

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Copper City, Michigan	County Houghton
Fiscal Year End February 28, 2007	Opinion Date June 26, 2007	Date Audit Report Submitted to State July 19, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Jackie A. Aalto, CPA		Telephone Number (906) 337-2727	
Street Address 200 Fifth Street, Suite 104		City Calumet	State Zip MI 49913
Authorizing CPA Signature <i>Jackie A. Aalto</i>		Printed Name Jackie A. Aalto	License Number 1101022394

VILLAGE OF COPPER CITY, MICHIGAN
Houghton County

FINANCIAL REPORT

Year Ended February 28, 2007

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Copper City, Michigan

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Copper City, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Copper City, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As discussed in Note IC, the Village of Copper City, Michigan prepares its governmental activities in the government-wide financial statements and its governmental fund financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

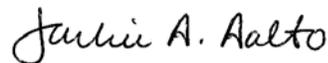
The financial statements referred to above do not include the Volunteer Firemen's Fund which should be included in order to conform to accounting principles generally accepted in the United States of America. The amounts that should be recorded are not known.

In my opinion, except for the effects on the financial statements of the item described above, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, each major governmental fund and the aggregate remaining fund information of the Village of Copper City, Michigan, as of and for the year ended February 28, 2007 and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note IC.

In addition, in my opinion, the financial statements referred to above presently fairly, in all material respects, the respective financial position of the business-type activities and each major proprietary fund of the Village of Copper City, Michigan, as of February 28, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 26, 2007, on my consideration of the Village of Copper City, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 24 through 26 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it. The Village of Copper City, Michigan has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Jackie A. Aalto, CPA

Calumet, Michigan
June 26, 2007

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Net Assets – Modified Cash Basis

February 28, 2007

	Primary Government		Total
	Governmental Activities	Business-type Activities	
Assets			
Cash	\$ 75,751	\$ 95,529	\$ 171,280
Investments		2,586	2,586
Receivables		8,430	8,430
Prepays		1,386	1,386
Restricted assets – cash		40,979	40,979
Deferred charges		7,150	7,150
Capital assets not being depreciated	2,700	6,577	9,277
Capital assets being depreciated, net	<u>34,430</u>	<u>1,012,041</u>	<u>1,046,471</u>
Total Assets	<u>112,881</u>	<u>1,174,678</u>	<u>1,287,559</u>
Liabilities			
Accounts payable & other current liabilities		1,647	1,647
Interest payable		283	283
Noncurrent liabilities:			
Due within one year		6,000	6,000
Due in more than one year		<u>268,000</u>	<u>268,000</u>
Total Liabilities		<u>275,930</u>	<u>275,930</u>
Net Assets			
Invested in capital assets, net of related debt	37,130	744,618	781,748
Restricted for:			
Streets	59,287		59,287
Debt service		40,696	40,696
Unrestricted	<u>16,464</u>	<u>113,434</u>	<u>129,898</u>
Total Net Assets	<u>\$ 112,881</u>	<u>\$ 898,748</u>	<u>\$ 1,011,629</u>

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

VILLAGE OF COPPER CITY, MICHIGAN

Statement of Activities – Modified Cash Basis

Year Ended February 28, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 31,531	\$ 560	\$	\$	\$ (30,971)	\$	\$ (30,971)
Public safety	867				(867)		(867)
Public works	101,292	11,000	23,132		(67,160)		(67,160)
Recreation & culture	<u>724</u>				<u>(724)</u>		<u>(724)</u>
Total governmental activities	<u>134,414</u>	<u>11,560</u>	<u>23,132</u>		<u>(99,722)</u>		<u>(99,722)</u>
Business-type activities:							
Water	51,066	40,803				(10,263)	(10,263)
Sewer	<u>28,931</u>	<u>26,130</u>				<u>(2,801)</u>	<u>(2,801)</u>
Total business-type activities	<u>79,997</u>	<u>66,933</u>				<u>(13,064)</u>	<u>(13,064)</u>
Total primary government	<u>\$ 214,411</u>	<u>\$ 78,493</u>	<u>\$ 23,132</u>	<u>\$</u>	<u>(99,722)</u>	<u>(13,064)</u>	<u>(112,786)</u>
General revenues:							
Property taxes					20,419		20,419
State shared revenues					22,763		22,763
Interest					1,026	2,854	3,880
Other					<u>66</u>		<u>66</u>
Total general revenues					<u>44,274</u>	<u>2,854</u>	<u>47,128</u>
Change in net assets					(55,448)	(10,210)	(65,658)
Net assets – beginning					<u>168,329</u>	<u>908,958</u>	<u>1,077,287</u>
Net assets – ending					<u>\$ 112,881</u>	<u>\$ 898,748</u>	<u>\$ 1,011,629</u>

