,517	$ 635,863

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006
(Continued)

	Enterprise Fund	Governmental Activities
	Water and Sewer	Internal Service Fund
Reconciliation of net income to net cash provided by operating activities:		
Operating income (loss) for the year	$ 15,544	$ (8,746)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation expense	222,676	77,454
Amortization of bond costs	6,209	-
Change in assets and liabilities:		
Receivables	(101,660)	9,099
Due from other funds	120,168	
Accounts payable	102,209	1,360
Accrued and other liabilities	2,018	(21)
Due to other funds	2,192	35,232
Net cash provided by operating activities	$ 369,356	$ 114,378

The notes to financial statements are an integral part of this statement.

Fiduciary Funds
Statement of Net Assets
June 30, 2006

	Escrow Account
Assets	
Cash and cash equivalents	$ 3,969
Liabilities	
Due to other funds	$ 3,969

The notes to financial statements are an integral part of this statement.

Discretely Presented Component Units
Combining Statement of Net Assets
June 30, 2006

	Economic Development Corporation	Downtown Development Authority	Library	Total
Assets:				
Cash and cash equivalents	$ 4,128	$ 119,867	$ 43,767	$ 167,762
Cash not qualifying as cash equivalents	-	-	25,622	25,622
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	3,361	3,361
Prepaids	-	-	2,980	2,980
Capital assets, net	-	-	262,351	262,351
Total assets	4,128	119,867	338,247	462,242
Liabilities:				
Accounts payable	-	10,000	-	10,000
Accrued payroll and liabilities	-	-	2,128	2,128
Due to primary government	-	-	13,620	13,620
Deferred revenue	-	-	166	166
Noncurrent liabilities:				
Due within one year	-	2,000	-	2,000
Due in more than one year	-	84,771	-	84,771
Total liabilities	-	96,771	15,914	112,685
Net assets:				
Investment in capital assets, net	-	-	262,351	262,351
Restricted:				
Other purposes	-	-	25,622	25,622
Unrestricted	4,128	23,096	34,360	61,584
Total net assets	$ 4,128	$ 23,096	$ 322,333	$ 349,557

The notes to financial statements are an integral part of this statement.

Discretely Presented Component Units
Combining Statement of Activities
For the Year Ended June 30, 2006

		Net Expenses and Change in Net Assets			
	Expenses	Economic Development Corporation	Downtown Development Authority	Library	Total
Governmental activities:					
Public works	$ 41,374	$ -	$ (41,374)	$ -	$ (41,374)
Recreation and cultural	217,118	-	-	(217,118)	(217,118)
Debt service	26,754	-	(26,754)	-	(26,754)
Total	$ 285,246	-	(68,128)	(217,118)	(285,246)
Program revenue		-	-	82,418	82,418
Net governmental activities		-	(68,128)	(134,700)	(202,828)
General revenue:					
Property taxes		-	54,097	79,912	134,009
State sources		-	-	10,295	10,295
Unrestricted investment income		-	-	1,096	1,096
Miscellaneous		-	150	14,916	15,066
Total general revenue		-	54,247	106,219	160,466
Change in net assets		-	(13,881)	(28,481)	(42,362)
Net assets, beginning of year		4,128	36,977	350,814	391,919
Net assets, end of year		$ 4,128	$ 23,096	$ 322,333	$ 349,557

The notes to financial statements are an integral part of this statement.

Notes To Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the City of Bad Axe, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Bad Axe, Michigan:

Reporting Entity

The City of Bad Axe, Michigan is governed by an elected mayor and six-member council. The City is located in Huron County, Michigan, and has approximately 3,500 residents. Services provided to City residents include law enforcement, community enrichment and development, and human services. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. As defined by GASB Statement 14, component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Discretely Presented Component Units - The discretely presented component units' column in the combined financial statements include the financial data of the City's component units. The governing bodies of these component units are appointed by the City Council.

a. The City of Bad Axe Downtown Development Authority (DDA) is a legally separate entity which promotes the economic growth of the business district of which it is composed.

b. The City of Bad Axe Economic Development Corporation (EDC) is a legally separate entity which provides economic development assistance to businesses in the City.

c. The Bad Axe Public Library provides library services to City residents. The City allocates tax millages to the Library, approves the Library's budgets and appoints the Library Board.

Administrative Offices

City of Bad Axe Downtown Development Authority
300 East Huron Avenue
Bad Axe, MI 48413

City of Bad Axe Economic Development Corporation
300 East Huron Avenue
Bad Axe, MI 48413

Bad Axe Public Library
200 South Hanselman Street
Bad Axe, MI 48413

The City participates in a cooperative unit with the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association. See Note 11 entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the discretely presented component units for which the City is financially accountable.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental revenue, special assessments collected in the current fiscal period, and interest. All other revenue items are considered available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

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

- The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the City. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of 1951, as amended.

- The Brick Street Assessment Fund is used to account for the construction activity for local improvements that benefit property owners.

The City reports the following major enterprise fund:

- The Water and Sewer Fund accounts for the activity of the water distribution and sewage collection systems administered by the City.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the charges for equipment rental to funds and departments.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

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

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds and of the City's internal service funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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.

Assets, Liabilities and Net Assets or Equity

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a original maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes – Property taxes are assessed as of December 31. The related property taxes are billed on December 1 of the following year and become a lien at that time. These taxes are payable at the City until February 15 without penalty. The final collection date by the City Treasurer is February 28 before they are added to the County tax rolls.

Inventories – Inventories of governmental funds are recorded as expenditures when purchased.

Restricted Assets – Restricted assets include amounts on deposit with Huron County being held for the construction, maintenance, and related debt service of storm drains within the City.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has adopted the policy of capitalizing net interest costs on funds borrowed to finance the construction of proprietary fund fixed assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Drains	20 years
Roads and sidewalks	20 years
Land improvements	15 – 40 years
Buildings and building improvements	30 years
Vehicles	5 years
Machinery and equipment	7 – 20 years
Office equipment and furniture	5 – 10 years
Water and sewer distribution systems	20 – 40 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick pay benefits, up to a maximum of 960 hours. Any hours in excess of the maximum is paid to the employees at a 50% rate, up to 40 hours. Upon termination of employment, City employees receive up to 50% of their sick pay accumulations depending upon years of service. Unused employee vacation time is paid to employees annually on their anniversary date or contract date. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment generally when the time is taken off, or employees terminate.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose

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

Note 2 – Stewardship, Compliance and Accountability

The City Charter establishes the fiscal year as the twelve-month period beginning July 1. In April, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. The City Manager submits a budget of estimated expenditures and revenues by the second regular City Council meeting in May. The City Council, subsequently, holds a budget hearing on the proposed budget at the first meeting in June.

