

Village of Eau Claire, Michigan

**Financial Report
with Supplemental Information
February 28, 2009**

Village of Eau Claire, Michigan

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Independent Auditor's Report

To the Village Council
Village of Eau Claire, Michigan

We 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 Eau Claire, Michigan (the "Village") as of and for the year ended February 28, 2009, 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 Eau Claire, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Eau Claire, Michigan as of February 28, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 21, 2009

Village of Eau Claire, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Eau Claire, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2009. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2009:

- State-shared revenue, the Village's second largest revenue source, decreased slightly this year compared to fiscal year 2008.
- The Village expended \$39,000 on waste water improvements.
- The Village also acquired a new police car through a capital lease. The principal payments over the course of the lease are \$21,151.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a comparative, condensed format, the net assets as of February 28, 2009, February 29, 2008, and February 28, 2007:

	Governmental Activities			Business-type Activities			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Assets									
Current assets	\$ 528,482	\$ 461,762	\$ 400,681	\$ 190,290	\$ 150,677	\$ 215,818	\$ 718,772	\$ 612,439	\$ 616,499
Noncurrent assets	238,136	240,614	224,277	515,691	498,717	459,300	753,827	739,331	683,577
Total assets	766,618	702,376	624,958	705,981	649,394	675,118	1,472,599	1,351,770	1,300,076
Liabilities									
Current liabilities	15,151	11,451	14,561	2,030	1,176	79,796	17,181	12,627	94,357
Long-term liabilities	18,112	1,627	1,592	-	-	-	18,112	1,627	1,592
Total liabilities	33,263	13,078	16,153	2,030	1,176	79,796	35,293	14,254	95,949
Net Assets									
Invested in capital assets - Net of related debt	216,985	240,614	224,277	515,691	498,717	459,300	732,676	739,331	683,577
Restricted	142,846	110,915	76,593	-	-	-	142,846	110,915	76,593
Unrestricted	373,524	337,769	307,935	188,260	149,501	136,022	561,784	487,270	443,957
Total net assets	<u>\$ 733,355</u>	<u>\$ 689,298</u>	<u>\$ 608,805</u>	<u>\$ 703,951</u>	<u>\$ 648,218</u>	<u>\$ 595,322</u>	<u>\$ 1,437,306</u>	<u>\$ 1,337,516</u>	<u>\$ 1,204,127</u>

The Village's combined net assets increased 7 percent from a year ago - increasing from \$1,337,516 to \$1,437,306. As we look at the governmental activities separately from the business-type activities, we see that governmental activities net assets increased 6 percent, from \$689,298 to \$733,355, while business-type activities increased 8 percent, from \$648,218 to \$703,951.

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a comparative, condensed format, the changes in net assets during the years ended February 28, 2009, February 29, 2008, and February 28, 2007:

	Governmental Activities			Business-type Activities			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Revenue									
Program revenue:									
Charges for services	\$ 8,416	\$ 14,176	\$ 5,673	\$ 179,122	\$ 169,197	\$ 145,885	\$ 187,538	\$ 183,373	\$ 151,558
Operating grants and contributions	51,281	52,851	53,145	-	-	-	51,281	52,851	53,145
General revenue:									
Property taxes	182,451	176,372	169,978	-	-	-	182,451	176,372	169,978
State-shared revenue	76,139	75,974	77,314	-	-	-	76,139	75,974	77,314
Unrestricted interest income	6,842	13,796	14,860	2,075	5,358	6,187	8,917	19,154	21,047
Miscellaneous	18,391	12,151	13,286	-	-	-	18,391	12,151	13,286
Total revenue	343,520	345,320	334,256	181,197	174,555	152,072	524,717	519,875	486,328
Program Expenses									
General government	113,632	110,413	101,105	-	-	-	113,632	110,413	101,105
Public safety	94,679	77,212	85,895	-	-	-	94,679	77,212	85,895
Public works	67,299	52,549	104,928	-	-	-	67,299	52,549	104,928
Recreation and culture	23,853	24,653	25,022	-	-	-	23,853	24,653	25,022
Water, sewer, and sanitation	-	-	-	125,464	121,659	120,509	125,464	121,659	120,509
Total program expenses	299,463	264,827	316,950	125,464	121,659	120,509	424,927	386,486	437,459
Change in Net Assets	\$ 44,057	\$ 80,493	\$ 17,306	\$ 55,733	\$ 52,896	\$ 31,563	\$ 99,790	\$ 133,389	\$ 48,869

Village of Eau Claire, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

- A property tax levy for 2008 was approved by the Village Council during the May 2008 council meeting at a combined general and streets millage rate of 15.5433.
- With approximate revenue of \$178,000 (assuming 100 percent collection), this would be an increase of approximately 2 percent over the same revenue source from 2008.

