

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Michiana	County Berrien
Fiscal Year End June 30, 2007	Opinion Date April 28, 2008	Date Audit Report Submitted to State May 5, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

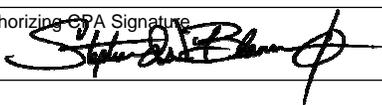
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

Village of Michiana

Berrien County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
June 30, 2007**



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF MICHIANA, MICHIGAN
For the Fiscal Year Ended June 30, 2007

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

April 28, 2008

Members of the Village Council
Village of Michiana
Michiana, 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 Michiana, Michigan***, as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village'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 aggregate remaining fund information of the Village of Michiana, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparisons for the general fund, major streets fund and local streets fund, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Village has elected not to present Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

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

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MICHIANA, MICHIGAN

Statement of Net Assets

June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 313,511	\$ 43,048	\$ 356,559
Investments	-	438,378	438,378
Receivables	10,420	112,609	123,029
Internal balances	27,340	(27,340)	-
Other assets	2,093	-	2,093
Capital assets not being depreciated	33,115	3,049	36,164
Capital assets being depreciated, net	390,733	244,829	635,562
 Total assets	 777,212	 814,573	 1,591,785
 Liabilities			
Accounts payable and accrued expenses	57,243	24,170	81,413
 Net assets			
Invested in capital assets, net of related debt	423,848	247,878	671,726
Unrestricted	296,121	542,525	838,646
 Total net assets	 \$ 719,969	 \$ 790,403	 \$ 1,510,372

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government				
Governmental activities:				
Legislative	\$ 9,922	\$ -	\$ -	\$ (9,922)
General government	295,494	1,409	-	(294,085)
Public safety	281,538	43,716	1,688	(236,134)
Public works	67,915	-	53,514	(14,401)
Parks and recreation	15,071	-	-	(15,071)
Development	587	38,266	-	37,679
Total governmental activities	<u>670,527</u>	<u>83,391</u>	<u>55,202</u>	<u>(531,934)</u>
Business-type activities:				
Water	<u>373,535</u>	<u>359,983</u>	<u>21,190</u>	<u>7,638</u>
Total primary government	<u>\$ 1,044,062</u>	<u>\$ 443,374</u>	<u>\$ 76,392</u>	<u>\$ (524,296)</u>

continued...

VILLAGE OF MICHIANA, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (531,934)	\$ 7,638	\$ (524,296)
General revenues:			
Property taxes	442,976	-	442,976
State-shared revenues	13,712	-	13,712
Grants and contributions not restricted to particular programs	7,912	-	7,912
Unrestricted interest income	8,210	-	8,210
Total general revenues	472,854	-	472,854
Change in net assets	(59,080)	7,638	(51,442)
Net assets, beginning of year, as restated	779,049	782,765	1,561,814
Net assets, end of year	\$ 719,969	\$ 790,403	\$ 1,510,372

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

FUND FINANCIAL STATEMENTS

VILLAGE OF MICHIANA, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	<u>Special Revenue Funds</u>			<u>Non-major Capital Projects Fund</u>	<u>Total Governmental Funds</u>
		<u>Major Street</u>	<u>Local Street</u>	<u>Building Inspector</u>		
<u>ASSETS</u>						
Assets						
Cash and cash equivalents	\$ 122,467	\$ 57,989	\$ 68,769	\$ 14,901	\$ 49,385	\$ 313,511
Accounts receivable	465	-	-	-	-	465
Due from other governments	2,146	5,340	2,469	-	-	9,955
Due from other funds	45,525	37,356	6,742	28,562	-	118,185
Inventory	2,093	-	-	-	-	2,093
<u>TOTAL ASSETS</u>	\$ 172,696	\$ 100,685	\$ 77,980	\$ 43,463	\$ 49,385	\$ 444,209
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities						
Accounts payable	\$ 4,410	\$ 3,100	\$ 35,465	\$ -	\$ 19	\$ 42,994
Accrued liabilities	14,249	-	-	-	-	14,249
Due to other funds	65,933	6,742	18,170	-	-	90,845
Total liabilities	84,592	9,842	53,635	-	19	148,088
Fund balances						
Reserved for:						
Inventory	2,093	-	-	-	-	2,093
Unreserved:						
Undesignated	86,011	90,843	24,345	43,463	49,366	294,028
Total fund balances	88,104	90,843	24,345	43,463	49,366	296,121
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 172,696	\$ 100,685	\$ 77,980	\$ 43,463	\$ 49,385	\$ 444,209

