

**SEBEWAING LIGHT AND
WATER DEPARTMENT
VILLAGE OF SEBEWAING
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2008 AND 2007**

**SEBEWAING LIGHT & WATER DEPARTMENT
VILLAGE OF SEBEWAING**

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - v
FINANCIAL STATEMENTS:	1
Balance Sheets – Proprietary Fund	2 - 3
Statements of Revenues, Expenses and Changes in Net Assets – Proprietary Fund	4
Statements of Cash Flows – Proprietary Fund	5 - 6
Notes to the Financial Statements	7 - 14
SUPPLEMENTAL INFORMATION:	15
Departmental Balance Sheets	16 - 17
Statements of Revenues, Expenses and Changes in Net Assets - Light Department	18
Statements of Revenues, Expenses and Changes in Net Assets - Water Department	19
Schedules of Operating and Administrative Expenses - Light Department	20
Schedules of Operating and Administrative Expenses - Water Department	21
Schedule of Capital Assets	22
Schedule of Capital Asset Additions	23 - 24

INDEPENDENT AUDITOR'S REPORT

To The Board of Commissioners
Sebewaing Light and Water Department
Village of Sebewaing
Sebewaing, Michigan 48759

We have audited the accompanying financial statements of the business-type activities of the Sebewaing Light and Water Department, a component unit of Village of Sebewaing, Michigan, as of March 31, 2008 and 2007 and for the years then ended, which comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sebewaing Light and Water Department, Sebewaing, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Sebewaing Light and Water Department, Sebewaing, Michigan, as of March 31, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Sebewaing Light and Water Department, Sebewaing, Michigan's basic financial statements. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

September 22, 2008

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

This annual report consists of a series of financial statements. The Balance Sheets and the Statements of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Light & Water Department as a whole and present a longer-term view of the Department's finances.

The Light & Water Department as a Whole

The Department's combined assets increased by 2.1% from a year ago – increasing from \$11.92 million to \$12.17 million. The Department also experienced larger power purchase costs on a per kilowatt basis and more power purchased when comparing calendar year 2007 to 2006. This year 62% of revenue was used for electric power purchase.

In a condensed format, the table below shows a comparison of the net assets as of the current date to the prior year. Due to the age of the system, the water system typically loses money on an annual basis. With major capital improvements in the system and a commitment to accountability with water usage in the Village, these losses have been decreasing.

Water and Electric Combined

The following table shows, in a condensed format, the net assets as of the current date:

	2008	2007
Current assets	\$ 5,637,539	\$ 5,714,639
Capital assets - net	5,537,178	5,204,221
Restricted assets	<u>1,000,000</u>	<u>1,000,000</u>
Total assets	<u>\$12,174,717</u>	<u>\$11,918,860</u>
Current liabilities	\$ 347,657	\$ 318,497
Noncurrent liabilities	<u>92,010</u>	<u>91,487</u>
Total liabilities	<u>439,667</u>	<u>409,984</u>
Net assets:		
Invested in capital assets	5,537,179	5,204,221
Unrestricted	<u>6,197,871</u>	<u>6,304,655</u>
Total net assets	11,735,050	11,508,876
Total liabilities and net assets	<u>\$12,174,717</u>	<u>\$11,918,860</u>

Unrestricted net assets—the part of net assets that can be used to finance day to day operations decreased by \$106,784. This represents a decrease of approximately 1.7%. The level of unrestricted net assets for activities stands at \$6,197,871 or approximately 1.6 times the annual operating expenses. The department has relied on interest income from the investments of these unrestricted assets for balancing its budget.

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

Light & Water Department Change in Net Assets

	<u>2008</u>	<u>2007</u>
Revenue:		
Charges for services	\$ 3,693,816	\$ 3,532,134
Nonoperating revenue:		
Interest on investments	262,667	304,071
Capital grant		226,088
Property taxes	99,621	102,098
Other	12,005	27,465
Total nonoperating revenue	<u>374,293</u>	<u>659,723</u>
Operating expenses:		
Production	2,462,251	2,264,279
Internet	53,969	56,426
Distribution	384,996	398,240
General and administrative	949,720	892,698
Total operating expenses	<u>3,850,936</u>	<u>3,611,643</u>
Income before contributions	<u>217,174</u>	<u>580,212</u>
Contributions	9,000	9,000
Change in net assets	<u>226,174</u>	<u>589,212</u>
Net assets - beginning	<u>11,508,876</u>	<u>10,919,663</u>
Net assets - ending	<u>\$ 11,735,050</u>	<u>\$ 11,508,876</u>

The Department's change in net assets was higher in 2007 due to receiving a capital grant to finance capital improvements to the Village's infrastructure to meet the needs of a manufacturing company located within the Village of Sebewaing. The Department increased operating expenses approximately \$239,293 (6.6%) while operating revenue increased approximately \$161,682 (4.6%) due to the previously mentioned items in this report. Production expense as well as revenue was up due to the addition of load at one of the industrial customers. The calendar year 2006 power purchases were 44,971,000 Kwh, and in calendar year 2007 power purchases were 48,478,202 Kwh with sales and purchases up by approximately 4.6% and 8.0%, respectively.

Sebewaing Light & Water, Michigan

Management's Discussion & Analysis

Business-Type Activities

The Department's business-type activities consist of electric, internet and water services. We provide water and electric to the residents of the Village of Sebewaing and some of the surrounding township residents.

The Light & Water Department's Funds

The Light & Water fund financial statements provide detailed information about the significant funds. The Light & Water Commission creates funds to manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millage. While some of the Department's balance sheet indicates a healthy savings, the utility system requires a large investment, especially the aging water system of which a large percentage dates back to the 1930's. The Department is also positioning itself for the large exposure it has to changes to the electric power supply costs. Electric power costs make up 62% of the Department's budget and the Department has a contract with DTE Energy that ends in 2010. This contract has been below market rates by approximately 50%. Purchase power costs for the fiscal year 2007-2008 were \$2,164,275 compared to \$2,003,130 for the previous year.