Business-type Activities

During the 2008 fiscal year, the Village Council approved Wightman and Associates, Inc. to begin assisting the Village with updating the lift stations and lagoons to comply with DEQ standards. The costs associated with this work as of February 29, 2008 were minimal. During the 2009 fiscal year, Oselka Construction was hired to perform some of the necessary updates. The total construction and engineering costs were approximately \$39,000.

General Fund Budgetary Highlights

The General Fund pays for most of the Village's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

As shown in the required supplemental information, the Village budgeted operational expenditures of \$227,982. Actual expenditures ended up greater than budget by \$20,777. The significant budget-to-actual differences were a result of the Village estimating the police department expenditures lower than actual.

Economic Factors and Next Year's Budgets and Rates

The Village's fiscal year 2010 budget anticipates state-shared revenue consistent with fiscal year 2009. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Council has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services. However, budget amendments will have to be made for the emergency culver erosion project on West Main Street for which the costs are currently unknown and the planned road work that will be funded with stimulus monies.

The Village has also applied for a \$402,000 loan with the USDA for an upcoming sewer project which includes the installation of two new lift stations with emergency generators. The project is expected to be started in late 2009 or early 2010.

Contacting the Village's Management

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

Village of Eau Claire, Michigan

Statement of Net Assets February 28, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 488,375	\$ 161,026	\$ 649,401
Receivables:			
Property taxes receivable	17,042	-	17,042
Receivables from sales to customers on account	-	29,264	29,264
Due from other governmental units	23,065	-	23,065
Capital assets (Note 4)	238,136	515,691	753,827
Total assets	766,618	705,981	1,472,599
Liabilities			
Accounts payable and other accrued liabilities	5,747	2,030	7,777
Noncurrent liabilities:			
Due within one year:			
Compensated absences (Note 6)	4,650	-	4,650
Capital lease (Note 7)	4,754	-	4,754
Due in more than one year:			
Compensated absences (Note 6)	1,715	-	1,715
Capital lease (Note 7)	16,397	-	16,397
Total liabilities	33,263	2,030	35,293
Net Assets			
Invested in capital assets - Net of related debt	216,985	515,691	732,676
Restricted for streets and highways	142,846	-	142,846
Unrestricted	373,524	188,260	561,784
Total net assets	<u>\$ 733,355</u>	<u>\$ 703,951</u>	<u>\$ 1,437,306</u>

Village of Eau Claire, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 113,632	\$ 3,100	\$ -
Public safety	94,679	5,316	-
Public works	67,299	-	51,281
Recreation and culture	23,853	-	-
Total governmental activities	299,463	8,416	51,281
Business-type activities:			
Water Fund	47,445	86,183	-
Waste Water Fund	49,275	60,345	-
Sanitation Fund	28,744	32,594	-
Total business-type activities	125,464	179,122	-
Total primary government	\$ 424,927	\$ 187,538	\$ 51,281
General revenues:			
Property taxes			
State-shared revenue			
Unrestricted investment income			
General revenue			
Total general revenues			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended February 28, 2009

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (110,532)	\$ -	\$ (110,532)
(89,363)	-	(89,363)
(16,018)	-	(16,018)
(23,853)	-	(23,853)
(239,766)	-	(239,766)
-	38,738	38,738
-	11,070	11,070
-	3,850	3,850
-	53,658	53,658
(239,766)	53,658	(186,108)
182,451	-	182,451
76,139	-	76,139
6,842	2,075	8,917
18,391	-	18,391
283,823	2,075	285,898
44,057	55,733	99,790
689,298	648,218	1,337,516
\$ 733,355	\$ 703,951	\$ 1,437,306

Village of Eau Claire, Michigan

Governmental Funds Balance Sheet February 28, 2009

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total
Assets					
Cash and cash equivalents (Note 3)	\$ 286,756	\$ 88,227	\$ 1,093	\$ 40,818	\$ 416,894
Receivables:					
Property taxes receivable	12,656	-	-	4,386	17,042
Due from other governmental units	13,539	6,931	2,595	-	23,065
Total assets	\$ 312,951	\$ 95,158	\$ 3,688	\$ 45,204	\$ 457,001
Liabilities and Fund Balances					
Liabilities - Accounts payable and other accrued liabilities	\$ 3,779	\$ 403	\$ 521	\$ 280	\$ 4,983
Fund Balances					
Unreserved, reported in:					
General Fund:					
Designated - Park improvements	93,235	-	-	-	93,235
Undesignated	215,937	-	-	-	215,937
Special Revenue Funds - Undesignated	-	94,755	3,167	44,924	142,846
Total fund balances	309,172	94,755	3,167	44,924	452,018
Total liabilities and fund balances	\$ 312,951	\$ 95,158	\$ 3,688	\$ 45,204	\$ 457,001