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

VILLAGE OF MICHIANA, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 296,121
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets not being depreciated	33,115
Add - capital assets being depreciated	793,728
Deduct - accumulated depreciation	<u>(402,995)</u>
Net assets of governmental activities	<u><u>\$ 719,969</u></u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	General	Special Revenue Funds			Non-major Capital Projects Fund	Total Governmental Funds
		Major Street	Local Street	Building Inspector		
Revenues						
Property taxes	\$ 442,976	\$ -	\$ -	\$ -	\$ -	\$ 442,976
Intergovernmental	14,080	34,715	15,036	-	-	63,831
Licenses and permits	39,216	-	-	43,716	-	82,932
Charges for services	459	-	-	-	-	459
Interest revenue	6,820	1,715	2,048	1,320	1,390	13,293
Other revenues	7,912	-	-	-	-	7,912
Total revenues	511,463	36,430	17,084	45,036	1,390	611,403
Expenditures						
Current:						
Legislative	9,922	-	-	-	-	9,922
General government	226,085	-	-	-	-	226,085
Public safety	206,506	-	-	-	-	206,506
Public works	52,225	8,309	7,381	-	-	67,915
Planning	587	-	-	-	-	587
Parks and recreation	15,071	-	-	-	-	15,071
Building inspector	-	-	-	75,032	-	75,032
Capital outlay	-	3,100	35,498	-	6,234	44,832
Total expenditures	510,396	11,409	42,879	75,032	6,234	645,950
Revenues over (under) expenditures	1,067	25,021	(25,795)	(29,996)	(4,844)	(34,547)
Other financing sources (uses)						
Transfers in	-	-	8,133	-	20,000	28,133
Transfers out	(20,000)	(8,133)	-	-	-	(28,133)
Total other financing sources (uses)	(20,000)	(8,133)	8,133	-	20,000	-
Net changes in fund balances	(18,933)	16,888	(17,662)	(29,996)	15,156	(34,547)
Fund balances, beginning of year, as restated	107,037	73,955	42,007	73,459	34,210	330,668
Fund balances, end of year	\$ 88,104	\$ 90,843	\$ 24,345	\$ 43,463	\$ 49,366	\$ 296,121

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

VILLAGE OF MICHIANA, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ (34,547)
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Add - capital outlay	38,598
Deduct - depreciation expense	<u>(63,131)</u>
Change in net assets of governmental activities	<u>\$ (59,080)</u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2007

	Original/ Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Property taxes	\$ 428,200	\$ 442,976	\$ 14,776
Licenses and permits	8,000	39,216	31,216
Intergovernmental	17,300	14,080	(3,220)
Charges for services	800	459	(341)
Interest revenue	7,000	6,820	(180)
Other revenues	11,700	7,912	(3,788)
Total revenues	473,000	511,463	38,463
Expenditures			
Legislative	11,250	9,922	(1,328)
General government:			
Clerk	35,672	48,553	12,881
Elections	-	157	157
Hall and grounds	40,367	32,199	(8,168)
Other	127,400	145,176	17,776
Total general government	203,439	226,085	22,646
Public safety:			
Police	176,728	180,669	3,941
Fire	-	25,837	25,837
Total public safety	176,728	206,506	29,778
Public works:			
Public works	15,474	15,599	125
Tree inspector	-	340	340
Sanitation	39,022	36,286	(2,736)
Total public works	39,022	52,225	(2,396)