The City Council legally enacts the budget at its second meeting in June through the passage of a budget resolution. The City Manager is authorized to make budgetary transfers within the appropriation centers and funds. All fund budgets are adopted at the departmental level for appropriation centers. Appropriations lapse at the end of each fiscal year.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budget expenditures for budgetary funds have been shown on a functional basis. The budget approved by the Council for the City's General, Special Revenue and Proprietary Funds were adopted at the departmental level. Budgets approved for the City's Debt Service and Component Unit Funds are adopted at the total expenditure level. The budgets were amended during the last quarter of the year to reflect certain changes in expenditure levels.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures at the budgetary center level over budget as follows:

Fund	Amended Budget	Actual	Excess
Primary government:			
General fund:			
Public safety	$ 764,301	$ 779,742	$ 15,441
Transfers out	-	894	894
Special revenue funds:			
Drug law enforcement			
Public safety	1,300	4,259	2,959
Component units:			
Downtown Development Authority			
Public works	14,300	18,178	3,878
Library			
Recreation and cultural	196,680	202,046	5,366

Note 3 – Receivables

Receivables as of June 30, 2006 were as follows:

	Governmental Activities	Business Type Activities	Component Units
Taxes	$ 1,607	$ -	$ 166
Accounts, net of allowance for uncollectibles of $3,000	-	244,821	3,361
Due from other governments	168,969	-	-
Special assessments	206,514	-	-
Total	$ 377,090	$ 244,821	$ 3,527

Note 4 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptances of United States banks;

commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the Board has authorized investments to those listed under the State's statutory authority as noted above. The City's deposits and investments are in accordance with statutory authority.

At year end, the City's cash and investments were reported in the accompanying financial statements in the following categories:

	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and cash equivalents	$ 2,046,381	$ 1,466,517	$ 3,512,898	$ 3,969	$ 167,762
Cash not qualifying as cash equivalents	-	349,547	349,547	-	25,622
Total	$ 2,046,381	$ 1,816,064	$ 3,862,445	$ 3,969	$ 193,384

Cash and investments as of December 31, 2006 consited of the following:

	Governmental Activities	Business Type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash on hand	$ 300	$ 25	$ 325	$ 300	$ 200
Demand deposits	2,046,081	1,098,073	3,144,154	3,669	193,184
Investment pools	-	717,966	717,966	-	-
Total	$ 2,046,381	$ 1,816,064	$ 3,862,445	$ 3,969	$ 193,384

The City's cash and investments are subject to several types of risk, which are examined in more detail below:.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City's primary government, fiduciary funds and component units had $2,266,934 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investment listed below, there is no custodial credit risk, as this investment is uncategorized as to credit risk.

Investment Type	Fair Value	Credit Rating
Business Type Activities		
Investment pools		
Independent Financial Services	$ 717,966	N/A

Interest Rate Risk

State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment credit risk. None of the City's investments were subject to credit risk ratings.

Concentration of Credit Risk

State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

Note 5 – Capital Assets

Capital asset activity of the City's governmental and business type activities was as follows:

	Balance June 30, 2005	Additions	Disposals & Adjustments	Balance June 30, 2006
Governmental activities:				
Primary government:				
Capital assets not being depreciated:				
Land	$ 436,400	$ 9,748	$ -	$ 446,148
Construction in progress	157,606	-	157,606	-
Net capital assets not being depreciated	594,006	9,748	157,606	446,148
Capital assets being depreciated:				
Drains	1,523,525	-	-	1,523,525
Roads	1,857,383	102,665	-	1,960,048
Streetscape improvements	1,026,049	-	-	1,026,049
Buildings and improvements	583,488	-	-	583,488
Land improvements	113,000	153,465	-	266,465
Machinery and equipment	826,528	24,655	14,415	836,768
Vehicles	396,077	17,487	31,770	381,794
Subtotal	6,326,050	298,272	46,185	6,578,137
Accumulated depreciation:				
Drains	805,922	76,176	-	882,098
Roads	641,228	82,225	-	723,453
Streetscape improvements	455,834	51,302	-	507,136
Buildings and improvements	245,355	17,971	-	263,326
Land improvements	75,210	12,804	-	88,014
Machinery and equipment	611,820	74,888	14,415	672,293
Vehicles	319,889	26,648	31,770	314,767
Subtotal	3,155,258	342,014	46,185	3,451,087
Net capital assets being depreciated	3,170,792	(43,742)	-	3,127,050
Captial assets, net	$ 3,764,798	$ (33,994)	$ 157,606	$ 3,573,198

	Balance June 30, 2005	Additions	Disposals & Adjustments	Balance June 30, 2006
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	$ 92,857	$ 309,457	$ 92,857	$ 309,457
Capital assets being depreciated:				
Water system plant	1,922,203	22,865	-	1,945,068
Sewer system plant	6,257,205	215,966	21,931	6,451,240
Subtotal	8,179,408	238,831	21,931	8,396,308
Accumulated depreciation:				
Water system plant	791,460	71,283	-	862,743
Sewer system plant	3,260,732	151,393	21,931	3,390,194
Subtotal	4,052,192	222,676	21,931	4,252,937
Net capital assets being depreciated	4,127,216	16,155	-	4,143,371
Capital assets, net	4,220,073	325,612	92,857	4,452,828
Total primary government	$ 7,984,871	$ 291,618	$ 250,463	$ 8,026,026
Discretely presented component units:				
Capital assets not being depreciated:				
Land	$ 7,000	$ -	$ -	$ 7,000
Capital assets being depreciated:				
Buildings and improvements	457,918	-	-	457,918
Machinery and equipment	61,972	-	-	61,972
Books and media	135,145	23,949	30,563	128,531
Subtotal	655,035	23,949	30,563	648,421
Accumulated depreciation:				
Buildings and improvements	257,762	10,804	-	268,566
Machinery and equipment	56,759	1,849	-	58,608
Books and media	70,091	26,368	30,563	65,896
Subtotal	384,612	39,021	30,563	393,070
Net capital assets being depreciated	270,423	(15,072)	-	255,351
Capital assets, net	$ 277,423	$ (15,072)	$ -	$ 262,351

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

Governmental activities:	
General government	$ 54,856
Public safety	20,794
Public works	263,321
Recreation and cultural	3,043
Total governmental activities	$ 342,014
Business type activities:	
Water system	$ 71,283
Sewer system	151,393
Total business type activities	$ 222,676
Component units:	
Recreation and cultural	$ 39,021

Note 6 – Interfund Receivables, Payables, and Transfers

The interfund balances are comprised of the following:

	Interfund Receivables	Interfund Payables
General fund:		
Operations	$ 139,025	$ 95,849
Special revenue funds:		
Major Street	1,352	27,949
Brick Street Assessment	-	31,709
Local Street	1,321	27,086
County Road Millage	32,702	-
Parks and Recreation	55,139	250
	90,514	86,994
Debt service funds:		
Drain Debt	-	9,718
Enterprise funds:		
Water and Sewer	5,125	17,178
Internal service funds:		
Motor Vehicle Equipment	31,616	38,952
Agency funds:		
Tax	-	3,969
Component units:		
Library	-	13,620
	$ 266,280	$ 266,280