Village of Eau Claire, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets February 28, 2009

Fund Balance Reported in Governmental Funds	\$ 452,018
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 are not reported in the funds	198,371
Capital lease obligations are not due and payable in the current period and are not reported in the funds	(21,151)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(6,365)
Internal Service Funds are included as part of governmental activities	<u>110,482</u>
Net Assets of Governmental Activities	<u>\$ 733,355</u>

Village of Eau Claire, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended February 28, 2009

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total
Revenue					
Property taxes	\$ 135,839	\$ -	\$ -	\$ 46,612	\$ 182,451
Licenses and permits	4,509	-	-	-	4,509
State-shared revenue and grants	76,139	37,250	14,031	-	127,420
Other charges for services	1,997	-	-	-	1,997
Investment income	4,343	1,187	-	449	5,979
Rental income	1,910	-	-	-	1,910
Other revenue	16,191	-	-	-	16,191
Total revenue	<u>240,928</u>	<u>38,437</u>	<u>14,031</u>	<u>47,061</u>	<u>340,457</u>
Expenditures					
General government	110,683	-	-	-	110,683
Public safety	109,182	-	-	-	109,182
Public works	8,807	21,975	32,194	13,429	76,405
Recreation and culture	20,087	-	-	-	20,087
Total expenditures	<u>248,759</u>	<u>21,975</u>	<u>32,194</u>	<u>13,429</u>	<u>316,357</u>
Excess of Revenue (Under) Over Expenditures	(7,831)	16,462	(18,163)	33,632	24,100
Other Financing Sources (Uses)					
Debt issuance	21,151	-	-	-	21,151
Interfund transfers in (Note 5)	-	-	20,000	-	20,000
Interfund transfers out (Note 5)	-	-	-	(20,000)	(20,000)
Total other financing sources (uses)	<u>21,151</u>	<u>-</u>	<u>20,000</u>	<u>(20,000)</u>	<u>21,151</u>
Net Change in Fund Balances	13,320	16,462	1,837	13,632	45,251
Fund Balances - Beginning of year	<u>295,852</u>	<u>78,293</u>	<u>1,330</u>	<u>31,292</u>	<u>406,767</u>
Fund Balances - End of year	<u>\$ 309,172</u>	<u>\$ 94,755</u>	<u>\$ 3,167</u>	<u>\$ 44,924</u>	<u>\$ 452,018</u>

Village of Eau Claire, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 28, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ 45,251
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, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	21,151
Depreciation expense	(13,921)
Capital lease proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	(21,151)
Changes in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment	(1,138)
Internal Service Funds are included as part of governmental activities	<u>13,865</u>
Change in Net Assets of Governmental Activities	<u>\$ 44,057</u>

Village of Eau Claire, Michigan

Proprietary Funds Statement of Net Assets February 28, 2009

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents (Note 3)	\$ 69,403	\$ 82,543	\$ 9,080	\$ 161,026	\$ 71,481
Receivables	9,006	14,583	5,675	29,264	-
Total current assets	78,409	97,126	14,755	190,290	71,481
Noncurrent assets - Capital assets (Note 4)	222,424	293,267	-	515,691	39,765
Total assets	300,833	390,393	14,755	705,981	111,246
Liabilities - Current - Accounts payable and other accrued liabilities					
	1,035	787	208	2,030	764
Net Assets					
Invested in capital assets - Net of related debt	222,424	293,267	-	515,691	39,765
Unrestricted	77,374	96,339	14,547	188,260	70,717
Total net assets	\$ 299,798	\$ 389,606	\$ 14,547	\$ 703,951	\$ 110,482

Village of Eau Claire, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended February 28, 2009

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Internal Service Fund
Operating Revenue					
Sale of water	\$ -	\$ 86,183	\$ -	\$ 86,183	\$ -
Sewage disposal charges	60,345	-	-	60,345	-
Sanitation charges	-	-	32,594	32,594	-
Charges to other funds	-	-	-	-	42,196
Total operating revenue	60,345	86,183	32,594	179,122	42,196
Operating Expenses					
Cost of water	-	39,970	-	39,970	-
Cost of sewage treatment	35,159	-	-	35,159	-
Other operation and maintenance costs	-	-	-	-	21,686
Cost of sanitation services	-	-	28,744	28,744	-
Depreciation	14,116	7,475	-	21,591	9,708
Total operating expenses	49,275	47,445	28,744	125,464	31,394
Operating Income	11,070	38,738	3,850	53,658	10,802
Nonoperating Revenue					
Investment income	1,109	863	103	2,075	863
Gain on disposal of assets	-	-	-	-	2,200
Change in Net Assets	12,179	39,601	3,953	55,733	13,865
Net Assets - Beginning of year	287,619	350,005	10,594	648,218	96,617
Net Assets - End of year	\$ 299,798	\$ 389,606	\$ 14,547	\$ 703,951	\$ 110,482