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VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Concluded)
General Fund
For the Year Ended June 30, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Expenditures (Concluded)			
Planning	\$ 1,300	\$ 587	\$ (713)
Parks and recreation	16,194	15,071	(1,123)
Total expenditures	<u>447,933</u>	<u>510,396</u>	<u>46,864</u>
Revenues over (under) expenditures	25,067	1,067	(8,401)
Other financing uses			
Transfers out	<u>(22,500)</u>	<u>(20,000)</u>	<u>(2,500)</u>
Net changes in fund balance	2,567	(18,933)	(10,901)
Fund balance, beginning of year, as restated	<u>107,037</u>	<u>107,037</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 109,604</u></u>	<u><u>\$ 88,104</u></u>	<u><u>\$ (10,901)</u></u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues			
Intergovernmental	\$ 33,100	\$ 34,715	\$ 1,615
Interest revenue	800	1,715	915
	<u>33,900</u>	<u>36,430</u>	<u>2,530</u>
Expenditures			
Public works	13,880	8,309	(5,571)
Capital outlay	5,200	3,100	(2,100)
	<u>19,080</u>	<u>11,409</u>	<u>(7,671)</u>
Revenues over expenditures	14,820	25,021	10,201
Other financing uses			
Transfers out	<u>(7,750)</u>	<u>(8,133)</u>	<u>383</u>
Net changes in fund balances	7,070	16,888	10,584
Fund balances, beginning of year, as restated	<u>73,955</u>	<u>73,955</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 81,025</u></u>	<u><u>\$ 90,843</u></u>	<u><u>\$ 10,584</u></u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
Revenues			
Intergovernmental	\$ 15,500	\$ 15,036	\$ (464)
Interest revenue	800	2,048	1,248
	<u>16,300</u>	<u>17,084</u>	<u>784</u>
Expenditures			
Public works	13,540	7,381	(6,159)
Capital outlay	-	35,498	35,498
	<u>13,540</u>	<u>42,879</u>	<u>29,339</u>
Revenues over (under) expenditures	2,760	(25,795)	(28,555)
Other financing sources			
Transfers in	<u>7,750</u>	<u>8,133</u>	<u>383</u>
Net changes in fund balances	10,510	(17,662)	(28,172)
Fund balances, beginning of year, as restated	<u>42,007</u>	<u>42,007</u>	<u>-</u>
Fund balances, end of year	<u><u>\$ 52,517</u></u>	<u><u>\$ 24,345</u></u>	<u><u>\$ (28,172)</u></u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Building Inspector
For the Year Ended June 30, 2007

	Original/ Final Budget	Actual	Actual Over (Under) Final Budget
Revenues			
Licenses and permits	\$ 35,000	\$ 43,716	\$ 8,716
Interest revenue	500	1,320	820
	35,500	45,036	9,536
Expenditures			
Building inspector	21,000	75,032	54,032
	14,500	(29,996)	(44,496)
Fund balances, beginning of year, as restated	73,459	73,459	-
Fund balances, end of year	\$ 87,959	\$ 43,463	\$ (44,496)

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Net Assets
Proprietary Fund
June 30, 2007

	<u>Water Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 43,048
Investments	438,378
Accounts receivable	112,609
Total current assets	<u>594,035</u>
Noncurrent assets:	
Capital assets not being depreciated	3,049
Capital assets being depreciated, net	244,829
Total noncurrent assets	<u>247,878</u>
Total assets	<u>841,913</u>
Liabilities	
Current liabilities:	
Accounts payable	24,170
Due to other funds	27,340
Total current liabilities	<u>51,510</u>
Net Assets	
Invested in capital assets	247,878
Unrestricted	542,525
Total net assets	<u>\$ 790,403</u>

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2007

	Water Fund
Operating revenues	
Charges for services	\$ 360,083
Operating expenses	
Operations and maintenance	349,626
Depreciation	24,009
Total operating expenses	373,635
Operating loss	(13,552)
Non-operating revenues	
Investment income	21,190
Change in net assets	7,638
Net assets, beginning of year	782,765
Net assets, end of year	\$ 790,403

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

VILLAGE OF MICHIANA, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2007

	<u>Water Fund</u>
Cash flows from operating activities	
Cash received from customers	\$ 361,601
Cash payments to employees	(79,726)
Cash payments to suppliers for goods and services	<u>(296,083)</u>
Net cash used by operating activities	<u>(14,208)</u>
Cash flows from investing activities	
Purchase of investments	(19,254)
Investment income	<u>21,190</u>
Net cash provided by investing activities	<u>1,936</u>
Net decrease in cash and cash equivalents	(12,272)
Cash and cash equivalents, beginning of year	<u>55,320</u>
Cash and cash equivalents, end of year	<u><u>\$ 43,048</u></u>

continued...

VILLAGE OF MICHIANA, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2007

	Water Fund
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (13,552)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	24,009
Changes in assets and liabilities:	
Accounts receivable	1,518
Accounts payable	(4,402)
Due to other funds	(21,781)
	(14,208)
Net cash used by operating activities	\$ (14,208)

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

VILLAGE OF MICHIANA

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Notes to the Financial Statements

For the Year Ended June 30, 2007

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VILLAGE OF MICHIANA

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Village of Michiana (the “government” or “Village”) is a general law village governed by an elected president and a four-member board. The Village has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. 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. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 revenues*.

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.

VILLAGE OF MICHIANA

Notes To Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Agency funds also use the accrual basis of accounting but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Intergovernmental revenues are accrued when earned. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

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

The *major streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for major street and highway purposes.