In 2005, the Light & Water Commission requested a public hearing to set electric rates that would coincide with the current DTE contract. The recommended rate is intended to soften the large rate impact that would occur when the current contract expires in 2010 by increasing rates over the next ten years by \$.002/kwh per year.

The Department is committed to improving the water quality to the village residents and maintains a five year plan to replace the aging distribution system. A local contractor completed water main replacement on Beach, Ninth and Tenth Streets along with ten fire hydrants on the system.

This financial report is intended to provide our customers with a general overview of the Light and Water Department's finances and to show the accountability for the money it receives. If you have questions about this report or need additional information we welcome you to contact the Light and Water Department office. To receive additional information for the Sebewaing Light and Water Department, contact Supt. Jeff Schock, Sebewaing Light and Water Department, 108 W. Main Street, Sebewaing, MI 48759, 989-883-2700.

FINANCIAL STATEMENTS

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

BALANCE SHEETS - PROPRIETARY FUND

	March 31,	
	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 3,199,833	\$ 3,308,263
U.S. Government securities	1,889,917	1,875,995
Accounts receivable - Trade	52,790	71,735
Due from Village	33,402	
Accrued interest receivable	19,622	24,304
Prepaid insurance	45,035	65,418
Inventories	<u>396,940</u>	<u>368,924</u>
TOTAL CURRENT ASSETS	<u>5,637,539</u>	<u>5,714,639</u>
CAPITAL ASSETS	11,187,658	10,556,056
LESS ACCUMULATED DEPRECIATION	<u>(5,650,480)</u>	<u>(5,351,835)</u>
CAPITAL ASSETS - NET	<u>5,537,178</u>	<u>5,204,221</u>
RESTRICTED ASSETS:		
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>
TOTAL RESTRICTED ASSETS	1,000,000	1,000,000
TOTAL ASSETS	<u>\$ 12,174,717</u>	<u>\$ 11,918,860</u>

	March 31,	
	<u>2008</u>	<u>2007</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable - Trade	\$ 318,438	\$ 282,440
Due to other government	-	156
Accrued salaries and wages	1,446	9,881
Withheld and accrued payroll taxes and retirement	4,338	3,287
Deferred revenue	5,074	5,074
Customer deposits	18,361	17,661
TOTAL CURRENT LIABILITIES	<u>347,657</u>	<u>318,497</u>
NONCURRENT LIABILITIES:		
Accrued compensated absences	92,010	91,487
TOTAL NONCURRENT LIABILITIES	<u>92,010</u>	<u>91,487</u>
TOTAL LIABILITIES	<u>439,667</u>	<u>409,984</u>
NET ASSETS:		
Investment in capital assets	5,537,179	5,204,221
Unrestricted	6,197,871	6,304,655
TOTAL NET ASSETS	<u>11,735,050</u>	<u>11,508,876</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 12,174,717</u>	<u>\$ 11,918,860</u>

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

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
PROPRIETARY FUND**

	For the Years Ended March 31,	
	<u>2008</u>	<u>2007</u>
CHARGES FOR SERVICES	<u>\$ 3,693,816</u>	<u>\$ 3,532,134</u>
OPERATING AND ADMINISTRATIVE EXPENSES:		
Production	2,462,251	2,264,279
Internet	53,969	56,426
Distribution	384,996	398,240
General and administrative	949,720	892,698
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>3,850,936</u>	<u>3,611,643</u>
OPERATING (LOSS)	<u>(157,120)</u>	<u>(79,511)</u>
NONOPERATING REVENUE:		
Interest on investments	262,667	304,071
Capital grant	-	226,088
Miscellaneous	4,969	20,346
Property taxes	99,621	102,098
State shared revenue	5,074	5,074
Net crop income	1,962	2,045
TOTAL NONOPERATING REVENUE	<u>374,293</u>	<u>659,723</u>
INCOME BEFORE CONTRIBUTIONS	<u>217,174</u>	<u>580,212</u>
CONTRIBUTIONS	9,000	9,000
CHANGE IN NET ASSETS	<u>226,174</u>	<u>589,212</u>
NET ASSETS - BEGINNING	11,508,876	10,919,663
NET ASSETS - ENDING	<u>\$ 11,735,050</u>	<u>\$ 11,508,876</u>

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

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

	For the Years Ended March 31,	
	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 3,712,761	\$ 3,509,734
Payments to suppliers for goods and services	(2,530,029)	(2,197,081)
Payments to employees	(543,910)	(521,023)
Payments for fringe benefits	(291,183)	(265,589)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>347,639</u>	<u>526,041</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(738,384)	(927,029)
Proceeds from sale of capital assets	19,888	
Capital grant received	-	226,088
Contributed capital received	9,000	9,000
NET CASH (USED) FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(709,496)</u>	<u>(691,941)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	253,428	303,313
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	<u>(108,429)</u>	<u>137,413</u>
CASH AND RESTRICTED CASH - BEGINNING OF YEAR	4,308,263	4,170,850
CASH AND RESTRICTED CASH - END OF YEAR	<u>\$ 4,199,833</u>	<u>\$ 4,308,263</u>
Cash Reconciliation:		
Cash	\$ 3,199,833	\$ 3,308,263
Restricted cash	1,000,000	1,000,000
Total	<u>\$ 4,199,833</u>	<u>\$ 4,308,263</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