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

VILLAGE OF COPPER CITY, MICHIGAN

**Balance Sheet – Modified Cash Basis
Governmental Funds**

February 28, 2007

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Fund	Total Governmental Funds
Assets					
Cash	\$ 16,995	\$ 24,603	\$ 25,121	\$ 9,032	\$ 75,751
Due from other funds		84		531	615
Total Assets	<u>\$ 16,995</u>	<u>\$ 24,687</u>	<u>\$ 25,121</u>	<u>\$ 9,563</u>	<u>\$ 76,366</u>
 Liabilities and Fund Balances					
Liabilities					
Due to other funds	\$ 531	\$	\$ 84	\$	\$ 615
 Fund Balances					
Reserved for:					
Recreation	2,429				2,429
Unreserved:					
General fund	14,035				14,035
Special revenue funds		24,687	25,037	9,563	59,287
Total Fund Balances	<u>16,464</u>	<u>24,687</u>	<u>25,037</u>	<u>9,563</u>	<u>75,751</u>
Total Liabilities and Fund Balances	<u>\$ 16,995</u>	<u>\$ 24,687</u>	<u>\$ 25,121</u>	<u>\$ 9,563</u>	

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	37,130
Net assets of governmental activities	<u>\$ 112,881</u>

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

VILLAGE OF COPPER CITY, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

Year Ended February 28, 2007

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues					
Taxes	\$ 14,051	\$	\$	\$ 6,368	\$ 20,419
Licenses & permits	66				66
Intergovernmental - state	22,763	13,174	9,958		45,895
Charges for services	11,000				11,000
Interest & rents	<u>1,027</u>	<u>318</u>	<u></u>	<u>241</u>	<u>1,586</u>
Total Revenues	<u>48,907</u>	<u>13,492</u>	<u>9,958</u>	<u>6,609</u>	<u>78,966</u>
Expenditures					
Current					
General government	23,192				23,192
Public safety	347				347
Public works	15,157	77,990	7,985	160	101,292
Recreation & culture	724				724
Other	<u>7,117</u>	<u></u>	<u></u>	<u></u>	<u>7,117</u>
Total Expenditures	<u>46,537</u>	<u>77,990</u>	<u>7,985</u>	<u>160</u>	<u>132,672</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,370</u>	<u>(64,498)</u>	<u>1,973</u>	<u>6,449</u>	<u>(53,706)</u>
Other Financing Sources (Uses)					
Transfers in		22,311			22,311
Transfers out	<u></u>	<u></u>	<u></u>	<u>(22,311)</u>	<u>(22,311)</u>
Total Other Financing Sources (Uses)	<u></u>	<u>22,311</u>	<u></u>	<u>(22,311)</u>	<u></u>
Net Changes in Fund Balances	2,370	(42,187)	1,973	(15,862)	(53,706)
Fund Balances – Beginning	<u>14,094</u>	<u>66,874</u>	<u>23,064</u>	<u>25,425</u>	
Fund Balances – Ending	<u>\$ 16,464</u>	<u>\$ 24,687</u>	<u>\$ 25,037</u>	<u>\$ 9,563</u>	

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

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

(1,742)