Village of Eau Claire, Michigan

Proprietary Funds Statement of Cash Flows Year Ended February 28, 2009

	Waste Water Fund	Water Fund	Sanitation Fund	Total	Proprietary - Internal Service Fund
Cash Flows from Operating Activities					
Receipts from customers	\$ 61,034	\$ 85,809	\$ 32,653	\$ 179,496	\$ 601
Payments to suppliers	(19,046)	(21,614)	(25,901)	(66,561)	(13,819)
Payments to employees	(16,226)	(17,597)	(2,635)	(36,458)	(8,570)
Receipts from interfund services and reimbursements	-	-	-	-	41,595
Net cash provided by operating activities	25,762	46,598	4,117	76,477	19,807
Cash Flows from Capital and Related Financing Activities					
Purchase of capital assets	(38,565)	-	-	(38,565)	-
Proceeds from sales of capital assets	-	-	-	-	2,200
Net cash (used in) provided by capital and related financing activities	(38,565)	-	-	(38,565)	2,200
Cash Flows from Investment Activities -					
Interest received	1,109	863	103	2,075	863
Net (Decrease) Increase in Cash and Cash Equivalents	(11,694)	47,461	4,220	39,987	22,870
Cash and Cash Equivalents - Beginning of year	81,097	35,082	4,860	121,039	48,611
Cash and Cash Equivalents - End of year	<u>\$ 69,403</u>	<u>\$ 82,543</u>	<u>\$ 9,080</u>	<u>\$ 161,026</u>	<u>\$ 71,481</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 11,070	\$ 38,738	\$ 3,850	\$ 53,658	\$ 10,802
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation	14,116	7,475	-	21,591	9,708
Changes in assets and liabilities:					
Receivables	689	(374)	59	374	-
Accounts payable and other accrued liabilities	(113)	759	208	854	(703)
Net cash provided by operating activities	<u>\$ 25,762</u>	<u>\$ 46,598</u>	<u>\$ 4,117</u>	<u>\$ 76,477</u>	<u>\$ 19,807</u>

Noncash Investing, Capital, and Financing Activities - During the year ended February 28, 2009, the Waste Water, Water, Sanitation, and Internal Service Funds did not have any noncash activities.

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note I - Nature of Business and Significant Accounting Policies

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

Reporting Entity

The Village of Eau Claire, Michigan is governed by an elected five-member council. In accordance with accounting principles generally accepted in the United States, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. The Village has chosen to show all its funds as major.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note I - Nature of Business and Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a “deferred revenue” liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - 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.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

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

Municipal Streets and Sidewalks Fund - The Municipal Streets and Sidewalks Fund accounts for the resources provided by a tax millage to be used for road and sidewalk construction and repair.

The Village reports the following major proprietary funds:

Waste Water Fund - The Waste Water Fund accounts for the activities of the sewage collection system.

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

Sanitation Fund - The Sanitation Fund accounts for the activities of the refuse collection service.

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Additionally, the Village reports the following internal service activities:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to 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 Village's proprietary functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Village's policy is to first apply restricted resources.

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

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The 2008 taxable valuation of the Village totaled \$11,794,522, on which taxes levied consisted of 11.5433 mills for operating purposes and 4.0000 mills for street repair and maintenance. This resulted in approximately \$136,000 for operating and \$47,000 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled interest income from the General Fund, Special Revenue Funds, and Enterprise Funds is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of an allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Roads and sidewalks	25 years
Water and sewer systems	15 to 20 years
Buildings and building improvements	50 years
Vehicles	5 to 10 years
Equipment	3 to 25 years

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the 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.