Interfund transfers are comprised of the following:

	Transfers In		Transfers Out	
General fund:				
Operations	$ 65,018	(b)	$ 894	(a)
Special revenue funds:				
Major Street	30,000	(b)	38,432	(c)
Local Street	94,432	(b) & (c)	-	
County Road Millage	-		151,018	(b)
Enterprise fund:				
Water and sewer	894	(a)	-	
	$ 190,344		$ 190,344	

(a) Transfer for debt service payments
(b) Transfer for capital improvements
(c) Allowable transfer under Act 51 in the amount of $ 38,432

Note 7 – Long-Term Debt

A summary of changes in long-term debt is as follows:

	Balance June 30, 2005	Additions (Retirements)	Balance June 30, 2006	Due Within One Year
Governmental activities:				
General Obligation Debt:				
Other Long-term Obligations:				
Drain assessments payable - Bad Axe Drain - Phase I, due in annual installments of $24,066 plus interest annually at 7.000% through March 1, 2007 (a)	$ 48,131	$ (24,065)	$ 24,066	$ 24,066
Drain assessments payable - Bad Axe Drain - Phase II, due in annual installments of $52,500 plus interest annually at 6.720% through March 1, 2014 (a)	472,500	(52,500)	420,000	52,500
Drain assessments payable - Crumback Drain, due in annual installments of $6,826 plus interest annually at 4.750% to 5.000% through March 1, 2013 (a)	54,611	(6,826)	47,785	6,826
$140,000 land contract for the purchase of land due in annual installments of $13,216 including interest at a rate of 7.000% through January 15, 2008; a final payment of $89,285 is due on January 15, 2009	102,798	(6,020)	96,778	6,442
$100,000 land contract for the purchase of land, due in annual installments of $10,000 plus interest annually at 3.750% through July 1, 2011	70,000	(10,064)	59,936	10,000
$142,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of $17,508 including interest at 4.000% through October 1, 2011(b)	105,080	(13,012)	92,068	13,825
$75,000 installment purchase contract for DDA Streetscape capital project, due in annual installments of $9,247 including interest at 4.000% through October 1, 2011(b)	55,500	(6,873)	48,627	7,302

	Balance June 30, 2005	Additions (Retirements)	Balance June 30, 2006	Due Within One Year
Governmental activities (Continued):				
General Obligation Debt (Continued):				
Other Long-term Obligations (Continued):				
Brick Street Assessment installment contract, due in annual installments of $24,600 plus interest annually at 2.500% to 3.950% through June 1, 2014	221,400	(24,600)	196,800	24,600
Total other debt	1,130,020	(143,960)	986,060	145,561
Accumulated Fringe Benefits:				
Vested sick leave	100,098	(2,843)	97,255	-
Total governmental activities	1,230,118	(146,803)	1,083,315	145,561
Business type activities:				
General Obligation Bonds:				
$1,700,000 1992 sewer refunding bonds due in annual installments of $110,000 plus interest semi-annually at 5.750% through June 1, 2006	110,000	(110,000)	-	-
County Contractual Obligations:				
$1,605,000 1996 water supply and sewage disposal bonds - Series B due in annual installments of $175,000 to $200,000 plus interest semi-annually at 4.625% to 4.750% through December 1, 2007	550,000	(175,000)	375,000	175,000
Less unamortized discount	(17,396)	9,608	(7,788)	(6,048)
Net debt	532,604	(165,392)	367,212	168,952
$1,900,000 1996 water supply and sewage disposal bonds - Series A due in annual installments of $50,000 to $200,000 plus interest semi-annually at 4.125% to 7.125% through December 1, 2015	1,700,000	(50,000)	1,650,000	50,000
Less unamortized discount	(15,200)	1,425	(13,775)	(1,688)
Net debt	1,684,800	(48,575)	1,636,225	48,312
Total business type activities	2,327,404	(323,967)	2,003,437	217,264
Total primary government	$ 3,557,522	$ (470,770)	$ 3,086,752	$ 362,825

(a) The Michigan drain code requires each entity so assessed to pay each assessment installment and interest thereon from its general or contingent fund or to levy ad valorem taxes on all taxable property in the entity for such purposes, subject to applicable charter, statutory and constitutional tax limitations.

(b) The borrowed funds will be repaid by the DDA with captured taxes on special assessments to the downtown development district. Accordingly, debt service payments are reported in the DDA component unit fund.

Annual debt service requirements to maturity for the above bond obligations, excluding the unamortized discounts are as follows:

Governmental Activities

	Principal	Interest	Total
2007	$ 145,561	$ 54,275	$ 199,836
2008	122,791	45,726	168,517
2009	200,221	39,419	239,640
2010	117,691	27,645	145,336
2011	118,640	21,626	140,266
2012-2016	281,156	29,396	310,552
	$ 986,060	$ 218,087	$ 1,204,147

Business Type Activities

	Principal	Interest	Total
2007	$ 225,000	$ 94,291	$ 319,291
2008	250,000	81,931	331,931
2009	175,000	71,156	246,156
2010	175,000	62,581	237,581
2011	200,000	53,250	253,250
2012-2016	1,000,000	117,125	1,117,125
	$ 2,025,000	$ 480,334	$ 2,505,334

In addition to the above debt, the Downtown Development Authority owes the State of Michigan $96,771. This represents the amount of incorrectly captured school taxes for the 1998 through 2003 levies. These amounts will be repaid in annual payments through 2016.

Note 8 – Property Taxes

The 2005 ad valorem tax levy was based on the following property valuations and millage rates:

Total taxable valuation:	$ 81,384,274
Millage rates per $1,000 of taxable valuation:	Mills
General Fund	14.16
Parks Fund	1.00
Library Fund	1.00
Local Street Fund	0.55
1992 Refunding Bond Fund (1983 sewer debt)	1.35
Drain Debt Service Fund	1.50
Total mills	19.56

Note 9 – Retirement Plans

Defined Benefit Pension Plan

Plan description

The City contributes to defined benefit pension plans with the Michigan Municipal Employees Retirement System (MERS). All full-time administration, DPW and police employees are eligible to join the plan. The plan became effective August 1, 1999.

The Municipal Employees Retirement System of Michigan (MERS), is an agent multiple-employer, state-wide, public employee pension plan that was created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. Pursuant to Act 220, on August 15, 1996, MERS became an independent public non-profit corporation, which is an instrumentality of the participating municipalities and courts. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. It provides centralized administration and investment of plan assets, but each employer unit is separately experienced rated. MERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

Funding Policy

Employees are required to contribute 5% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

Annual pension cost

For 2006, the City's annual pension cost was equal to their required contribution. Actual contributions were made based on the actual payroll paid rather than the estimated payroll used in the actuarial valuation. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) investment rate of return of 8%; (b) projected salary increases ranging from 4.5% to 8.66% per year; and (c) 2.5% per year cost of living increases. The actuarial value of plan assets was determined using methods that smooth the effect of short-term volatility in the market value of investments over a four-year period.