Change in net assets of governmental activities

\$ 55,448

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

VILLAGE OF COPPER CITY, MICHIGAN

**Statement of Net Assets
Proprietary Funds**

February 28, 2007

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash	\$ 50,374	\$ 45,155	\$ 95,529
Investments	1,243	1,343	2,586
Interest receivable	73	64	137
Accounts receivable	4,294	3,999	8,293
Prepaid items	<u>573</u>	<u>813</u>	<u>1,386</u>
Total Current Assets	<u>56,557</u>	<u>51,374</u>	<u>107,931</u>
Noncurrent assets:			
Restricted assets – cash	29,541	11,438	40,979
Deferred charges	7,150		7,150
Capital assets not being depreciated		6,577	6,577
Capital assets being depreciated, net	<u>597,753</u>	<u>414,288</u>	<u>1,012,041</u>
Total Noncurrent Assets	<u>634,444</u>	<u>432,303</u>	<u>1,066,747</u>
Total Assets	<u>691,001</u>	<u>483,677</u>	<u>1,174,678</u>
Liabilities			
Current Liabilities:			
Accounts payable	1,020	312	1,332
Accrued expenses	15		15
Customer deposits payable	84	216	300
Payable from restricted assets:			
Interest payable		283	283
Current portion of revenue bonds payable	<u>4,000</u>	<u>2,000</u>	<u>6,000</u>
Total Current Liabilities	5,119	2,811	7,930
Noncurrent Liabilities:			
Revenue bonds payable	<u>235,000</u>	<u>33,000</u>	<u>268,000</u>
Total Liabilities	<u>240,119</u>	<u>35,811</u>	<u>275,930</u>
Net Assets			
Invested in capital assets, net of related debt	358,753	385,865	744,618
Restricted for debt service	29,541	11,155	40,696
Unrestricted	<u>62,588</u>	<u>50,846</u>	<u>113,434</u>
Total Net Assets	<u>\$ 450,882</u>	<u>\$ 447,866</u>	<u>\$ 898,748</u>

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

VILLAGE OF COPPER CITY, MICHIGAN

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds**

Year Ended February 28, 2007

	<u>Business-type Activities –Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 40,803	\$ 26,130	\$ 66,933
Operating Expenses			
Cost of water	14,112		14,112
Wages & benefits	8,182	3,311	11,493
Administration	1,060	599	1,659
Supplies, maintenance & utilities	697	9,172	9,869
Depreciation	17,933	12,878	30,811
Other	978	1,137	2,115
Total Operating Expenses	<u>42,962</u>	<u>27,097</u>	<u>70,059</u>
Operating Income (Loss)	<u>(2,159)</u>	<u>(967)</u>	<u>(3,126)</u>
Nonoperating Revenues (Expenses)			
Interest income	1,623	1,231	2,854
Interest expense	(7,898)	(1,834)	(9,732)
Amortization bond issuance costs	(206)		(206)
Total Nonoperating Revenues (Expenses)	<u>(6,481)</u>	<u>(603)</u>	<u>(7,084)</u>
Change in Net Assets	(8,640)	(1,570)	(10,210)
Total Net Assets - Beginning	<u>459,522</u>	<u>449,436</u>	<u>908,958</u>
Total Net Assets - Ending	<u>\$ 450,882</u>	<u>\$ 447,866</u>	<u>\$ 898,748</u>

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

VILLAGE OF COPPER CITY, MICHIGAN

**Statement of Cash Flows
Proprietary Funds**

Year Ended February 28, 2007

	<u>Business-type Activities – Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Cash Flows from Operating Activities			
Receipts from customers and users	\$ 41,411	\$ 24,900	\$ 66,311
Payments to suppliers	(17,511)	(11,409)	(28,920)
Payments to employees	<u>(8,167)</u>	<u>(3,311)</u>	<u>(11,478)</u>
Net cash provided by operating activities	<u>15,733</u>	<u>10,180</u>	<u>25,913</u>
Cash Flows from Capital and Related Financing Activities			
Principal paid on capital debt	(4,000)	(2,000)	(6,000)
Interest paid on capital debt	<u>(7,898)</u>	<u>(1,850)</u>	<u>(9,748)</u>
Net cash used by capital and related financing activities	<u>(11,898)</u>	<u>(3,850)</u>	<u>(15,748)</u>
Cash Flows from Investing Activities			
Interest received	<u>1,501</u>	<u>1,117</u>	<u>2,618</u>
Net Increase in Cash and Restricted Cash	5,336	7,447	12,783
Cash and Restricted Cash – Beginning	<u>74,579</u>	<u>49,146</u>	<u>123,725</u>
Cash and Restricted Cash – Ending	<u>\$ 79,915</u>	<u>\$ 56,593</u>	<u>\$ 136,508</u>
Reconciliation of operating income (loss) to net cash provided operating activities:			
Operating income (loss)	\$ (2,159)	\$ (967)	\$ (3,126)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	17,933	12,878	30,811
(Increase) decrease in accounts receivable	1,028	(1,054)	(26)
(Increase) decrease in prepaid items	(573)	(813)	(1,386)
Increase (decrease) in accounts payable	(91)	312	221
Increase (decrease) in accrued expenses	15		15
Increase (decrease) in customer deposits	<u>(420)</u>	<u>(176)</u>	<u>(596)</u>
Net cash provided by operating activities	<u>\$ 15,733</u>	<u>\$ 10,180</u>	<u>\$ 25,913</u>