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.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2008		\$	(5,198)
Current year permit revenue			3,319
Related expenses:			
Direct costs	\$	2,530	
Estimated indirect costs		<u>1,285</u>	<u>3,815</u>
Current year shortfall			<u>(496)</u>
Cumulative shortfall at February 28, 2009		\$	<u>(5,694)</u>

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Noncompliance with Legal Provisions - As of the end of the fiscal year, the Village had not adopted an ACH policy, as required by the State of Michigan.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated two financial institutions for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of state statutory authority as listed above. The Village's deposits and investment policies are in accordance with statutory authority.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had approximately \$157,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC/NCUA insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 4 - Capital Assets

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

	Balance March 1, 2008	Additions	Disposals and Adjustments	Balance February 28, 2009
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 30,140	\$ -	\$ -	\$ 30,140
Capital assets being depreciated:				
Roads and sidewalks	109,193	-	-	109,193
Buildings and improvements	87,717	-	-	87,717
Vehicles	80,160	21,151	(24,053)	77,258
Office furnishings and equipment	179,017	-	-	179,017
Subtotal	456,087	21,151	(24,053)	453,185
Accumulated depreciation:				
Roads and sidewalks	5,898	4,368	-	10,266
Buildings and improvements	59,083	1,755	-	60,838
Vehicles	71,256	1,020	(24,053)	48,223
Office furnishings and equipment	109,376	16,486	-	125,862
Subtotal	245,613	23,629	(24,053)	245,189
Net capital assets being depreciated	210,474	(2,478)	-	207,996
Net capital assets	\$ 240,614	\$ (2,478)	\$ -	\$ 238,136
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	1,193,514	38,565	-	1,232,079
Machinery and equipment	62,653	-	-	62,653
Subtotal	1,256,167	38,565	-	1,294,732
Accumulated depreciation:				
Water and sewer distribution systems	701,265	21,027	-	722,292
Machinery and equipment	56,185	564	-	56,749
Subtotal	757,450	21,591	-	779,041
Net capital assets	\$ 498,717	\$ 16,974	\$ -	\$ 515,691

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the Village as follows:

Governmental activities:

General government	\$ 1,810
Public safety	6,648
Public works	11,405
Recreation and culture	<u>3,766</u>
Total governmental activities	<u>\$ 23,629</u>

Business-type activities:

Water	\$ 7,475
Waste water	<u>14,116</u>
Total business-type activities	<u>\$ 21,591</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Municipal Street and Sidewalk Fund	Local Streets Fund	<u>\$ 20,000</u>

The transfers from the Municipal Street and Sidewalk Fund to the Local Streets Fund represent the use of tax revenues to maintain local streets in the Village, in accordance with budgetary authorizations.

Note 6 - Compensated Absences

The Village grants paid time off to employees for sick and vacation absences. Time is earned and accrued based on the employees' service to the Village.

The liability activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	<u>\$ 5,227</u>	<u>\$ 1,138</u>	<u>\$ -</u>	<u>\$ 6,365</u>	<u>\$ 4,650</u>

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 7 - Capital Lease

The Village has entered into a lease agreement as lessee for financing the purchase of a police car. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending February 28</u>	<u>Amount</u>
2010	\$ 4,754
2011	4,754
2012	4,754
2013	4,754
2014	<u>4,753</u>
Total minimum lease payments	23,769
Less amount representing interest	<u>(2,618)</u>
Present value	<u>\$ 21,151</u>

Note 8 - Sale of Delinquent Property Taxes

The Village annually sells its delinquent real property taxes to the County, which then becomes responsible for collecting the taxes, and taking any uncollected tax parcels through the tax reversion process. The County purchases these taxes at 100 percent of face value, and in return the County is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the Village is less than the face value that has been received, because of the time value of money; however, the net present value to the County is greater than this amount, because of the statutory provision that allows the County to retain all penalties and interest. As of February 28, 2009, the Village has accrued approximately \$17,000 for this sale. At the end of the tax reversion process (approximately three years), the County charges the Village back for any uncollected taxes. Historically, this amount has not been significant.

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 9 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. 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 supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Village Commission and requires a contribution from the employees of 8.26 percent of gross wages.

Annual Pension Cost - For the year ended February 28, 2009, the Village's annual pension cost of \$12,670 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. Both (a) and (b) include an inflation component of 4.5 percent. 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 an open basis.

	Fiscal Year Ended February 28		
	2007	2008	2009
Annual pension cost (APC)	\$ 14,328	\$ 12,492	\$ 12,670
Percentage of APC contributed	100.0 %	100.0 %	100 %
Net pension obligation	-	-	-

Village of Eau Claire, Michigan

Notes to Financial Statements February 28, 2009

Note 10 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 244,465	\$ 254,358	\$ 240,853
Actuarial accrued liability (AAL) (entry age)	\$ 422,371	\$ 440,805	\$ 404,839
Unfunded AAL (UAAL)	\$ 177,906	\$ 186,447	\$ 163,986
Funded ratio	57.9 %	57.7 %	59.5 %
Covered payroll	\$ 98,460	\$ 102,118	\$ 91,292
UAAL as a percentage of covered payroll	180.7 %	182.6 %	179.6 %