The *local streets fund* accounts for the use of motor fuel taxes which are earmarked by State statute for local street and highway purposes.

The *building inspector fund* accounts for the inspection of new building within the Village limits

The Village reports the following major proprietary funds:

The *water fund* accounts for the activities of the Village's water distribution and treatment system.

VILLAGE OF MICHIANA

Notes To Financial Statements

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, liabilities and equity

1. Deposits and investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Village to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The Village's investment policy allows for all of these types of investments.

2. Interfund receivables and payables

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

VILLAGE OF MICHIANA

Notes To Financial Statements

3. *Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method.

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

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items constructed or acquired after 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	15-60
Furniture and Equipment	3-7
Vehicles	3-5
Water and Sewer Systems	50-75

5. *Compensated absences*

Village employees are not permitted to accumulate sick or vacation days to be carried over from year to year. Accordingly, no liability for compensated absences is recorded in these financial statements.

VILLAGE OF MICHIANA

Notes To Financial Statements

6. *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. There were no designations at year end.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund and function. The legal level of budgetary control is the functional level. Transfers of appropriations between functions require the approval of the Village Council. There were no amendments made to the budget during the current fiscal year.

B. Excess of expenditures over appropriations

For the year ended June 30, 2007, expenditures exceeded appropriations as follows:

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
General fund			
General government			
Clerk	\$ 35,672	\$ 48,553	\$ 12,881
Elections	-	157	157
Other	127,400	145,176	17,776
Public safety			
Police	176,728	180,669	3,941
Fire	-	25,837	25,837
Public works			
Public works	15,474	15,599	125
Tree inspector	-	340	340
Major streets fund			
Transfers out	7,750	8,133	383
Local streets fund			
Capital outlay	-	35,498	35,498
Building inspector fund			
Building inspector	21,000	75,032	54,032

VILLAGE OF MICHIANA

Notes To Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Following is a reconciliation of deposit and investment balances as of June 30, 2007:

Statement of Net Assets

Cash and cash equivalents:	
Governmental activities	\$ 313,511
Business-type activities	43,048
Investments:	
Business-type activities	<u>438,378</u>

Total **\$ 794,937**

Deposits and investments

Bank deposits:	
Checking/savings accounts	\$ 336,359
Certificates of deposit (due within one year)	120,000
Investments	338,378
Cash on hand	<u>200</u>

Total **\$ 794,937**

Deposit and investment risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All of the Village's deposits with fixed maturity dates (certificates of deposit) were due within one year.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the Village had no investments, and was therefore not exposed to credit risk.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$241,453 of the Village's bank balance of \$461,453 was exposed to custodial credit risk because it was uninsured and uncollateralized.

VILLAGE OF MICHIANA

Notes To Financial Statements

Custodial Credit Risk - Investments. Following is a summary of the Village's investments as of June 30, 2007:

	<u>Amount</u>	<u>Credit Rating</u>	<u>Maturity Date</u>
U.S. Treasuries	\$ 99,766	AAA	Less than 1 year
U.S. agencies	49,984	AAA	1- 5 years
Money market	<u>188,628</u>	-n/a-	-n/a-
Total	<u>\$ 338,378</u>		

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the accounting policies. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk.

B. Receivables

Receivables as of year end are comprised of the following:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts receivable	\$ 9,955	\$ 112,609
Due from other governments	<u>465</u>	<u>-</u>
Total	<u>\$ 10,420</u>	<u>\$ 112,609</u>

VILLAGE OF MICHIANA

Notes To Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 33,115	\$ -	\$ -	\$ 33,115
Capital assets, being depreciated:				
Land improvements	44,932	38,598	-	83,530
Building and improvements	476,389	-	(2,800)	473,589
Equipment	473,809	-	(310,515)	163,294
Vehicles	73,315	-	-	73,315
Total capital assets being depreciated	1,068,445	38,598	(313,315)	793,728
Less accumulated depreciation for:				
Land improvements	(4,899)	(8,164)	-	(13,063)
Building and improvements	(249,082)	(13,699)	2,800	(259,981)
Equipment	(356,248)	(32,700)	310,515	(78,433)
Vehicles	(42,950)	(8,568)	-	(51,518)
Total accumulated depreciation	(653,179)	(63,131)	313,315	(402,995)
Total capital assets being depreciated, net	415,266	(24,533)	-	390,733
Capital assets, net	\$ 448,381	\$ (24,533)	\$ -	\$ 423,848
	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 3,049	\$ -	\$ -	\$ 3,049
Capital assets, being depreciated:				
Building and Improvements	32,300	-	-	32,300
Equipment	35,972	-	-	35,972
Infrastructure	787,113	-	-	787,113
Total capital assets being depreciated	855,385	-	-	855,385
Less accumulated depreciation for:				
Building and Improvements	(24,188)	(295)	-	(24,483)
Equipment	(33,839)	(2,133)	-	(35,972)
Infrastructure	(528,520)	(21,581)	-	(550,101)
Total accumulated depreciation	(586,547)	(24,009)	-	(610,556)
Total capital assets being depreciated, net	268,838	(24,009)	-	244,829
Capital assets, net	\$ 271,887	\$ (24,009)	\$ -	\$ 247,878