STATEMENTS OF CASH FLOWS - PROPRIETARY FUND

	For the Years Ended March 31,	
	<u>2008</u>	<u>2007</u>
Reconciliation of operating (loss) to net cash provided by operating activities:		
Operating (loss)	\$ (157,120)	\$ (79,511)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation	375,231	352,036
Loss on sale of fixed assets	1,907	
Miscellaneous revenue	6,931	22,391
Property taxes	99,621	102,098
State shared revenue	5,074	5,074
(Increase) decrease in current assets:		
Accounts receivable - Trade	18,945	(22,400)
Accounts receivable - Village	(25,000)	
Prepaid insurance	20,383	9,386
Inventories	(28,016)	25,441
Increase (decrease) in current liabilities:		
Accounts payable	35,998	100,028
Due to other fund	(156)	156
Accrued salaries and wages	(8,435)	1,638
Accrued compensated absences	525	9,582
Withheld and accrued payroll taxes and retirement	1,051	(389)
Customer deposits	700	511
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 347,639	\$ 526,041

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Sebewaing Light and Water Department is a municipal owned utility company that provides electric and water service to the residents of the Village of Sebewaing. The Department has three classes of customers: residential, commercial and industrial. Approximately 50% of the Department's gross revenue is attributable to its six industrial customers which range from the agri-service industry to the tool and die industry. The Sebewaing Light and Water Department grants credit to its customers, all of whom are either located in the Village of Sebewaing or border the Village.

The Sebewaing Light and Water Department is one combined operating entity. The information presented in the financial statements reflecting separate information for the Light Department and Water Department is for informational and management purposes only.

Basis of Presentation:

The financial activities of the Department are recorded in one fund categorized as an Enterprise Fund. Enterprise Funds are of the Proprietary Fund Type and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Sebewaing Light and Water Department is a component unit of the Village of Sebewaing and its financial statements are included in the financial statements of the Village of Sebewaing. However, for purposes of these financial statements, the financial position, results of operations, and cash flows of the Sebewaing Light and Water Department are being presented separate from those of the Village of Sebewaing.

Basis of Accounting:

The accounting policies of the Department conform to generally accepted accounting principles as applicable to governmental units following the accrual basis of accounting as required for Proprietary Fund Types. Therefore, revenue is recognized when earned (utility service is provided to customer) and expenses are recognized when incurred (goods or services are received). The department has elected under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting, to apply all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989, except for those that conflict with or contradict with GASB pronouncements.

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents:

Cash and cash equivalents of the Department include cash on hand and all deposits with financial institutions, including all certificates of deposit. Investments in U.S. Treasury Securities are excluded from cash and cash equivalents.

Accounts Receivable:

The Department uses the direct write-off method to recognize bad debt expense related to uncollectible accounts. Based on their review of the outstanding accounts, management believes the difference between the direct write-off method and the allowance method is not material.

Capital Assets:

Buildings, generation assets, transmission assets, furniture and equipment are stated at cost, less accumulated depreciation. Expenditures that increase values or extend useful lives are capitalized and routine maintenance and repairs are charged to expense in the period incurred. Depreciation is calculated using the straight-line method at rates that are designed to depreciate the cost of the assets over their estimated useful lives ranging from 5 to 50 years.

Net Assets:

The net assets of the Department consist of the following:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Compensated Absences:

Light and Water Department employees are allowed to accumulate a maximum of one hundred twenty (120) days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of one hundred twenty (120) days is paid annually at one-half of the employee's regular pay rate. There is no accumulation of unused vacation days allowed. The Department accrues a liability for compensated absences which meet the following criteria:

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Compensated Absences: (Continued)

1. The Department's obligation relating to employees' rights to receive compensation for future absences is attributable to employee's services already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment of the compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the Department has accrued a liability for sick pay which has been earned but not taken by Light and Water Department employees. The liability for compensated absences is recorded in proprietary fund types as a noncurrent accrued liability in accordance with GASB Statement 16.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA interpretation 3 (Revenue Recognition - Property Taxes). The Village of Sebewaing collects the property taxes levied for the purpose of operating, maintaining, replacing and expanding the water system and then transfers the taxes collected to the Sebewaing Light and Water Department where they are deposited into a separate bank account.

Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – CASH AND DEPOSITS:

The carrying amount of cash and deposits with financial institutions of the Sebewaing Light and Water Department amounted to \$4,199,833 and \$4,308,263 at March 31, 2008 and 2007, respectively. The bank balance as of March 31, 2008 and 2007 was \$4,557,292 and \$4,672,501, respectively. Deposits with financial institutions are categorized as follows:

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
Amount insured by the FDIC	\$1,298,432	\$1,700,000
Uncollateralized	<u>3,258,860</u>	<u>2,972,501</u>
Total deposits with financial institutions	<u>\$4,557,292</u>	<u>\$4,672,501</u>

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 2 - CASH AND DEPOSITS: (CONTINUED)

All deposits categorized as uncollateralized are the property of the Sebewaing Light and Water Department, an Enterprise Fund.

The amount of uncollateralized deposits throughout the fiscal year did not significantly exceed the amount of uncollateralized deposits at March 31, 2008.

Michigan Compiled Laws Section 129.91, authorizes the Department to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States Government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Department's deposits are in accordance with statutory authority. The Light and Water Commission has authorized management to deposit and invest in the accounts of federally insured banks and savings and loan associations within the State of Michigan and bonds, securities and other obligations of the United States, or any agency of the United States in which the principal and interest is fully guaranteed by the United States. The Department's deposits and investments are within the authorization as set forth by the Light and Water Commission. However, the Department's investment policy does not specifically address credit risk, custodial credit risk, concentration of credit risk, and interest rate risk. It does include policies on safety of capital, diversification, liquidity, and return on investment.

NOTE 3 - SHORT-TERM INVESTMENTS:

At March 31, 2008 and 2007, the Department's investments include the following:

	<u>March 31,</u>	
	<u>2008</u>	<u>2007</u>
U.S. Treasury Securities (at cost, which approximates market value) *	<u>\$1,889,917</u>	<u>\$1,875,995</u>
Total U.S. Treasury Securities	<u>\$1,889,917</u>	<u>\$1,875,995</u>
Weighted Average Maturity (Days)	50.9	52.9

* The U.S. Treasury securities mature in various amounts from April 3, 2008 to June 26, 2008 at interest rate yields that range from 1.118% to 3.394%.