Required Supplemental Information

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2009

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 120,810	\$ 124,530	\$ 135,839	\$ 11,309
Licenses and permits	2,876	3,587	4,509	922
State-shared revenue and grants	77,500	77,500	76,139	(1,361)
Other charges for services	-	3,730	1,997	(1,733)
Investment income	9,000	2,000	4,343	2,343
Rental income	1,750	1,750	1,910	160
Other revenue	10,150	12,621	16,191	3,570
Total revenue	222,086	225,718	240,928	15,210
Expenditures				
General government:				
Administration	73,256	89,957	88,486	1,471
Building	24,936	22,686	22,197	489
Public safety:				
Police	76,609	81,489	103,817	(22,328)
Inspections	1,500	2,000	5,365	(3,365)
Public works - Street lighting	8,700	8,700	8,807	(107)
Recreation and culture	33,189	23,150	20,087	3,063
Total expenditures	218,190	227,982	248,759	(20,777)
Excess of Revenue Over (Under)				
Expenditures	3,896	(2,264)	(7,831)	(5,567)
Other Financing Uses -				
Debt issuance	-	-	21,151	21,151
Net Change in Fund Balance	3,896	(2,264)	13,320	15,584
Fund Balance - Beginning of year	295,852	295,852	295,852	-
Fund Balance - End of year	\$ 299,748	\$ 293,588	\$ 309,172	\$ 15,584

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Major Streets Fund Year Ended February 28, 2009

	Original Budget	Final Budget	Actual	Variance with Amended Budget
Revenue				
State-shared revenue and grants	\$ 38,000	\$ 38,000	\$ 37,250	\$ (750)
Investment income	-	-	1,187	1,187
Total revenue	38,000	38,000	38,437	437
Expenditures - Public works				
Routine maintenance	70,098	70,098	16,993	53,105
Winter maintenance	1,915	1,915	805	1,110
Administration	4,004	4,202	4,177	25
Total expenditures	76,017	76,215	21,975	54,240
Excess of Revenue Over (Under) Expenditures	(38,017)	(38,215)	16,462	54,677
Other Financing Sources (Uses) -				
Interfund transfers in	50,000	-	-	-
Net Change in Fund Balance	11,983	(38,215)	16,462	54,677
Fund Balance - Beginning of year	78,293	78,293	78,293	-
Fund Balance - End of year	<u>\$ 90,276</u>	<u>\$ 40,078</u>	<u>\$ 94,755</u>	<u>\$ 54,677</u>

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Local Streets Fund Year Ended February 28, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Amended Budget
Revenue - State-shared revenue and grants	\$ 13,300	\$ 13,300	\$ 14,031	\$ 731
Expenditures - Public works				
Routine maintenance	25,195	25,198	27,190	(1,992)
Winter maintenance	1,420	1,420	888	532
Administration	3,852	4,152	4,116	36
Total expenditures	<u>30,467</u>	<u>30,770</u>	<u>32,194</u>	<u>(1,424)</u>
Excess of Expenditures Over Revenue	(17,167)	(17,470)	(18,163)	(693)
Other Financing Sources - Interfund transfers in	18,000	18,000	20,000	2,000
Net Change in Fund Balance	833	530	1,837	1,307
Fund Balance - Beginning of year	<u>1,330</u>	<u>1,330</u>	<u>1,330</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,163</u>	<u>\$ 1,860</u>	<u>\$ 3,167</u>	<u>\$ 1,307</u>

Village of Eau Claire, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Municipal Streets and Sidewalks Fund Year Ended February 28, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Budget</u>
Revenue				
Property taxes	\$ 41,220	\$ 43,132	\$ 46,612	\$ 3,480
Investment income	-	-	449	449
	<u>41,220</u>	<u>43,132</u>	<u>47,061</u>	<u>3,929</u>
Total revenue	41,220	43,132	47,061	3,929
Expenditures - Public works				
Routine maintenance	13,080	13,080	9,049	4,031
Administration	5,297	5,297	4,380	917
	<u>18,377</u>	<u>18,377</u>	<u>13,429</u>	<u>4,948</u>
Total expenditures	18,377	18,377	13,429	4,948
Excess of Revenue Over Expenditures	22,843	24,755	33,632	8,877
Other Financing Uses - Interfund transfers out	<u>(18,000)</u>	<u>(18,000)</u>	<u>(20,000)</u>	<u>(2,000)</u>
Net Change in Fund Balance	4,843	6,755	13,632	6,877
Fund Balance - Beginning of year	<u>31,292</u>	<u>31,292</u>	<u>31,292</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 36,135</u>	<u>\$ 38,047</u>	<u>\$ 44,924</u>	<u>\$ 6,877</u>

Village of Eau Claire, Michigan

Note to Required Supplemental Information Year Ended February 28, 2009

Budgetary Information - Annual budgets are prepared by the department supervisors on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds and adopted by the Village Council. Subsequent amendments, if any, are approved by the Village Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the Village Council is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Budget</u>	<u>Actual</u>
General Fund - Public safety - Police	\$ 81,489	\$ 103,817
General Fund - Public safety - Inspections	2,000	5,365

The excess of actual expenditures over budget for within General Fund public safety are due to the purchase of a new police car and increased inspection costs as a result of the Village's active code enforcement during the year.