Three-year information

Year Ending	Annually Required Contribution (ARC)	Percentage of ARC Contributed	Net Pension Obligation
6/30/2006	$ 158,898	100%	$ -
6/30/2005	116,083	100%	-
6/30/2004	97,653	100%	-

Defined Contribution Pension Plan

One employee of the City participates in a defined contribution pension plan entitled "City of Bad Axe Group Pension Plan". The plan administrator is Manulife. Under the Plan agreement, the City is required to contribute an amount equal to 8.5% of the annual compensation paid to covered employees. Employees are required to contribute an amount equal to 2.5% of their annual compensation. Employees may also make voluntary non-deductible contributions to the Plan up to a maximum of 10% of their annual compensation. Compensation for Plan purposes does not include payments for overtime. Employee non-deductible voluntary contributions may only be withdrawn upon termination of employment, retirement or death. Benefits vest after ten years of service. Employees not wishing to participate in the plan must notify the plan administrator in writing.

All contributions to the Plan are invested with Manulife under an Allocated Retirement Account. Each employee has 11 investment options from the security of a guaranteed account to the opportunities of an aggressive stock fund.

The following pension data is presented for the year ended June 30, 2006:

Total payroll	$ 1,349,289
Total payroll for employees covered by the plan	$ 20,781
Employer contribution percentage	8.5%
Employer contribution	$ 1,766
Employee contribution percentage	2.5%
Required employee contributions	$ 519
Employee non-deductible voluntary contributions	-
Total employee contributions	$ 519

Note 10 – Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The City participates in the Michigan Municipal League Liability and Property Pool. The maximum insurance coverages are $7,325,992 for property damage and $1,000,000 for liability claims.

Note 11 – Joint Ventures

The City is a constituent member of the Bad Axe Fire Protection Association and the Central Huron Ambulance Service Association, which provides fire protection services and emergency ambulance services to the City of Bad Axe. The City has estimated that its percentage of contributions is 45% and 35% to Bad Axe Fire Protection Association and Central Huron Ambulance Service Association, respectively.

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments of any of the above joint ventures in the near future.

Complete financial statements can be obtained from the administrative offices at the following locations:

Bad Axe Fire Protection Association
420 S. Hanselman
Bad Axe, Michigan 48413

Central Huron Ambulance Service Association
291 W. Soper Road
Bad Axe, Michigan 48413

Note 12 – Reserved Fund Balance

The following is a summary of the reserved fund balances of the governmental funds and discretely presented component units with management's designations:

Reserved For	Major Street	Brick Street Assessment	Special Revenue	Debt Service	Library
Capital projects	$ -	$ (7,047)	$ 7,776	$ -	$ -
Debt service	-	-	-	4,652	-
Other purposes	180,467	-	196,081	-	25,622
Total	$ 180,467	$ (7,047) *	$ 203,857	$ 4,652	$ 25,622

* See Note 15.

Note 13 – Deferred Revenue

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

	Unavailable	Unearned
Taxes receivable	$ 1,607	$ -
Special assessments	$ 206,514	$ -

Note 14 – Water System

The City of Bad Axe and the Village of Port Austin are members of the Huron Regional Water Authority (HRWA). The Authority was created in 2002 for the purpose of constructing and operating a water treatment plant in Port Austin and a water pipeline to Bad Axe. The City appoints two of the four members to the governing board. The pipeline became fully operational on January 1, 2006. During the year, the City purchased $98,828 of water from the Authority and had $297,094 of costs related to the operations and maintenance and debt payments of the pipeline.

The City has irrevocably pledged the net revenues of its water supply system for the separate facility bond payments. In addition, the City has agreed to make additional payments to the Authority for the operation and maintenance expenses to support the Authority.

Note 15 – Accumulated Fund Deficit

The City has an accumulated fund deficit in the Brick Street Assessment fund of $7,047. The City intends to eliminate this deficit by having the special assessments of delinquent tax payers placed on the county property tax roll. The City will then receive funds from the county for these special assessments.

Note 16 – Debt Service

The City is making improvements to its wastewater treatment plant. These improvements will include a new raw sewage lift station, preliminary treatment building, oxidation ditch, secondary treatment building, final settling tank and improvements to existing tanks. The estimated cost of the project is $6,630,000, which will be financed by the issuance of Huron County DPW bonds through the Michigan Municipal Bond Authority. The City has entered into a contract with Huron County to repay these bonds. The water and sewer fund has incurred $309,457 of engineering costs related to this project as of June 30, 2006; however, no bond funds had been drawn until after June 30, 2006.

Required Supplemental Information

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a)/c) UAAL as a % of Covered Payroll
12/31/2000	$ 640,259	$ 788,693	$ 148,434	81%	$ 382,040	39%
12/31/2001	1,724,554	2,455,114	730,560	70%	962,402	76%
12/31/2002	1,802,661	2,808,374	1,005,713	64%	1,053,851	95%
12/31/2003	2,114,421	3,699,445	1,585,024	57%	1,005,126	158%
12/31/2004	2,333,359	4,020,710	1,687,351	58%	1,092,742	154%
12/31/2005	2,559,475	4,453,770	1,894,295	57%	1,096,057	173%

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 1,170,980	$ 1,183,636	$ 1,179,936	$ (3,700)
Licenses and permits	12,000	16,199	16,199	-
State sources	356,119	366,309	390,797	24,488
Charges for services	3,000	7,454	7,454	-
Fines and forfeitures	7,000	7,000	8,190	1,190
Interest income	10,000	27,000	31,339	4,339
Rental income	3,000	3,200	3,200	-
Miscellaneous	124,400	136,400	153,863	17,463
Total revenues	1,686,499	1,747,198	1,790,978	43,780
Expenditures:				
General government:				
City council	17,234	16,336	14,814	1,522
Administration	355,178	379,745	386,966	(7,221)
Elections	5,783	1,493	1,089	404
Assessing	24,370	20,926	21,648	(722)
Buildings and grounds	7,180	10,501	9,101	1,400
City hall	56,006	78,477	70,047	8,430
Total general government	465,751	507,478	503,665	3,813
Public safety:				
Ambulance	8,655	8,655	8,655	-
Police:				
Administration/dispatch	185,700	193,453	198,001	(4,548)
K-9	5,000	6,100	16,710	(10,610)
Patrol service	409,600	398,803	403,415	(4,612)
Crossing guard/parking	4,390	4,390	3,804	586
Justice training	1,000	1,000	-	1,000
Code enforcement	58,680	58,680	55,938	2,742
Fire	100,000	93,220	93,219	1
Total public safety	773,025	764,301	779,742	(15,441)
Public works:				
Supervision	86,583	91,663	69,958	21,705
Leaves/yard/waste	30,035	30,035	23,470	6,565
Parking lots and alleys	117,284	101,821	101,622	199
Community service	18,125	22,958	18,075	4,883
Sidewalks	72,467	72,467	38,896	33,571
Building and yard	27,845	31,454	32,615	(1,161)
Street lights	67,250	67,250	67,705	(455)
Total public works	419,589	417,648	352,341	65,307