The Department owns the U.S. Treasury Securities directly and has purchased the securities through a "Treasury Direct" account with the Federal Reserve Bank of Chicago. Therefore, the investment would be classified as a Category 1 investment (Insured or registered, with securities held by the Department or its agent in the Department's name).

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 4 - INVENTORIES:

Inventories are stated at cost determined on the first-in, first-out method. Inventories consisted of the following:

	<u>2008</u>	<u>March 31,</u> <u>2007</u>
Light Department:		
Poles, towers, fixtures	\$ 26,353	\$ 31,138
Line material	111,992	109,502
Line transformers	152,514	141,885
Meters	5,341	5,774
Street lighting	10,031	11,663
Customer service – Lamps	814	933
Office supplies	600	600
Lamps – Resale	5,888	6,457
Fuel oil, lubricants	30,208	11,047
Customer service – Material	<u>1,500</u>	<u>1,500</u>
Total light department	<u>345,241</u>	<u>320,499</u>
Water Department:		
Distribution mains, services	10,606	10,523
Fire hydrants	9,557	11,473
Meters	4,826	4,701
Maintenance supplies	26,360	21,378
Office supplies	<u>350</u>	<u>350</u>
Total water department	<u>51,699</u>	<u>48,425</u>
Total light & water department	<u>\$396,940</u>	<u>\$368,924</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 5 - CAPITAL ASSETS:

Depreciation expense for the years ended March 31, 2008 and 2007, amounted to \$375,231 and \$352,036, respectively. Capital assets and accumulated depreciation consisted of the following:

	<u>Balance March 31, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance March 31, 2008</u>
Light Department:				
Land - Nondepreciated	\$ 242,775	\$ 980	\$ 30,511	\$ 213,244
Buildings	1,538,839	418,547	7,082	1,950,304
Equipment	5,728,776	208,271	69,189	5,867,858
Construction in progress	<u>228,537</u>		<u>228,537</u>	
Total Light Department	<u>7,738,927</u>	<u>627,798</u>	<u>335,319</u>	<u>8,031,406</u>
Water Department:				
Land - Nondepreciated	14,989			14,989
Buildings	7,043			7,043
Equipment	2,795,097	326,490		3,121,587
Construction in progress		<u>12,633</u>		<u>12,633</u>
Total Water Department	<u>2,817,129</u>	<u>339,123</u>		<u>3,156,252</u>
Total Capital Assets	<u>10,556,056</u>	<u>966,921</u>	<u>335,319</u>	<u>11,187,658</u>
Less: Accumulated depreciation	<u>5,351,835</u>	<u>375,231</u>	<u>76,586</u>	<u>5,650,480</u>
Net Capital Assets	<u>\$5,204,221</u>	<u>\$591,690</u>	<u>\$ 258,733</u>	<u>\$5,537,178</u>

NOTE 6 – CONSTRUCTION IN PROGRESS:

Included in construction in progress is the following project that the Sebewaing Light and Water Department had in progress as of March 31, 2008: Engineering fees related to the 5 year water system improvement plan.

NOTE 7 - RESTRICTED ASSETS:

Restricted cash and deposits held by the Sebewaing Light and Water Department amounted to \$1,000,000 and \$1,000,000, as of March 31, 2008 and 2007, respectively. Deposits are restricted for the following purposes:

	<u>2008</u>	<u>March 31, 2007</u>
Building and equipment replacement for the Light and Water Department	\$1,000,000	\$1,000,000
Total restrictions on deposits	<u>\$1,000,000</u>	<u>\$1,000,000</u>

NOTE 8 – CONTINGENT LIABILITIES:

The Department is a reimbursing employer for purposes of unemployment insurance claims against the Department. The Department reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 9 – CAPITAL GRANT:

During the year ended March 31, 2007, the Department received a capital grant in the amount of \$226,088 through the Village of Sebewaing, Michigan. The purpose of the grant was to reimburse the Department for the cost of the electric and water improvements that were a part of the infrastructure improvements for the Lapeer Metal Stamping project that the Village conducted.

NOTE 10 - RETIREMENT SYSTEM - MERS OPERATED:

Pension Plan:

Plan Description: The Sebewaing Light and Water Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Sebewaing Light and Water Department as part of the Village of Sebewaing pension plan. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

Annual Pension Cost: For the year ended March 31, 2008, the Sebewaing Light and Water Department's portion of the annual pension cost of \$69,201 for the plan was equal to the Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

Three-year trend information of the Village's plan follows:

	<u>Fiscal year ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 103,944	\$ 114,440	\$ 116,988
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	4,147,907	4,325,940	4,513,712
Actuarial accrued liability (entry age)	5,507,223	5,639,628	6,008,642
Unfunded AAL	1,359,316	1,313,688	1,494,930
Funded ratio	75%	77%	75%
Covered payroll	930,050	927,927	930,708
UAAL as a percentage of covered payroll	146%	142%	161%

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008 AND 2007**

NOTE 11 – DEFERRED COMPENSATION:

Employees of the Sebewaing Light and Water Department may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Department. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

NOTE 12 – RELATED PARTY TRANSACTIONS:

As a matter of convenience, the Sebewaing Light and Water Department collects sewer, trash and fines billed by the Village of Sebewaing along with its own electric and water utility billings from customers. The collections for sewer, trash and fine charges are then periodically transferred to the Village's accounts. During the years ended March 31, 2008 and 2007, the Light and Water Department received \$36,333 and \$38,600, respectively, from the Village of Sebewaing's General and Sanitary Sewer Funds for electric service for street lighting and lift station operation.

Also, during the year ended March 31, 2008, the Light and Water Department advanced \$25,000 to the Village of Sebewaing to finance a loan to the Sebewaing Harbor Commission .