Noncash Investing Activities - During the year ended February 28, 2007, \$48 and \$50 of interest income were added to the certificates of deposit balance directly in the Water and Sewer Funds, respectively.

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

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Village of Copper City, Michigan was organized in December 1917 and covers an area of approximately one square mile. The Village is governed by an elected seven member council and provides the following services: fire protection, street maintenance, sanitation, water, sewer, recreation and general administration. Except for the use of the modified cash basis of accounting for the Village of Copper City, Michigan's governmental activities as described in Note IC, the accounting policies of the Village of Copper City, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

In determining the financial reporting entity, the Village complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. Management has addressed the potential component units (traditionally separate reporting entities) that the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are no organizations that meet these criteria.

Other – An association which meets certain criteria for including its financial activity in the Village's basic financial statements is the Volunteer Firemen's fund. Since the Volunteer Firemen's Fund is not a separate legal entity, and money raised thereof is done in the name of the Village, the financial activity of the fund should be a part of the Village reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. The Village has no fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus. The modified cash basis of accounting is used to report the governmental activities. The accrual basis of accounting is used to report the business-type activities and the proprietary fund financial statements. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation in the government-wide financial statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Village utilized the basis of accounting recognized as generally accepted, the governmental funds financial statements would use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. The government-wide financial statements would be presented on the accrual basis of accounting.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

The Village reports the following major governmental funds:

The General Fund is the Village'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 Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Village reports the Municipal Street Fund which is a nonmajor governmental fund.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

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principal operating revenues of the Village's enterprise funds relate to charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with a maturity of three months or less from the date of acquisition. The Village has no short-term investments. Investments are stated at cost, which approximates fair value and includes only certificates of deposit. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash equivalents and includes both restricted and unrestricted cash.

2. Receivables and Payables

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

When applicable, advances between funds, as reported in the fund financial statements are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles. Property taxes are levied on July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed.

The 2006 taxable valuation of the Village totaled \$1,481,434, on which ad valorem taxes levied consisted of 5.6004 mills for operating purposes and 3.0281 mills for street maintenance. This resulted in \$8,296 for operating and \$4,485 for street maintenance. These amounts are recognized in the General and Municipal Street Funds, respectively.

VILLAGE OF COPPER CITY, MICHIGAN

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3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain resources set aside for the repair and maintenance and the repayment of the Village's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

5. Capital Assets

Capital assets, which include property, plant, equipment, 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 government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Prior to March 1, 2004 governmental funds' infrastructure assets were not capitalized. Infrastructure acquired since March 1, 2004 will be recorded at cost.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Infrastructure	15 to 30 years
Water and sewer system	50 to 75 years
Machinery and equipment	5 to 25 years

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

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6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond costs are deferred charges and amortized over the life of the bonds.

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

7. Fund Equity

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

8. Use of Estimates

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

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Village is required to follow the budget system provided by Michigan Public Act 621 – Uniform Budgeting and Accounting Act. The budget basis of accounting does not differ significantly from the financial statement presentation used to reflect actual revenues and expenditures. All annual appropriations lapse at fiscal year end. Encumbrance accounting is not employed in the governmental funds.