General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006
(Continued)

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Economic development:				
Planning	$ 31,825	$ 32,825	$ 23,459	$ 9,366
Recreation and cultural:				
Parks and recreation	90,600	99,976	95,824	4,152
Other:				
Other	4,600	-	-	-
Debt service:				
Principal	16,084	16,084	16,084	-
Interest and charges	9,757	9,757	9,748	9
Total debt service	25,841	25,841	25,832	9
Total expenditures	1,811,231	1,848,069	1,780,863	67,206
Excess of revenue over (under) expenditures	(124,732)	(100,871)	10,115	110,986
Other financing sources:				
Transfers in	100,000	100,000	65,018	(34,982)
Transfers out	-	-	(894)	(894)
Total other financing sources (uses)	100,000	100,000	64,124	(35,876)
Excess of revenue and other financing sources over (under) expenditures	(24,732)	(871)	74,239	75,110
Fund balance, beginning of year	928,229	928,229	928,229	-
Fund balance, end of year	$ 903,497	$ 927,358	$ 1,002,468	$ 75,110

Major Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

	MAJOR STREET			
	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
State sources	$ 198,000	$ 192,000	$ 199,222	$ 7,222
Interest income	1,700	1,700	1,860	160
Miscellaneous	-	-	631	631
Total revenues	199,700	193,700	201,713	8,013
Expenditures:				
Public works:				
Construction	13,225	110	102	8
Surface maintenance	46,700	28,432	29,467	(1,035)
Sweeping	12,450	9,935	9,874	61
Drainage	10,715	25,000	20,003	4,997
Trees and shrubs	13,460	13,615	8,851	4,764
Grading and dust control	1,320	1,510	1,142	368
Grass and weed control	1,615	2,800	2,321	479
Traffic signs/signals	3,220	2,066	972	1,094
Pavement marking	3,195	3,862	5,121	(1,259)
Snow and ice	38,033	34,175	35,559	(1,384)
Trunkline maintenance	4,207	3,007	1,317	1,690
Trunkline sweeping	8,362	8,362	4,697	3,665
Trunkline drainage	5,505	4,138	1,454	2,684
Trunkline trees and shrubs	3,485	3,751	1,830	1,921
Trunkline grass and weeds	803	803	221	582
Trunkline traffic signs/signals	10,495	8,605	6,083	2,522
Trunkline pavement marking	1,460	1,460	706	754
Trunkline snow and ice	33,485	16,389	16,734	(345)
Trunkline hauling snow	8,782	14,530	15,235	(705)
Administration fees	15,000	15,000	15,000	-
Total expenditures	235,517	197,550	176,689	20,861
Excess of revenues over (under) expenditures	(35,817)	(3,850)	25,024	28,874
Other financing sources (uses):				
Transfers in	30,000	30,000	30,000	-
Transfers out	(42,000)	(38,750)	(38,432)	318
Total other financing sources (uses)	(12,000)	(8,750)	(8,432)	318
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(47,817)	(12,600)	16,592	29,192
Fund balance, beginning of year	163,875	163,875	163,875	-
Fund balance, end of year	$ 116,058	$ 151,275	$ 180,467	$ 29,192

Major Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

BRICK STREET ASSESSMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Special assessments	$ 34,386	$ 32,050	$ 19,902	$ (12,148)
Interest income	-	75	77	2
Total revenues	34,386	32,125	19,979	(12,146)
Expenditures:				
Debt service:				
Principal	24,600	24,600	24,600	-
Interest and charges	7,109	7,109	7,109	-
Total expenditures	31,709	31,709	31,709	-
Excess of revenues over (under) expenditures	2,677	416	(11,730)	(12,146)
Fund balance, beginning of year	4,683	4,683	4,683	-
Fund balance, end of year	$ 7,360	$ 5,099	$ (7,047)	$ (12,146)

Other Supplemental Information

	SPECIAL REVENUE FUNDS			
	Local Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Assets				
Cash and cash equivalents	$ 70,925	$ 103,805	$ 12,731	$ 2,451
Receivables:				
Taxes	96	-	162	-
Other governmental units	16,637	-	-	-
Due from other funds	1,321	32,702	55,139	-
Total assets	$ 88,979	$ 136,507	$ 68,032	$ 2,451
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	$ 1,359	$ -	$ 4,837	$ -
Accrued payroll and liabilities	864	-	4,944	-
Due to other funds	27,086	-	250	-
Deferred revenue	96	-	162	-
Total liabilities	29,405	-	10,193	-
Fund Balance:				
Reserved:				
Capital projects	-	-	-	-
Debt service	-	-	-	-
Other purposes	59,574	136,507	-	-
Unreserved	-	-	57,839	2,451
Total fund balance	59,574	136,507	57,839	2,451
Total liabilities and fund balance	$ 88,979	$ 136,507	$ 68,032	$ 2,451

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2006

	DEBT SERVICE FUND	CAPITAL PROJECT FUND	
Park Improvement	Drain Debt	DDA Streetscape	Total
$ 7,776	$ 14,370	$ -	$ 212,058
-	130	-	388
-	-	-	16,637
-	-	-	89,162
$ 7,776	$ 14,500	$ -	$ 318,245
$ -	$ -	$ -	$ 6,196
-	-	-	5,808
-	9,718	-	37,054
-	130	-	388
-	9,848	-	49,446
7,776	-	-	7,776
-	4,652	-	4,652
-	-	-	196,081
-	-	-	60,290
7,776	4,652	-	268,799
$ 7,776	$ 14,500	$ -	$ 318,245

	SPECIAL REVENUE FUNDS			
	Local Street	County Road Millage	Parks and Recreation	Drug Law Enforcement
Revenues:				
Property taxes	$ 43,920	$ 79,566	$ 79,855	$ -
State sources	74,405	-	3,598	-
Charges for services	-	-	47,068	-
Special assessments	658	-	-	-
Fines and forfeitures	-	-	-	2,009
Interest income	466	6,105	250	16
Rental income	-	-	7,913	-
Miscellaneous	5,497	-	30,957	-
Total revenues	124,946	85,671	169,641	2,025
Expenditures:				
Current:				
Public safety	-	-	-	4,259
Public works	210,628	3,800	-	-
Recreation and cultural	-	-	151,564	-
Debt service:				
Principal	-	-	-	-
Interest and charges	-	-	-	-
Total expenditures	210,628	3,800	151,564	4,259
Excess of revenues over (under) expenditures	(85,682)	81,871	18,077	(2,234)
Other financing sources (uses):				
Transfers in	94,432	-	-	-
Transfers out	-	(151,018)	-	-
Total other financing sources (uses)	94,432	(151,018)	-	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	8,750	(69,147)	18,077	(2,234)
Fund balances, beginning of year	50,824	205,654	39,762	4,685
Fund balances, end of year	$ 59,574	$ 136,507	$ 57,839	$ 2,451

Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2006

	DEBT SERVICE FUND	CAPITAL PROJECT FUND	
Park Improvement	Drain Debt	DDA Streetscape	Total
$ -	$ 119,744	$ -	$ 323,085
-	5,396	-	83,399
-	-	-	47,068
-	-	-	658
-	-	-	2,009
45	149	-	7,031
7,742	-	-	15,655
-	-	-	36,454
7,787	125,289	-	515,359
-	-	-	4,259
-	-	562	214,990
11	-	-	151,575
-	83,391	-	83,391
-	38,261	-	38,261
11	121,652	562	492,476
7,776	3,637	(562)	22,883
-	-	-	94,432
-	-	-	(151,018)
-	-	-	(56,586)
7,776	3,637	(562)	(33,703)
-	1,015	562	302,502
$ 7,776	$ 4,652	$ -	$ 268,799

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

LOCAL STREET

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 44,000	$ 43,627	$ 43,920	$ 293
State sources	75,979	68,979	74,405	5,426
Special assessments	-	-	658	658
Interest income	350	350	466	116
Miscellaneous	-	4,890	5,497	607
Total revenues	120,329	117,846	124,946	7,100
Expenditures:				
Public works:				
Construction	23,850	33,224	31,184	2,040
Surface maintenance	72,423	64,245	61,282	2,963
Sweeping	13,980	12,126	13,412	(1,286)
Drainage	17,055	30,000	31,162	(1,162)
Trees and shrubs	19,750	26,000	23,818	2,182
Grading and dust control	2,555	1,307	1,298	9
Grass and weed control	5,875	4,848	5,711	(863)
Traffic signs/signals	6,750	1,770	962	808
Pavement marking	4,065	2,405	3,914	(1,509)
Snow and ice	31,125	25,088	25,885	(797)
Administration fees	12,000	12,000	12,000	-
Total expenditures	209,428	213,013	210,628	2,385
Excess of revenues under expenditures	(89,099)	(95,167)	(85,682)	9,485
Other financing sources:				
Transfers in	96,000	94,750	94,432	(318)
Excess of revenues and other financing sources over (under) expenditures	6,901	(417)	8,750	9,167
Fund balance, beginning of year	50,824	50,824	50,824	-
Fund balance, end of year	$ 57,725	$ 50,407	$ 59,574	$ 9,167

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

COUNTY ROAD MILLAGE

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 80,000	$ 80,000	$ 79,566	$ (434)
Interest income	2,000	5,200	6,105	905
Total revenues	82,000	85,200	85,671	471
Expenditures:				
Public works:				
Road construction	-	3,800	3,800	-
Excess of revenues over expenditures	82,000	81,400	81,871	471
Other Financing Uses:				
Transfers out	(186,000)	(186,000)	(151,018)	34,982
Excess of revenues under expenditures and other financing uses	(104,000)	(104,600)	(69,147)	35,453
Fund balance, beginning of year	205,654	205,654	205,654	-
Fund balance, end of year	$ 101,654	$ 101,054	$ 136,507	$ 35,453

DRUG LAW ENFORCEMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Fines and forfeitures	$ 1,000	$ 2,500	$ 2,009	$ (491)
Interest income	5	18	16	(2)
Total revenues	1,005	2,518	2,025	(493)
Expenditures:				
Public safety:				
Operating supplies	500	1,300	4,259	(2,959)
Excess of revenues over (under) expenditures	505	1,218	(2,234)	(3,452)
Fund balance, beginning of year	4,685	4,685	4,685	-
Fund balance, end of year	$ 5,190	$ 5,903	$ 2,451	$ (3,452)

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

PARKS AND RECREATION

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 80,000	$ 80,000	$ 79,855	$ (145)
State sources	3,598	3,598	3,598	-
Charges for services	31,000	39,650	47,068	7,418
Interest income	150	350	250	(100)
Rental income	5,700	8,200	7,913	(287)
Miscellaneous	1,500	24,500	30,957	6,457
Total revenues	121,948	156,298	169,641	13,343
Expenditures:				
Recreation and cultural:				
Administration	76,790	73,765	73,151	614
Day camp	24,950	27,700	20,030	7,670
Senior programs	7,650	3,650	2,122	1,528
Programs/special events	32,470	50,370	56,261	(5,891)
Total expenditures	141,860	155,485	151,564	3,921
Excess of revenues over (under) expenditures	(19,912)	813	18,077	17,264
Fund balance, beginning of year	39,762	39,762	39,762	-
Fund balance, end of year	$ 19,850	$ 40,575	$ 57,839	$ 17,264

Nonmajor Special Revenue Funds
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

PARK IMPROVEMENT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Interest income	-	40	45	5
Rental income	-	7,700	7,742	42
Total revenues	-	7,740	7,787	47
Expenditures:				
Recreation and cultural:				
Other	-	11	11	-
Excess of revenues over expenditures	-	7,729	7,776	47
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	$ -	$ 7,729	$ 7,776	$ 47

Nonmajor Debt Service Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

DRAIN DEBT

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 121,000	$ 119,119	$ 119,744	$ 625
State sources	4,500	5,396	5,396	-
Interest income	150	150	149	(1)
Total revenues	125,650	124,665	125,289	624
Expenditures:				
Drains	9,557	9,576	9,576	-
Principal	76,566	76,623	76,623	-
Interest expense	35,121	35,135	35,135	-
Miscellaneous drain payments	200	318	318	-
Total expenditures	121,444	121,652	121,652	-
Excess of revenues over expenditures	4,206	3,013	3,637	624
Fund balance, beginning of year	1,015	1,015	1,015	-
Fund balance, end of year	$ 5,221	$ 4,028	$ 4,652	$ 624

Proprietary Fund
Statement of Operations
For the Year Ended June 30, 2006

		Water and Sewer Fund
Revenues:		
Property taxes		$ 107,752
State sources		4,856
Waste collection fees		141,234
Water usage fees		778,930
Sewer usage fees		542,178
Permits and tap fees		2,888
Interest income		68,910
Other		182,844
Total revenues		1,829,592
Expenses:		
Waste collection:		
Services		134,060
Water administration:		
Salaries	20,513	
Fringe benefits	3,748	
Supplies	54	
Services	3,323	27,638
Water production:		
Salaries	17,510	
Fringe benefits	5,526	
Supplies	2,043	
Services	415,675	
Equipment rentals	1,840	
Depreciation	71,283	513,877
Water distribution:		
Salaries	35,202	
Fringe benefits	14,102	
Supplies	5,158	
Services	1,792	
Equipment rentals	11,252	67,506
Water hook-ups:		
Salaries	1,706	
Fringe benefits	515	
Supplies	2,505	
Equipment rentals	1,222	5,948
Meter repair:		
Salaries	9,025	
Fringe benefits	3,751	
Supplies	5,411	
Equipment rentals	1,310	19,497