VILLAGE OF MICHIANA

Notes To Financial Statements

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

Governmental Activities:	
General government	\$ 32,606
Public safety	7,493
Public works	6,211
Parks and recreation	<u>16,821</u>
Total depreciation expense – governmental activities	<u>\$ 63,131</u>
Business-type Activities:	
Water	<u>\$ 24,009</u>

D. Accounts payable and accrued liabilities

Payables as of year end are comprised of the following:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 42,994	\$ 24,170
Accrued liabilities	<u>14,249</u>	<u>-</u>
Total	<u>\$ 57,243</u>	<u>\$ 24,170</u>

E. Interfund receivables, payables and transfers

	Due From	Due To
Governmental Funds:		
General Fund	\$ 45,525	\$ 65,933
Major Streets Fund	37,356	6,742
Local Streets Fund	6,742	18,170
Building Inspector Fund	28,562	-
Enterprise Funds:		
Water Fund	<u>-</u>	<u>27,340</u>
	<u>\$ 118,185</u>	<u>\$ 118,185</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

VILLAGE OF MICHIANA

Notes To Financial Statements

For the year ended June 30, 2007, interfund transfers consisted of the following:

	Transfer from		
	General fund	Major streets	Total
Transfer to:			
Local streets	\$ 20,000	\$ -	\$ 20,000
Nonmajor governmental	-	8,133	8,133
	<u>\$ 20,000</u>	<u>\$ 8,133</u>	<u>\$ 28,133</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the Village carried commercial insurance to cover all risks of losses. The Village has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

B. Property taxes

Village property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available. The Village bills and collects its own property taxes. Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied the following July 1 and are payable without penalty through September 15, at which time uncollected real property taxes are turned over to the County for reimbursement from their revolving tax fund. The Village continues to collect delinquent personal property taxes.

VILLAGE OF MICHIANA

Notes To Financial Statements

The State taxable value of all real and personal property on which Village tax levies were based for the year ended June 30, 2007, was \$54,220,291 and the millage rate was 7.9845 mills for general operations.

C. Restatements

During the year ended June 30, 2007, various prior period adjustments were made to the funds as follows:

	Beginning Fund Balance/ Net Assets as Previously Stated	Restatements	Beginning Fund Balance/ Net Assets as Restated
Governmental Funds			
General Fund	\$ 99,704	\$ 7,333	\$ 107,037
Major Streets Fund	74,203	(248)	73,955
Local Streets Fund	42,036	(29)	42,007
Building Inspector Fund	83,751	(10,292)	73,459
Capital Projects Fund	34,210	-	34,210
Enterprise Fund			
Water Fund	749,938	32,827	782,765
Governmental Activities	772,731	6,318	779,049
Business-type Activities	749,938	32,827	782,765

These adjustments were made to properly state various asset and liability balances in all funds as of July 1, 2006.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

April 28, 2008

To the Village Council of the
Village of Michiana
Michiana, Michigan

We have audited the financial statements of the Village of Michiana for the year ended June 30, 2007, and have issued our report thereon dated April 28, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated June 5, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Michiana. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Michiana are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. Other than the prior period adjustments disclosed in note IV of the financial statements, we noted no transactions entered into by the Village of Michiana during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

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. The most sensitive estimates affecting the financial statements were:



- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Michiana's financial reporting process (that is, cause future financial statements to be materially misstated. We proposed numerous material adjusting journal entries, which in our judgment, had a significant effect on the Village of Michiana's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

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 governmental unit'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.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Michiana's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Village of Michiana

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of the Village of Michiana as of and for the year ended June 30, 2007, 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 first 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 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 certain deficiencies, as described below, to be significant deficiencies in internal 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 certain deficiencies, as described below, constitute material weaknesses.