B. Budget Violation

For the year ended February 28, 2007, the Village did not adopt a budget for its Municipal Street Fund.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

C. Administration of Street Funds

Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on nonmotorized transportation services and facilities. The Village has not met this requirement.

III. Detailed Notes on All Funds

A. 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 which have an office in Michigan. The Village is allowed to invest in 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 obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classification 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 which are legal for direct investment by local units of government in Michigan.

The Village has designated one bank for the deposit of Village funds. The investment policy adopted by the council is in accordance with Public Act 196 of 1997. The Village's deposits and investments are in accordance with statutory authority.

The Village's deposits and investments at February 28, 2007 are included in the statement of net assets under the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash (checking, savings & cash on hand)	\$ 75,751	\$ 95,529	\$ 171,280
Investments – certificates of deposit only		2,586	2,586
Restricted assets – cash		<u>40,979</u>	<u>40,979</u>
	<u>\$ 75,751</u>	<u>\$ 139,094</u>	<u>\$ 214,845</u>

Custodial Credit Risk – Deposits – In the case of cash deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2007, \$34,325 was exposed to custodial credit risk because it was uninsured and uncollateralized.

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

B. Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
Revenue bond current debt service account	\$ 3,941	\$ 1,438	\$ 5,379
Revenue bond future debt service account	7,600	5,000	12,600
Revenue bond repair & replacement account	18,000	5,000	23,000
	\$ 29,541	\$ 11,438	\$ 40,979

C. Capital Assets

Capital asset activity for the year ended February 28, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,700	\$ _____	\$ _____	\$ 2,700
Capital asset being depreciated :				
Buildings & improvements	52,200			52,200
Machinery & equipment	18,000	_____	_____	18,000
Total capital assets being depreciated	70,200	_____	_____	70,200
Less accumulated depreciation:				
Buildings & improvements	22,918	1,222		24,140
Machinery & equipment	11,110	520	_____	11,630
Total accumulated depreciation	34,028	1,742	_____	35,770
Total capital assets being depreciated, net	36,172	(1,742)	_____	34,430
Governmental activities capital assets, net	\$ 38,872	\$ (1,742)	\$ _____	\$ 37,130
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 6,577	\$ _____	\$ _____	\$ 6,577
Capital assets being depreciated:				
Water system	689,713			689,713
Sewer system	635,527			635,527
Machinery & equipment	4,759	_____	_____	4,759
Total capital assets being depreciated	1,329,999	_____	_____	1,329,999

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation:				
Water system	74,717	17,243		91,960
Sewer system	208,527	12,712		221,239
Machinery & equipment	<u>3,903</u>	<u>856</u>		<u>4,759</u>
Total accumulated depreciation	<u>287,147</u>	<u>30,811</u>		<u>317,958</u>
Total capital assets being depreciated, net	<u>1,042,852</u>	<u>(30,811)</u>		<u>1,012,041</u>
Business-type activities capital assets, net	<u>\$ 1,049,429</u>	<u>\$ (30,811)</u>	<u>\$ _____</u>	<u>\$ 1,018,618</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government	\$ 1,222
Public safety	<u>520</u>
Total governmental activities	<u>\$ 1,742</u>
Business-type activities	
Water	\$ 17,933
Sewer	<u>12,878</u>
Total business-type activities	<u>\$ 30,811</u>

D. Internal Receivables, Payables and Transfers

The composition of interfund balances as of February 28, 2007 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	\$ 84
Nonmajor Governmental Fund	General Fund	<u>531</u>
		<u>\$ 615</u>

The outstanding balances between funds represent routine and temporary cash flow assistance until funds are transferred.