NOTE 13 – RISK MANAGEMENT:

General Liability:

Sebewaing Light and Water Department participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$10.9 million for real and personal property losses and \$10 million for liability losses. Sebewaing Light and Water Department is required to pay annual premiums to the Michigan Municipal Liability and Property Pool for the liability coverage. No supplemental premium assessment is required by the Michigan Municipal Liability and Property Pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Workers' Compensation:

Sebewaing Light and Water Department, as a component unit of the Village of Sebewaing, purchased commercial insurance coverage for losses related to workers' compensation claims.

Employee Health Care:

Sebewaing Light and Water Department purchased commercial insurance coverage for its employees and their dependents.

SUPPLEMENTAL INFORMATION

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

DEPARTMENTAL BALANCE SHEETS

March 31, 2008

	<u>LIGHT</u>	<u>WATER</u>	<u>TOTAL</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 3,098,002	\$ 101,831	\$ 3,199,833
U.S. Government Securities	1,889,917		1,889,917
Accounts receivable - Trade	46,412	6,378	52,790
Accounts receivable - Village	33,402		33,402
Accrued interest receivable	19,622		19,622
Prepaid insurance	36,028	9,007	45,035
Inventories	345,241	51,699	396,940
TOTAL CURRENT ASSETS	<u>5,468,624</u>	<u>168,915</u>	<u>5,637,539</u>
CAPITAL ASSETS	8,031,406	3,156,252	11,187,658
LESS ACCUMULATED DEPRECIATION	<u>(4,737,451)</u>	<u>(913,029)</u>	<u>(5,650,480)</u>
CAPITAL ASSETS - NET	<u>3,293,955</u>	<u>2,243,223</u>	<u>5,537,178</u>
RESTRICTED ASSETS:			
Certificates of deposit	1,000,000		1,000,000
TOTAL RESTRICTED ASSETS	<u>1,000,000</u>		<u>1,000,000</u>
TOTAL ASSETS	<u>\$ 9,762,579</u>	<u>\$ 2,412,138</u>	<u>\$ 12,174,717</u>

(Continued)

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

DEPARTMENTAL BALANCE SHEETS

March 31, 2008

	<u>LIGHT</u>	<u>WATER</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES:</u>			
Accounts payable - Trade	\$ 318,438		\$ 318,438
Accrued salaries and wages	1,133	313	1,446
Withheld and accrued payroll taxes and retirement	4,338		4,338
Deferred revenue		5,074	5,074
Customer deposits	18,361		18,361
TOTAL CURRENT LIABILITIES	<u>342,270</u>	<u>5,387</u>	<u>347,657</u>
<u>NONCURRENT LIABILITIES:</u>			
Interdepartmental adjustment	(2,227,735)	2,227,735	92,010
Accrued compensated absences	71,482	20,529	92,010
TOTAL NONCURRENT LIABILITIES	<u>(2,156,253)</u>	<u>2,248,264</u>	<u>92,010</u>
TOTAL LIABILITIES	<u>(1,813,984)</u>	<u>2,253,651</u>	<u>439,667</u>
<u>NET ASSETS:</u>			
Investment in capital assets	3,293,955	2,243,223	5,537,179
Unrestricted	8,282,608	(2,084,737)	6,197,871
TOTAL NET ASSETS	<u>11,576,563</u>	<u>158,487</u>	<u>11,735,050</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,762,579</u>	<u>\$ 2,412,138</u>	<u>\$ 12,174,717</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
LIGHT DEPARTMENT**

	<u>FOR THE YEARS ENDED</u>			
	<u>MARCH 31, 2008</u>		<u>MARCH 31, 2007</u>	
	<u>AMOUNT</u>	<u>% OF REVENUE</u>	<u>AMOUNT</u>	<u>% OF REVENUE</u>
CHARGES FOR SERVICES	\$ 3,470,179	100.0 %	\$ 3,314,031	100.0 %
OPERATING AND ADMINISTRATIVE EXPENSES:				
Production	2,362,156	68.1	2,167,908	65.4
Internet	53,969	1.6	56,426	1.7
Distribution	355,985	10.3	367,956	11.1
General and administrative	748,246	21.5	697,164	20.9
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>3,520,356</u>	<u>101.3</u>	<u>3,289,454</u>	<u>99.2</u>
OPERATING INCOME (LOSS)	<u>(50,177)</u>	<u>(1.3)</u>	<u>24,577</u>	<u>0.8</u>
NONOPERATING REVENUE:				
Interest on investments	251,445	7.2	290,516	8.8
Capital grant	-	-	226,088	6.8
Miscellaneous	4,969	0.1	20,346	0.6
Net crop income	1,962	0.1	2,045	0.1
TOTAL NONOPERATING REVENUE	<u>258,376</u>	<u>7.4</u>	<u>538,995</u>	<u>16.3</u>
CHANGE IN NET ASSETS	<u>208,199</u>	<u>6.1 %</u>	<u>563,572</u>	<u>17.1 %</u>
NET ASSETS - BEGINNING OF YEAR	11,368,364		10,804,792	
NET ASSETS - END OF YEAR	<u>\$ 11,576,563</u>		<u>\$ 11,368,364</u>	