Material Weaknesses

2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

Condition: As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

Village of Michiana

Comments and Recommendations

For the Year Ended June 30, 2007

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of Responsible

Officials: The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

2007-2 – Adjustment of Year-end Trial Balances

Criteria: The Village is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Numerous material adjustments were necessary to agree key account to their proper underlying balances.

Cause: The condition was caused by the Village relying, in part, on its external auditors to assist with proposing certain year end accruals and other adjustments.

Effect: As a result of this condition, the Village is not able to produce accurate financial information that would allow those charged with governance to make fully informed decisions.

View of Responsible

Officials: The Village has made changes to the administrative personnel employed and financial policies governing the Village in order to maintain accurate records, and retain more oversight on internal controls.

Village of Michiana

Comments and Recommendations

For the Year Ended June 30, 2007

2007-3 – Ability to Modify Computerized Transactions

Criteria: Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting.

Condition: The Village's accounting software (QuickBooks) does not prevent the deletion or modification of posted transactions. Management has not been making use of the "audit trail" feature available in the software package to track any modifications or deletions made to posted transactions.

Cause: This condition is the result of a limitation in the software package used by the Village to maintain its accounting records.

Effect: As a result of this condition, the Village lacks internal controls over the alteration of posted general ledger and other transactions.

Recommendation: The Village should contact the creators of the accounting software and inquire of any features included in the present version that could mitigate the risks associated with this issue. If no such feature is available, we recommend that management consider taking other action to address this risk up to and including possible replacement of the software package.

View of Responsible

Officials: Management is aware of the risks associated with this issue and will, (1) contact the software company and inquire about any features built into the software that may be used to mitigate the associated risks, and (2) consider revision of current policies and procedures to provide additional assurance that posted transactions are accurate and unaltered.

2007-4 – Segregation of Incompatible Duties

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

Condition: As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Village of Michiana

Comments and Recommendations

For the Year Ended June 30, 2007

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Cause: This condition is a result of the Village's limited resources, and the small size of its accounting staff.

Effect: As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible

Officials: The Village Council is aware of the risks associated with this condition, and has made the determination that given the Village's resource limitations, full segregation of duties is not feasible at this time. Accordingly, the Village Council will continue to review monthly information to mitigate this risk, and rely on the annual external audit to help identify and correct misstatements, as needed.

Other Matters

Accounting Software

The Village currently uses "QuickBooks", a small business accounting software package, to account for its financial operations. QuickBooks is not a governmental fund accounting package, and as such, is not well suited to the needs of governments. While it is technically possible to fully comply with governmental generally accepted accounting principles, state statutes, and other regulatory requirements using such a system, it requires a significant amount of manual intervention on the part of management to do so.

We recommend that management consider the possibility of upgrading its financial management system to a software package designed specifically for the governmental market. This would significantly enhance the Village's ability to properly account for its operations and to comply with relevant regulations. We would be pleased to assist the Village in this process, if desired.

Village of Michiana
Comments and Recommendations
For the Year Ended June 30, 2007

Chart of Accounts

Related to the previous recommendation, we have noted that the Village's accounting records do not comply with the Uniform Chart of Accounts for local governments established by the Michigan Department of Treasury. Following the State's recommended chart of accounts helps ensure compliance with various state statutes for the separately accounting for certain activities, and provides an easier to follow trail of the entries recorded in the Village's books. We recommend that the Village adopt the Uniform Chart of Accounts in connection with the installation of its new accounting software package.

Investment Policy

PA 20 of 1943 (MCL 129.91), as amended, requires all governmental units to formally approve an investment policy in conformance with the act. During our audit, we requested a copy of the Village's current investment policy in order to assess whether it is being followed. However, management was unable to locate a copy of this policy, if one was ever adopted. We recommend that the Village update or adopt a new investment policy, following the sample template provided by the State of Michigan.

Internal Control – Documentation

As part of our audit we tested the internal controls over various areas in the Village. Upon completion, we noted that there is a lack of proper documentation over receipts, disbursements and journal entries. We recommend that the Village retain supporting documentation and approving signatures for all transactions when applicable.

Payroll Procedures

We noted in our audit procedures for testing payroll that there is a lack of controls for certain areas. Currently the Village does have a process in place to review and approve payroll register. This should be completed before paychecks are cut by someone other than the preparer. We also noted during our testing that several timesheets were not properly authorized by the department supervisor. We recommend that all timesheets be approved by supervisors, and the supervisors' timesheets be approved by the Village Clerk or Village President.

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