Proprietary Fund
Statement of Operations
For the Year Ended June 30, 2006
(Continued)

Expenses (continued):		
Meter reading:		
Salaries	13,897	
Fringe benefits	5,847	
Supplies	346	
Equipment rentals	1,580	21,670
Tests and samples:		
Salaries	2,529	
Fringe benefits	971	
Supplies	403	
Services	3,042	
Equipment rentals	503	7,448
Water pipeline:		
Salaries	15,487	
Fringe benefits	5,145	
Supplies	2,731	
Services	10,496	
Equipment rentals	2,621	36,480
Sewer collection:		
Salaries	16,913	
Fringe benefits	6,600	
Supplies	2,172	
Services	4,258	
Equipment rentals	17,779	47,722
Sewer plant supervision:		
Salaries	38,916	
Fringe benefits	10,768	
Supplies	583	
Services	8,888	
Equipment rentals	2,625	
Depreciation	151,393	213,173
Sewer plant operations:		
Salaries	53,496	
Fringe benefits	51,865	
Supplies	18,444	
Services	102,401	
Equipment rentals	1,796	228,002
Sewer lift station:		
Salaries	13,450	
Fringe benefits	1,371	
Supplies	2,103	
Services	11,556	
Equipment rentals	1,376	29,856

Proprietary Fund
Statement of Operations
For the Year Ended June 30, 2006
(Continued)

Expenses (continued):		
Sewer lab:		
Salaries	40,655	
Fringe benefits	1,145	
Supplies	6,019	
Services	475	48,294
Sewer plant building and grounds:		
Salaries	6,891	
Fringe benefits	665	
Supplies	1,185	
Services	935	
Equipment rentals	1,963	11,639
Administration:		
Insurance	5,315	
Bond cost - amortization	6,209	
Miscellaneous	1,516	
Services	180	
Management fees	60,525	73,745
Interest expense		121,741
Total expenses		1,608,296
Excess of revenues over expenditures		221,296
Other Financing Sources:		
Transfers in		894
Excess of revenues and other financing sources over expenditures		222,190
Fund balance, beginning of year		4,167,741
Fund balance, end of year		$ 4,389,931

Discretely Presented Component Units
Combining Balance Sheet
June 30, 2006

	Economic Development Corporation	Downtown Development Authority	Library	Total
Assets				
Cash and cash equivalents	$ 4,128	$ 119,867	$ 43,767	$ 167,762
Cash not qualifying as cash equivalents	-	-	25,622	25,622
Receivables:				
Taxes	-	-	166	166
Interest and accounts	-	-	3,361	3,361
Prepaids	-	-	2,980	2,980
Total assets	$ 4,128	$ 119,867	$ 75,896	$ 199,891
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	$ -	$ 10,000	$ -	$ 10,000
Accrued payroll and liabilities	-	-	2,128	2,128
Due to primary government	-	-	13,620	13,620
Deferred revenue	-	-	166	166
Total liabilities	-	10,000	15,914	25,914
Fund Balance:				
Reserved:				
Other purposes	-	-	25,622	25,622
Unreserved	4,128	109,867	34,360	148,355
Total fund balance	4,128	109,867	59,982	173,977
Total liabilities and fund balance	$ 4,128	$ 119,867	$ 75,896	$ 199,891

Reconciliation of Fund Balance on the Balance Sheet for the Discretely Presented Component Units to Net Assets of Governmental Activities on the Statement of Net Assets
June 30, 2006

Fund balance, discretely presented component units		$ 173,977
Amounts reported for component units in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets	655,421	
Accumulated depreciation	(393,070)	262,351
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Accounts payable		(86,771)
Net assets, discretely presented component units		$ 349,557

Discretely Presented Component Units
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2006

	Economic Development Corporation	Downtown Development Authority	Library	Total
Revenues:				
Property taxes	$ -	$ 54,097	$ 79,912	$ 134,009
State sources	-	-	10,295	10,295
Charges for services	-	-	71,972	71,972
Interest income	-	-	1,096	1,096
Rental income	-	-	10,446	10,446
Miscellaneous	-	150	14,916	15,066
Total revenues	-	54,247	188,637	242,884
Expenditures:				
Public works	-	18,178	-	18,178
Recreation and cultural	-	-	202,046	202,046
Debt service	-	26,754	-	26,754
Total expenditures	-	44,932	202,046	246,978
Excess of revenues over (under) expenditures	-	9,315	(13,409)	(4,094)
Fund balance, beginning of year	4,128	100,552	73,391	178,071
Fund balance, end of year	$ 4,128	$ 109,867	$ 59,982	$ 173,977

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Discretely Presented Component Units to the Statement of Activities
June 30, 2006

Net change in fund balances, discretely presented component units		$ (4,094)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	23,949	
Depreciation expense	(39,021)	(15,072)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Increase in long-term payables		(23,196)
Change in net assets, discretely presented component units		$ (42,362)

Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

DOWNTOWN DEVELOPMENT AUTHORITY

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 41,200	$ 51,436	$ 54,097	$ 2,661
Miscellaneous	100	100	150	50
Total revenues	41,300	51,536	54,247	2,711
Expenditures:				
Public works:				
Contractual services	10,000	10,000	7,194	2,806
Rent	300	300	325	(25)
Miscellaneous	4,000	4,000	10,659	(6,659)
Debt service	26,755	26,755	26,754	1
Total expenditures	41,055	41,055	44,932	(3,877)
Excess of revenue over expenditures	245	10,481	9,315	(1,166)
Fund balance, beginning of year	100,552	100,552	100,552	-
Fund balance, end of year	$ 100,797	$ 111,033	$ 109,867	$ (1,166)

Discretely Presented Component Units
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison
For the Year Ended June 30, 2006

LIBRARY

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes	$ 80,000	$ 80,000	$ 79,912	$ (88)
State sources	11,684	11,684	10,295	(1,389)
Charges for services	68,988	68,988	71,972	2,984
Interest income	990	990	1,096	106
Rental income	12,000	12,000	10,446	(1,554)
Miscellaneous	5,750	5,750	14,916	9,166
Total revenues	179,412	179,412	188,637	9,225
Expenditures:				
Recreation and cultural:				
Salaries and fringe benefits	130,000	130,000	127,198	2,802
Contractual services	2,500	2,500	7,190	(4,690)
Books, periodicals, and media	25,680	25,680	31,886	(6,206)
Supplies	6,400	6,400	7,753	(1,353)
Utilities	15,500	15,500	14,252	1,248
Repairs and maintenance	8,000	8,000	4,808	3,192
Capital outlay	2,500	2,500	3,877	(1,377)
Miscellaneous	6,100	6,100	5,082	1,018
Total expenditures	196,680	196,680	202,046	(5,366)
Excess of revenues under expenditures	(17,268)	(17,268)	(13,409)	3,859
Fund balance, beginning of year	73,391	73,391	73,391	-
Fund balance, end of year	$ 56,123	$ 56,123	$ 59,982	$ 3,859