Village of Eau Claire, Michigan

Report to the Village Council

February 28, 2009



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To the Village Council
Village of Eau Claire, Michigan

We have recently completed our audit of the basic financial statements of the Village of Eau Claire (the "Village") for the year ended February 28, 2009. In addition to our audit report, we are providing the following report on internal control, results of the audit, other recommendations, and informational - legislative matters which impact the Village of Eau Claire:

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Report on Internal Control	1-2
Results of the Audit	3-5
Other Recommendations	6-7
Informational - Legislative matters, etc.	8-11

We are grateful for the opportunity to be of service to the Village of Eau Claire. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

April 21, 2009



Report on Internal Control

April 21, 2009

To the Village Council
Village of Eau Claire, Michigan

Dear Council Members:

National auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Village's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the Village of Eau Claire as of and for the year ended February 28, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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 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 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 deficiency to be a significant deficiency in internal control.

Segregation of Duties

Control over cash receipt and disbursement transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, makes bank deposits, receives the bank statements, and prepares the bank reconciliations. This individual is also approved to initiate ACH transactions. These reconciliations are reviewed by a second individual, adding a level of control.

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 entity's internal control. We believe that the following deficiencies constitute material weaknesses.

General Ledger

In the general ledger maintained by the Village, the balance sheet is not segregated into the various funds. Generally accepted accounting principles require each fund of the Village to have its own balance sheet. Accounts like cash, accounts receivable, accounts payable, and fund balance are not segregated in the general ledger. The lack of segregation makes it difficult for the Village to ensure the individual funds are correctly stated.

Similarly, the Equipment Fund, a legally separate fund of the Village, is shown within the General Fund activity in the general ledger. The operating results of the fund are difficult to determine within the current ledger.

Audit Adjustments

Material adjustments were identified by Plante & Moran, PLLC during the audit and recorded as adjusting entries. These adjustments were made to the Waste Water Fund's capital assets, the General and Municipal Streets and Sidewalk Funds' property tax receivable, and the General Fund's capital outlay. During our audit, we noted that current year additions in the Waste Water Fund had been expensed throughout the year rather than recorded as capital asset additions. It was also noted that necessary adjustments to the property tax receivable balances in the General and Municipal Streets and Sidewalk Funds had not been recorded, which left the property tax revenue in these funds understated. Lastly, the capital outlay expense and capital lease proceeds were not recorded in the General Fund for the new police car.

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

Very truly yours,

Plante & Moran, PLLC



Kenley G. Penner, CPA
Partner



Results of the Audit

April 21, 2009

To the Village Council
Village of Eau Claire, Michigan

We have audited the financial statements of the Village of Eau Claire (the "Village") for the year ended February 28, 2009 and have issued our report thereon dated April 21, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 23, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Village. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on March 27, 2009.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008/2009.

We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There are no significant estimates affecting the financial statements.

Difficulties Encountered in Performing the Audit

We did not encounter any difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures included the adjustment of routine accrual balances, allocation of the fund balance/retained earnings account balances among the various funds, and to record the capital outlay and proceeds from financing related to the new police car.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated April 21, 2009.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Village, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Village, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the Village's auditors.

This information is intended solely for the use of the Village Council and management of the Village of Eau Claire and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Kenley G. Penner, CPA
Partner

Other Recommendations

Village of Eau Claire, Michigan

Other Recommendations

We identified the following items that may be of value to the Village:

- During the audit, it was noted that the receipts and disbursements recorded within the departmental balance report did not agree with the general ledger detail throughout the year. The departmental balance report is viewed as a control over cash as it is a summary by fund of the general ledger activity which is given to the Council monthly for review. The report is also used to allocate the Village's pooled cash among the various funds. Each month the unknown difference was plugged through the activity of the General Fund. However, there is no support to substantiate the differences within the General Fund. Although the monthly differences are not significant to the Village as a whole, they may be significant to individual funds which are currently maintaining a low level of cash. We recommend that the Village implement additional procedures to assist in identifying the unknown differences. We also recommend any reconciling items between the general ledger detail and the activity recorded within the departmental balance report are identified and supported on a monthly basis.
- As members of the governing body and management of the Village of Eau Claire, you are well aware of the fiscal challenges facing local governments throughout the state of Michigan. The fiscal challenges range from avoiding a budget shortfall, to the uncertainty surrounding state-shared revenues, to concerns surrounding increased taxes and reduced services. Unfortunately, the challenges do not end there; the demand for services continues to rise creating a strain on local governments to do more with fewer resources as revenues are not projected to increase in the foreseeable future. In light of the challenges facing local governments, an opportunity has been created to evaluate and prioritize local government services and projects, identify cost reduction opportunities, and implement a fiscal sustainability planning process.

We recommend that over the course of the next year, the Village Council and management work together to evaluate the fiscal sustainability of the Village. To be effective, the evaluation process should include the following:

- An assessment of the Village's current financial condition
- Identification of anticipated capital outlay expenditures over the next five years
- Evaluation of the importance, cost, and value added for each department
- Development of a five-year financial forecast which includes evaluating potential additional revenue and cost saving opportunities

We have tools available to assist throughout the evaluation and planning process and are happy to offer suggestions along the way.

Informational

Revenue Sharing

There was some relief when the governor, in mid-February 2009, released her proposed budget for fiscal year 2010. State-shared revenue has been spared any additional cuts from prior year levels, at least for now. According to the governor's budget, local units of government should anticipate receiving the same amount in state-shared revenue for 2009-2010 that it received in 2008-2009. A total of \$1,084,313,000 is projected to be distributed to cities, villages, and townships through both constitutional and statutory revenue sharing, and no unit is expected to see a change in total dollars received. This is a positive development given the cuts to K-12 schools, universities, prisons, and even the state government itself.

The governor's fiscal year 2010 budget also includes \$49.1 million to qualifying counties that have exhausted their revenue-sharing reserve funds. As you may recall, this reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

Here is a history of total revenue sharing since 2004, including the projected fiscal year 2010 distribution:

(in millions)

	Actual FY 2004	Actual FY 2005	Actual FY 2006	Actual FY 2007	Actual FY 2008	Projected FY 2009	Projected FY 2010
Constitutional - C, V, T	\$ 653.1	\$ 668.7	\$ 680.1	\$ 666.0	\$ 688.2	\$ 671.0	\$ 661.2
Statutory - C, V, T	469.5	443.3	422.4	404.9	388.0	413.3	423.1
Statutory - Counties	182.1	-	-	-	-	2.4	49.1
Special census	-	0.5	0.9	-	-	-	-
Total revenue sharing	<u>\$ 1,304.7</u>	<u>\$ 1,112.5</u>	<u>\$ 1,103.4</u>	<u>\$ 1,070.9</u>	<u>\$ 1,076.2</u>	<u>\$ 1,086.7</u>	<u>\$ 1,133.4</u>

Despite this positive development, the State of Michigan is still facing a \$1.4 billion shortfall in the next fiscal year. Nothing is likely off the table; therefore, we continue to encourage you to budget this line item conservatively.

Property Tax Developments

Many communities in Michigan are continuing to face the challenges inherent in the real estate market decline given the effects of Proposal A. Some communities are seeing a decline in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. The one constant, however, is that there will be an impact that each community will need to consider come budget time.

Many of the bills related to property taxes pending at the end of the 2008 Michigan legislative session have subsequently died with the changeover in the legislature after the November 2008 election. However, a few of those bills have been reintroduced. One series of bills that is worthy of specific mention is the re-introduction of the concept of the "super-cap" legislation from last year.

Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have been reminded, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it reconnects with market values)

Because many property owners feel it is unfair to see their taxable value increase in a declining market, a third variable, called "change in market value," was proposed last year to be added to the Proposal A formula.

Under the legislation introduced last year, the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would have been changed to the lesser of three components: inflation, change in market value, or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be no annual increase. This measure passed the House in 2008 but did not advance further.

In January 2009, several versions of this legislation were introduced which reinstate a similar constitutional amendment. Such a change would ultimately need to be approved by the voters before it can be enacted.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund (MSF) to their Local Street Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local street systems as well as a detailed resolution passed by the Village. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

In the current instructions to the Act 51 reports, MDOT has stipulated that these transfers from the MSF to the LSF will not be allowed after December 31, 2008, except to the extent matched by local revenues expended by the city or village of the major street system. We have received oral confirmation from MDOT that, since the actual legislation (MCL Section 247.663(12) of PA 51 of 1951, as amended) does not stipulate the expiration of these transfers, MDOT will not be enforcing this provision as it reads in the current Act 51 instructions.