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
WATER DEPARTMENT**

	<u>FOR THE YEARS ENDED</u>			
	<u>MARCH 31, 2008</u>		<u>MARCH 31, 2007</u>	
	<u>AMOUNT</u>	<u>% OF REVENUE</u>	<u>AMOUNT</u>	<u>% OF REVENUE</u>
CHARGES FOR SERVICES	\$ 223,637	100.0 %	\$ 218,103	100.0 %
OPERATING AND ADMINISTRATIVE EXPENSES:				
Production	100,095	44.8	96,371	44.2
Distribution	29,011	13.0	30,285	13.9
General and administrative	201,474	90.1	195,534	89.7
TOTAL OPERATING AND ADMINISTRATIVE EXPENSES	<u>330,580</u>	<u>147.8</u>	<u>322,190</u>	<u>147.6</u>
OPERATING (LOSS)	<u>(106,943)</u>	<u>(47.8)</u>	<u>(104,087)</u>	<u>(47.6)</u>
NONOPERATING REVENUE:				
Property taxes	99,621	44.5	102,098	46.8
State shared revenue	5,074	2.3	5,074	2.3
Interest earned	11,222	5.0	13,554	6.2
TOTAL NONOPERATING REVENUE	<u>115,917</u>	<u>51.8</u>	<u>120,727</u>	<u>55.4</u>
INCOME BEFORE CONTRIBUTIONS	<u>8,974</u>	<u>4.1</u>	<u>16,640</u>	<u>7.5</u>
CONTRIBUTIONS	9,000	4.0	9,000	4.1
CHANGE IN NET ASSETS	<u>17,974</u>	<u>8.0 %</u>	<u>25,640</u>	<u>11.6 %</u>
NET ASSETS - BEGINNING OF YEAR	140,512		114,871	
NET ASSETS - END OF YEAR	<u>\$ 158,487</u>		<u>\$ 140,512</u>	

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULES OF OPERATING AND ADMINISTRATIVE EXPENSES
LIGHT DEPARTMENT**

	<u>FOR THE YEARS ENDED</u>			
	<u>MARCH 31, 2008</u>		<u>MARCH 31, 2007</u>	
	<u>AMOUNT</u>	<u>% OF REVENUE</u>	<u>AMOUNT</u>	<u>% OF REVENUE</u>
PRODUCTION:				
Supervision and operation labor	\$ 27,516	0.8 %	\$ 44,322	1.3 %
Fuel - Natural gas	20,626	0.6	25,608	0.8
Supplies	4,928	0.1	6,970	0.2
Maintenance and repairs	36,032	1.0	11,334	0.3
Maintenance and repairs - Labor	106,531	3.1	76,193	2.3
Purchased power	2,164,275	62.4	2,003,130	60.4
Building maintenance	<u>2,248</u>	<u>0.1</u>	<u>351</u>	<u>0.0</u>
TOTAL PRODUCTION	<u>2,362,156</u>	<u>68.1</u>	<u>2,167,908</u>	<u>65.4</u>
INTERNET:				
Administration	267	0.0	4,039	0.1
Maintenance and repairs	5,622	0.2	3,660	0.1
Depreciation	24,168	0.7	32,180	1.0
Subcontractor labor	3,357	0.1	3,551	0.1
T1 monthly fee	<u>20,555</u>	<u>0.6</u>	<u>12,996</u>	<u>0.4</u>
TOTAL INTERNET	<u>53,969</u>	<u>1.6</u>	<u>56,426</u>	<u>1.7</u>
DISTRIBUTION:				
Supervision and operation labor	64,427	1.9	75,914	2.3
Line materials	22,150	0.6	13,217	0.4
Customer service	37,700	1.1	60,912	1.8
Transportation - Truck	29,452	0.8	41,178	1.2
Supplies	5,636	0.2	7,856	0.2
Maintenance and repairs	176,583	5.1	160,605	4.8
Building maintenance	<u>20,037</u>	<u>0.6</u>	<u>8,274</u>	<u>0.2</u>
TOTAL DISTRIBUTION	<u>355,985</u>	<u>10.3</u>	<u>367,956</u>	<u>11.1</u>
GENERAL AND ADMINISTRATIVE:				
Meter reading and collection labor	59,870	1.7	54,663	1.6
Supplies - Office	16,590	0.5	23,796	0.7
Insurance - General	52,414	1.5	58,355	1.8
Interest expense	25	0.0	300	0.0
Building maintenance	3,271	0.1	7,074	0.2
Professional and consulting fees	15,030	0.4	11,836	0.4
Bad debts	17,123	0.5	2,947	0.1
Retirement	53,762	1.5	48,382	1.5
Dues, meetings and travel	33,538	1.0	34,809	1.1
Advertising	5,261	0.2	3,424	0.1
Education and training	10,394	0.3	5,687	0.2
Depreciation	275,852	7.9	248,827	7.5
Employee insurance	140,383	4.0	133,464	4.0
Office equipment	14,520	0.4	11,946	0.4
Taxes - Social security	32,905	0.9	30,996	0.9
Telephone	<u>17,308</u>	<u>0.5</u>	<u>20,656</u>	<u>0.6</u>
TOTAL GENERAL AND ADMINISTRATIVE	<u>748,246</u>	<u>21.5</u>	<u>697,164</u>	<u>20.9</u>
TOTAL OPERATING AND ADMINISTRATIVE	<u>\$ 3,520,356</u>	<u>101.3 %</u>	<u>\$ 3,289,454</u>	<u>99.2 %</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULES OF OPERATING AND ADMINISTRATIVE EXPENSES
WATER DEPARTMENT**

	<u>FOR THE YEARS ENDED</u>			
	<u>MARCH 31, 2008</u>		<u>MARCH 31, 2007</u>	
	<u>AMOUNT</u>	<u>% OF REVENUE</u>	<u>AMOUNT</u>	<u>% OF REVENUE</u>
PRODUCTION:				
Supervision and operation labor	\$ 39,054	17.5 %	\$ 41,179	18.9 %
Purchased power - Electric	35,214	15.7	22,495	10.3
Supplies	8,437	3.8	12,024	5.5
Maintenance and repairs	17,390	7.8	20,671	9.5
TOTAL PRODUCTION	<u>100,095</u>	<u>44.8</u>	<u>96,371</u>	<u>44.2</u>
DISTRIBUTION:				
Water testing	1,641	0.7	3,380	1.5
Supplies	3,644	1.6	1,390	0.6
Maintenance and repairs	23,726	10.6	25,515	11.7
TOTAL DISTRIBUTION	<u>29,011</u>	<u>13.0</u>	<u>30,285</u>	<u>13.9</u>
GENERAL AND ADMINISTRATIVE:				
Meter reading and collection labor	46,771	20.9	44,640	20.5
Insurance - General	13,105	5.9	14,981	6.9
Miscellaneous	79	0.0	-	-
Bad debts	1,125	0.5	581	0.3
Retirement	15,439	6.9	14,501	6.6
Depreciation	75,211	33.6	71,029	32.6
Employee insurance	40,317	18.0	40,028	18.4
Taxes - Social security	9,428	4.2	9,773	4.5
TOTAL GENERAL AND ADMINISTRATIVE	<u>201,474</u>	<u>90.1</u>	<u>195,534</u>	<u>89.7</u>
TOTAL OPERATING AND ADMINISTRATIVE EXPENSE	<u>\$ 330,580</u>	<u>147.8 %</u>	<u>\$ 322,190</u>	<u>147.6 %</u>