Schedule of Drain Assessments Payable - Bad Axe Drain - Phase I
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
03/01/2007	$ 24,066	7.000%	$ 2,395	$ 26,461

Schedule of Drain Assessments Payable - Bad Axe Drain - Phase II
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
03/01/2007	52,500	6.720%	28,224	80,724
03/01/2008	52,500	6.720%	24,696	77,196
03/01/2009	52,500	6.720%	21,168	73,668
03/01/2010	52,500	6.720%	17,640	70,140
03/01/2011	52,500	6.720%	14,112	66,612
03/01/2012	52,500	6.720%	10,584	63,084
03/01/2013	52,500	6.720%	7,056	59,556
03/01/2014	52,500	6.720%	3,528	56,028
	$ 420,000		$ 127,008	$ 547,008

Schedule of Drain Assessments Payable - Crumback Drain
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
03/01/2007	6,826	4.750%	2,389	9,215
03/01/2008	6,827	4.750%	2,048	8,875
03/01/2009	6,826	4.750%	1,707	8,533
03/01/2010	6,827	4.800%	1,365	8,192
03/01/2011	6,826	4.900%	1,024	7,850
03/01/2012	6,827	5.000%	683	7,510
03/01/2013	6,826	5.000%	341	7,167
	$ 47,785		$ 9,557	$ 57,342

Schedule of Land Contract
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
01/15/2007	6,442	7.000%	6,774	13,216
01/15/2008	6,892	7.000%	6,324	13,216
01/15/2009	83,444	7.000%	5,841	89,285
	$ 96,778		$ 18,939	$ 115,717

Schedule of Signature Bank Note Payable - Land
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
07/01/2006	10,000	3.750%	2,248	12,248
07/01/2007	10,000	3.750%	1,873	11,873
07/01/2008	10,000	3.750%	1,498	11,498
07/01/2009	10,000	3.750%	1,122	11,122
07/01/2010	10,000	3.750%	747	10,747
07/01/2011	9,936	3.750%	436	10,372
	$ 59,936		$ 7,924	$ 67,860

Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
10/01/2006	13,825	4.000%	3,683	17,508
10/01/2007	14,378	4.000%	3,130	17,508
10/01/2008	14,953	4.000%	2,555	17,508
10/01/2009	15,551	4.000%	1,957	17,508
10/01/2010	16,172	4.000%	1,336	17,508
10/01/2011	17,189	4.000%	685	17,874
	$ 92,068		$ 13,346	$ 105,414

Schedule of DDA Streetscape Installment Contract
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
10/01/2006	7,302	4.000%	1,945	9,247
10/01/2007	7,594	4.000%	1,653	9,247
10/01/2008	7,898	4.000%	1,349	9,247
10/01/2009	8,213	4.000%	1,034	9,247
10/01/2010	8,542	4.000%	705	9,247
10/01/2011	9,078	4.000%	363	9,441
	$ 48,627		$ 7,049	$ 55,676

Schedule of Brick Street Assessment Installment Contract
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
06/01/2007	24,600	2.500%	6,617	31,217
06/01/2008	24,600	2.850%	6,002	30,602
06/01/2009	24,600	3.150%	5,301	29,901
06/01/2010	24,600	3.350%	4,527	29,127
06/01/2011	24,600	3.550%	3,702	28,302
06/01/2012	24,600	3.700%	2,829	27,429
06/01/2013	24,600	3.850%	1,919	26,519
06/01/2014	24,600	3.950%	972	25,572
	$ 196,800		$ 31,869	$ 228,669

Schedule of Water Supply and Sewage Disposal Bonds - Series B
Issue Date December 1, 1996
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
12/01/2006	175,000	4.625%	8,797	183,797
06/01/2007			4,750	4,750
12/01/2007	200,000	4.750%	4,750	204,750
	$ 375,000		$ 18,297	$ 393,297

Schedule of Water Supply and Sewage Disposal Bonds - Series A
Issue Date December 1, 1996
Principal and Interest Obligation as of June 30, 2006

Maturity Date	Principal	Rate	Interest	Total
12/01/2006	50,000	7.125%	41,263	91,263
06/01/2007			39,481	39,481
12/01/2007	50,000	7.125%	39,481	89,481
06/01/2008			37,700	37,700
12/01/2008	175,000	4.850%	37,700	212,700
06/01/2009			33,456	33,456
12/01/2009	175,000	4.950%	33,456	208,456
06/01/2010			29,125	29,125
12/01/2010	200,000	5.000%	29,125	229,125
06/01/2011			24,125	24,125
12/01/2011	200,000	5.000%	24,125	224,125
06/01/2012			19,125	19,125
12/01/2012	200,000	5.000%	19,125	219,125
06/01/2013			14,125	14,125
12/01/2013	200,000	5.000%	14,125	214,125
06/01/2014			9,125	9,125
12/01/2014	200,000	5.000%	9,125	209,125
06/01/2015			4,125	4,125
12/01/2015	200,000	4.125%	4,125	204,125
	$ 1,650,000		$ 462,037	$ 2,112,037

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September 14, 2006

City of Bad Axe
300 East Huron Avenue
Bad Axe, MI 48413

Dear City Manager and Finance Committee:

In planning and performing our audit of the financial statements of the City of Bad Axe for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This report does not affect our report dated September 14, 2006 on the financial statements of the City of Bad Axe.

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

Sincerely,

Hyzer, Hill, Kuzak & Co P. C.

Hyzer, Hill, Kuzak & Co., P. C.

Disaster Recovery Plan

The City does maintain computer system backup tapes offsite, but no other formal policy has been adopted if a disaster should hit the City of Bad Axe. The City should contact BS & A for guidance in a disaster recovery situation or form an agreement with another local government for use of their systems in processing payables, payroll, etc. This information should be documented and be readily available in an emergency situation.

Cellular Phones

The City currently uses Thumb Cellular as their cellphone provider. During our testing, we noted that in several months there were roaming charges and minute overages. The City should review their cellphone usage annually to determine if they are on the appropriate plan for the minutes needed and roaming areas.

Bank Accounts

Annually the City should review with local banks all accounts activated that use the City's tax identification number. This will ensure that all accounts open are accounted for on the City's general ledger and that no one is fraudulently using the City's name and tax identification number.

Analytical Procedures

The senior accounting staff should be performing more extensive analytical procedures at month end to identify any unusual activity, specifically related to the water and sewer operations and fringe benefit allocations.

Long Range Capital Improvement Program

The City should develop a long range capital improvement plan to better assess their capital asset needs and related financing of those assets.