Interfund transfers:

Transfers out:	<u>Transfers In - Major Street Fund</u>
Nonmajor governmental funds	<u>\$ 22,311</u>

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

E. Long-Term Liabilities

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
Business-type Activities:					
2001 Issue – Water Supply System Revenue Bonds	3/1/41	3.25%	\$3,000-11,000	\$ 259,000	\$ 239,000
1988 Issue – Sewage Disposal System Revenue Bonds	1/1/22	5.0%	\$1,000-4,000	\$ 83,000	\$ 35,000

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ended February 28,</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 6,000	\$ 9,453	\$ 15,453
2009	6,000	9,223	15,223
2010	6,000	8,993	14,993
2011	6,000	8,763	14,763
2012	7,000	8,516	15,516
2013-2017	35,000	38,644	73,644
2018-2022	43,000	31,521	74,521
2023-2027	35,000	24,003	59,003
2028-2032	40,000	18,005	58,005
2033-2037	47,000	10,904	57,904
2038-2041	<u>43,000</u>	<u>2,844</u>	<u>45,844</u>
	<u>\$ 274,000</u>	<u>\$ 170,869</u>	<u>\$ 444,869</u>

Long-term liability activity for the year ended February 28, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
2001 Issue	\$ 243,000	\$	\$ (4,000)	\$ 239,000	\$ 4,000
1988 Issue	<u>37,000</u>	<u> </u>	<u>(2,000)</u>	<u>35,000</u>	<u>2,000</u>
Total business-type activities	<u>\$ 280,000</u>	<u>\$ </u>	<u>\$ (6,000)</u>	<u>\$ 274,000</u>	<u>\$ 6,000</u>

VILLAGE OF COPPER CITY, MICHIGAN

Notes to Financial Statements

February 28, 2007

IV. Other Information

A. Risk Management

The Village is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and employee injuries (workers' compensation).

The Village has purchased commercial insurance through the Michigan Township's Participating Plan for various claims. The Village pays an annual premium for its insurance coverage. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded the amount of insurance coverage in the past three fiscal years.

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amount, if any to be immaterial.

Required Supplementary Information

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year Ended February 28, 2007

	Original & Final <u>Budget</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 14,094	\$ 14,094
Resources (Inflows)		
Taxes	14,540	14,051
Licenses & permits		66
Intergovernmental - state	37,445	22,763
Charges for services		11,000
Interest & rents	917	1,027
Other revenue	<u>826</u>	<u> </u>
Amounts Available for Appropriation	<u>67,822</u>	<u>63,001</u>
Charges to Appropriation (Outflows)		
General government	29,321	23,192
Public safety	347	347
Public works	15,732	15,157
Recreation & culture	1,279	724
Other	<u>7,521</u>	<u>7,117</u>
Total Charges to Appropriations	<u>54,200</u>	<u>46,537</u>
Ending Budgetary Fund Balance	<u>\$ 13,622</u>	<u>\$ 16,464</u>

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
Major Street Fund
Year Ended February 28, 2007

	Original & Final Budget	Actual
Beginning Budgetary Fund Balance	\$ 66,874	\$ 66,874
Resources (Inflows)		
Intergovernmental - state	16,527	13,174
Interest		318
Transfers from other funds	87,440	22,311
Amounts Available for Appropriation	170,841	102,677
Charges to Appropriation (Outflows)		
Public works	110,362	77,990
Ending Budgetary Fund Balance	\$ 60,479	\$ 24,687

VILLAGE OF COPPER CITY, MICHIGAN
Budgetary Comparison Schedule – Modified Cash Basis
Local Street Fund
Year Ended February 28, 2007

	<u>Original & Final Budget</u>	<u>Actual</u>
Beginning Budgetary Fund Balance	\$ 23,064	\$ 23,064
Resources (Inflows)		
Intergovernmental - state	<u>13,947</u>	<u>9,958</u>
Amounts Available for Appropriation	37,011	33,022
Charges to Appropriation (Outflows)		
Public works	<u>8,215</u>	<u>7,985</u>
Ending Budgetary Fund Balance	<u>\$ 28,796</u>	<u>\$ 25,037</u>

FEDERAL PROGRAMS

VILLAGE OF COPPER CITY, MICHIGAN

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

To the Village Council
Copper City, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Copper City, Michigan, as of and for the year ended February 28, 2007 which collectively comprise the Village of Copper City, Michigan's basic financial statements, and have issued my report thereon dated June 26, 2007. The report was a special report on the Village of Copper City, Michigan's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and was qualified because the basic financial statements do not include the Volunteer Firemen's Fund which should be included to conform with accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the Village of Copper City, Michigan's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Village of Copper City, Michigan's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Village of Copper City, Michigan's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Copper City, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Copper City, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Village of Copper City, Michigan's internal control. I consider the deficiencies described in the accompanying schedule of findings

and responses as items 07-01 and 07-02 to be significant deficiencies in internal control over financial reporting.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Copper City, Michigan's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as item 07-03.