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSETS
FOR THE YEAR ENDED MARCH 31, 2008**

	CAPITAL ASSETS				ACCUMULATED DEPRECIATION			NET ASSET COST
	BALANCE MARCH 31, 2007	ADDITIONS	RETIREMENTS	BALANCE MARCH 31, 2008	PROVISION FOR DEPRECIATION	RETIREMENTS	BALANCE MARCH 31, 2008	
LIGHT DEPARTMENT:								
Land and land improvements	\$ 242,775	\$ 980	\$ 30,511	\$ 213,244	\$ 902	\$ 304	\$ 59,725	\$ 153,519
Power house building	554,195			554,195	17,398		332,948	221,247
Office building	186,298	134,499	7,082	313,715	7,111	7,082	37,827	275,888
Warehouse buildings	307,339	2,366		309,705	11,967		196,489	113,216
Oil storage tanks, pump	39,034			39,034	1,402		23,810	15,224
Electric plant waterwell	1,875			1,875			1,875	
Fiber line	102,867			102,867	3,429		40,141	62,726
Internet equipment	110,772	6,130		116,902	20,739		77,407	39,495
Generating equipment	1,761,540	13,152		1,774,692	44,142		1,316,161	458,531
Substation	491,007	281,682		772,689	22,341		202,145	570,544
Accessory equipment	315,472	2,421	12,661	305,232	6,468	12,661	293,066	12,166
Switchboard equipment	554,801			554,801	17,233		344,514	210,287
Poles, towers, fixtures	160,911	4,786	3,118	162,579	5,951	3,118	83,277	79,302
Overhead conductors service	1,096,320	25,632	33,060	1,088,892	34,643	33,060	543,365	545,527
Line transformers	255,000	4,252	9,052	250,200	7,823	9,052	133,484	116,716
Meters	53,905	2,060		55,965	1,772		25,689	30,276
Street lighting	72,088	2,991	3,349	71,730	2,181	3,360	40,588	31,142
Office furniture, fixtures	166,063	46,236	7,949	204,350	12,303	7,949	139,836	64,514
Utility equipment	543,068			543,068	22,973		444,416	98,652
Transportation equipment	495,062	100,611		595,673	59,242		400,688	194,985
Construction in progress	228,537		228,537	-				-
TOTAL LIGHT DEPARTMENT	7,738,927	627,798	335,319	8,031,406	300,020	76,586	4,737,451	3,293,955
WATER DEPARTMENT:								
Land and improvements	14,989			14,989			3,212	11,777
Wells	235,113			235,113	5,667		86,924	148,189
Well houses	16,087			16,087	127		12,265	3,822
Elevated tank	451,735	4,600		456,335	16,084		279,011	177,324
Pumping equipment	134,497			134,497	4,545		79,680	54,817
Maintenance buildings	7,043			7,043			7,043	
Distribution mains, service	1,727,621	241,943		1,969,564	36,213		312,760	1,656,804
Fire hydrants	23,663	71,102		94,765	1,175		9,897	84,868
Meters	122,057	3,870		125,927	3,865		55,836	70,091
Tools, work equipment	69,824	4,975		74,799	4,135		55,284	19,515
Transportation equipment	14,500			14,500	2,900		11,117	3,383
Construction in progress	-	12,633		12,633				12,633
TOTAL WATER DEPARTMENT	2,817,129	339,123	-	3,156,252	75,211	-	913,029	2,243,223
TOTAL LIGHT AND WATER DEPARTMENT	\$ 10,556,056	\$ 966,921	\$ 335,319	\$ 11,187,658	\$ 375,231	\$ 76,586	\$ 5,650,480	\$ 5,537,178

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSET ADDITIONS
FOR THE YEAR ENDED MARCH 31, 2008**

LIGHT DEPARTMENT:

Generating equipment:

Heat exchanger for Pine Street plant	<u>\$ 13,152</u>
--------------------------------------	------------------

Land:

Fence around property	<u>980</u>
-----------------------	------------

Building:

Office building 108 W Main Street remodeling	<u>134,499</u>
--	----------------

Internet Service:

Tyan server	2,062
T-1 equipment	<u>4,068</u>
	<u>6,130</u>

Office Furniture & fixtures:

Security system	4,994
Phone system	4,645
Projectors & screens	5,522
File cabinets	4,750
Ice maker	1,915
Web CC TV	2,345
Cash registers	7,380
Computer equipment	13,581
Refrigerator	<u>1,104</u>
	<u>46,236</u>

Line Transformers:

Inventory installed during fiscal year	<u>4,252</u>
--	--------------

Accessory equipment:

Battery operated cutter	<u>2,421</u>
-------------------------	--------------

Substation:

LMS Substation	<u>281,682</u>
----------------	----------------

Overhead conductors service:

Inventory installed during fiscal year	<u>25,632</u>
--	---------------

Poles, towers and fixtures:

Inventory installed during fiscal year	<u>4,786</u>
--	--------------

Street lighting:

Inventory installed during fiscal year	<u>2,991</u>
--	--------------

**SEBEWAING LIGHT AND WATER DEPARTMENT
VILLAGE OF SEBEWAING**

**SCHEDULE OF CAPITAL ASSET ADDITIONS
FOR THE YEAR ENDED MARCH 31, 2008**

Warehouse building:	
RO Unit Line for shop	1,123
Unit heater - Backhoe garage	1,243
	<u>2,366</u>
Electric meters:	
Inventory installed during fiscal year	<u>2,060</u>
Transportation equipment:	
2007 Ford F550 Chassis	88,988
New engine for 1984 Chevy truck	11,623
	<u>100,611</u>
TOTAL LIGHT DEPARTMENT	<u>627,798</u>
WATER DEPARTMENT:	
Elevated tanks:	
Cathodic protection system rectifier - Silver tower	<u>4,600</u>
Distribution mains, service:	
9th, 10th and Beech streets water main	<u>241,943</u>
Fire hydrants:	
10 fire hydrants	68,800
Inventory installed during fiscal year	2,302
	<u>71,102</u>
Water meters:	
Inventory installed during fiscal year	<u>3,870</u>
Tools and equipment:	
Trench box	<u>4,975</u>
Construction in progress:	
5 year water system plan - Beck Street to East Street	7,885
Survey & plans for Main Street - from Center to Mill Street	4,748
	<u>12,633</u>
TOTAL WATER DEPARTMENT	<u>339,123</u>
TOTAL LIGHT AND WATER DEPARTMENT	<u>\$ 966,921</u>

To the Light & Water Commission and Management
of the Sebawaing Light and Water Department

In planning and performing our audit of the financial statements of the business-type activities of the Sebawaing Light and Water Department as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Sebawaing Light and Water Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

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

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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

The use of purchase orders would provide the Sebawaing Light and Water Department with more timely information and it would facilitate management in controlling the purchases that are being made by the Department. We would like to suggest that the accounting department should institute a policy and the procedures to begin processing purchase orders for the Department's purchases. The policy could include a dollar limit for purchases that could be made without preparing a purchase order. Once a purchase order is issued and the materials or services are received, the purchase order should be matched to the related invoice before the invoice is approved for payment. The use of purchase orders will provide stronger controls over the Department's purchases and we feel that knowledge of the open purchase orders at any given point in time would be very useful information. We understand that there are some training and time availability issues that would need to be resolved before undertaking this task. As with any change in the accounting system, an organized plan that is well thought out in design and development and followed well will have a major impact on the success of this policy.

Packing slips and/or copies of purchase orders should be used as evidence of receipt of goods. However, in our opinion, this procedure does not fully account for the receipt of all goods in satisfactory condition. Also, the lack of uniformity and formality of these documents decreases the discipline of requiring written evidence for the receipt of goods. We suggest that the Light & Water Commission implement pre-numbered receiving reports that include vendor description, date of receipt, and a reference to the purchase order. A control copy file of receiving reports should be kept in the receiving department and the original voucher package (copies of purchase orders and/or packing slips, and receiving reports) should then be forwarded to the accounting department for processing. Payment of a vendor's invoice should not be made unless a copy of the receiving report is attached.

We suggest that the Light & Water Department establish a standard accounting manual that would inform all employees of desired operating procedures and policies. Such a manual would serve as an aid in training new employees, monitoring the performance of existing employees and improving internal controls and communications. At a minimum, the manual should include:

- An organizational chart of the Sebewaing Light and Water Department.
- Job descriptions, outlining duties and responsibilities.
- Descriptions of methods, procedures and accounting principles to be followed including explanations and examples of principle transactions.
- A chart of accounts with detailed explanation of the items to be included therein.
- Any other documents or forms for which uniformity of use is desired.

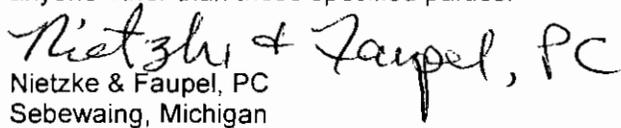
Currently, the Department processes cash disbursements on an as needed basis. As a result the Light & Water Commission approves the cash disbursements at their monthly meeting after the disbursements have been made. According to the State of Michigan Accounting Manual for Local Units of Government, cash disbursements are required to be approved by the legislative body prior to payment. The Light & Water Commission may establish a formal policy to authorize limited payments prior to approval to avoid finance or late charges as well as payroll and related payroll tax payments. This approval process is an important internal accounting control to help ensure that only authorized disbursements are being made. The Department should establish procedures where the cash disbursements for the month are processed. After they are processed, the disbursements along with the supporting documentation should be presented to the Light & Water Commission for approval. After the disbursements have been approved by the Commission, the checks can be signed by two authorized Officials, as required by the State of Michigan accounting procedures manual, and the payments mailed to the vendors.

We assisted the Department by preparing the annual financial statements (including required disclosures) of the Department prepared in accordance with generally accepted accounting principles. The responsibility for the Department's annual financial statements prepared in accordance with generally accepted accounting principles rests with the management of the Department. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated. This situation could allow the misstatement of the financial statements. We recommend that the Department acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with generally accepted accounting principles.

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

This year, as in the past, we assisted the accounting staff with the basic year-end bookkeeping and accounting procedures that are necessary to prepare the books for audit purposes. This also included the preparation of several material year end adjusting entries that were necessary to keep the financial statements from being materially misstated. The accounting staff should be able to perform the year end closing procedures and prepare the appropriate year end closing entries in order to ensure that the year end financial statements are not materially misstated. Also, the year end closing procedures should be supervised and reviewed by Department officials that have an adequate knowledge of the Department's activities during the fiscal year. This situation could allow the misstatement of the financial statements. With adequate training, the accounting staff should become familiar with the necessary procedures to complete the year end accounting. In time, the condition of the accounting records should become better and less assistance will be required in this area by the auditors. We suggest that the Department provide its accounting staff with the necessary training to ensure they are able to efficiently prepare the year end accounting for the audit.

This communication is intended solely for the information and use of management, the Sebewaing Light and Water Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


Nietzke & Faupel, PC
Sebewaing, Michigan

September 22, 2008