I noted certain matters that I reported to the management of the Village of Copper City, Michigan in a separate letter dated June 26, 2007.

The Village of Copper City, Michigan's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Village of Copper City, Michigan's response and, accordingly, I express no opinion on it.

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



Jackie A. Aalto, CPA

Calumet, Michigan

June 26, 2007

VILLAGE OF COPPER CITY, MICHIGAN

Schedule of Findings and Responses

Year Ended February 28, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

07-01 Ability to Prepare Financial Statements

Finding: Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.

Response: Due principally to the small size of the Village and the limited funds available to the Village, the hiring of accounting personnel capable of writing the Village's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

07-02 Lack of Segregation of Duties

Finding: Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.

Response: As noted above, due to the small size of the Village and the limited funds of the Village, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the Village's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the Village Council assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

NONCOMPLIANCE AND OTHER MATTERS

07-03 Budget not Adopted

Finding: As noted in the financial statements the Village did not adopt a budget for the Municipal Street Fund. It is a violation of Michigan Public Act 621 of 1978, as amended, for the Village to incur expenditures in excess of the amounts appropriated.

Response: The Village did not adopt a budget for the current fiscal year but has adopted one for the next fiscal year.

Council Members
Village of Copper City, Michigan

In planning and performing my audit of the Village of Copper City, Michigan as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the Village of Copper City, Michigan's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, I identified certain deficiencies in internal control that I consider to be significant deficiencies and one deficiency that I consider to be a material weakness. Please refer to the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards* for references to the significant deficiencies and material weakness identified. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are following.

1. The Village did not adopt a budget for the Municipal Street Fund. It is a violation of Michigan Public Act 621 of 1978, as amended, for the Village to incur expenditures in excess of the amounts appropriated. I recommend that the Village adopt all required budgets and monitor expenditures against the adopted budget.
2. The governmental activities in the government-wide financial statements and the governmental fund financial statements of the Village are prepared on the modified cash basis of accounting. I recommend that the Village prepare the government-wide financial statements on an accrual basis of accounting and the governmental fund financial statements on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.
3. The financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. I recommend that future financial statements of the Village include a management's discussion and analysis.
4. Section 10k of Act 51 requires recipients of Michigan Transportation Fund (MTF) revenues to spend an average (over a 10 year period) of not less than 1 percent of these revenues on non-motorized transportation services and facilities. The Village has not met this requirement. I recommend that the Village develop a plan of project expenditures in the Street Funds to comply with this requirement.

5. The financial statements do not include the Volunteer Firemen's Fund. Because the department is not a separate legal entity, all of the financial activity should be reported in the Village's financial statements.
6. Currently, the Village does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Village Council, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
7. The Village Council does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, I recommend the Village Council consider the number and location of financial institutions to be used by the Village with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area. Based on these considerations, I recommend the Village Council annually authorize the financial institutions to be used for Village cash management.
8. According to the Michigan Department of Treasury, the legislative body (board or council) must approve all invoices prior to payment, unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval. I recommend the Village Council adopt a formal policy to comply with this requirement.
9. During 2006, the federal courts deemed the federal excise tax on phone bills to be unconstitutional. They passed a ruling that all entities that paid the excise tax would be eligible for a refund of taxes paid between 2003 and 2006. The Village Council should assess the amounts of tax paid to determine if filing for a refund is warranted.
10. I noted that the Village does not have a written policy regarding the capitalization of fixed assets as required under GASB 34. Such a policy should be in place so that the Village can establish a dollar threshold to determine which assets have a cost and/or useful life such that it should be depreciated. I recommend that the Village adopt such a policy. A sample capitalization policy will be provided to assist in the creation of your policy.

This communication is intended solely for the information and use of the council membership, management, federal and state awarding agencies, and if applicable, pass-through entities, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the Village personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
June 26, 2007