

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 Empire	County Leelanau
Fiscal Year End February 28, 2007	Opinion Date October 25, 2007	Date Audit Report Submitted to State November 1, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

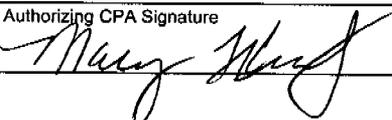
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	No other enclosures		
Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth		Telephone Number 231-946-1722		
Street Address 415 Munson Avenue		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature 		Printed Name Mary F. Krantz		License Number 014936

Village of Empire

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

February 28, 2007

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Village of Empire

VILLAGE OFFICIALS

February 28, 2007

Sue Carpenter	President
Jennifer Williams	Treasurer
Patricia Zoyhofski	Clerk
Karen Baja	Trustee
Susan Michener	Trustee
Nathaniel Gray	Trustee
Ashlea Walter	Trustee
Linda Payment	Trustee
David Diller	Trustee



Business and Financial Advisors
Our clients' success – our business

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable President and
Members of the Village Council
Village of Empire
Leelanau County, 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 Empire* (the "Village") as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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 opinion.

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 Empire as of February 28, 2007, 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 Village has not presented a management discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Member of



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In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2007, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 23 - 25 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dennis, Gartland & Niergarth

October 25, 2007

Village of Empire

STATEMENT OF NET ASSETS

February 28, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and equivalents	\$ 587,011	\$ 14,013	\$ 601,024
Investments	177,365	121,671	299,036
Cash restricted for debt service	-	30,000	30,000
Accounts and advances receivable	411	5,429	5,840
Due from other funds	-	51,117	51,117
Property taxes receivable	1,693	-	1,693
Prepaid expenditures and deferred charges	19,871	2,815	22,686
Total current assets	786,351	225,045	1,011,396
Capital assets, net of accumulated depreciation	1,219,666	334,448	1,554,114
Total assets	\$ 2,006,017	\$ 559,493	\$ 2,565,510
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 17,036	\$ 291	\$ 17,327
Accrued liabilities	6,935	36	6,971
Due to other funds	51,117	-	51,117
Deposits and advances	-	998	998
Current portion of long-term debt	7,000	6,000	13,000
Total current liabilities	82,088	7,325	89,413
Long-term debt			
Bonds payable	590,000	118,000	708,000
Total liabilities	672,088	125,325	797,413
NET ASSETS			
Invested in capital assets, net of related debt	622,666	210,448	833,114
Restricted for debt service	6,081	30,000	36,081
Unreserved	705,182	193,720	898,902
Total net assets	1,333,929	434,168	1,768,097
Total liabilities and net assets	\$ 2,006,017	\$ 559,493	\$ 2,565,510

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

Village of Empire

STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges For Services	Operating Grants and Contribution	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
Legislative	\$ 6,572	\$ -	\$ -	\$ -	\$ (6,572)	\$ -	\$ (6,572)
General government	133,977	-	-	-	(133,977)	-	(133,977)
Public safety	18,338	-	1,120	24,788	7,570	-	7,570
Public works	59,142	-	-	-	(59,142)	-	(59,142)
Parks and recreation	50,001	-	-	-	(50,001)	-	(50,001)
Interest on long-term debt	19,410	-	-	-	(19,410)	-	(19,410)
Depreciation - unallocated	<u>26,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,187)</u>	<u>-</u>	<u>(26,187)</u>
Total governmental activities	313,627	-	1,120	24,788	(287,719)	-	(287,719)
Business-type activities							
Water system	<u>73,267</u>	<u>88,219</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,952</u>	<u>14,952</u>
Total	<u>\$ 386,894</u>	<u>\$ 88,219</u>	<u>\$ 1,120</u>	<u>\$ 24,788</u>	<u>(287,719)</u>	<u>14,952</u>	<u>(272,767)</u>
General revenues							
Property taxes, levied for general purposes					247,966	-	247,966
State shared revenues					72,367	-	72,367
Investment earnings					14,751	-	14,751
Miscellaneous					65,728	-	65,728
Transfers					<u>13,656</u>	<u>(13,656)</u>	<u>-</u>
Total general revenues					<u>414,468</u>	<u>(13,656)</u>	<u>400,812</u>
Change in net assets					126,749	1,296	128,045
Net assets, beginning of year					<u>1,207,180</u>	<u>432,872</u>	<u>1,640,052</u>
Net assets, end of year					<u>\$ 1,333,929</u>	<u>\$ 434,168</u>	<u>\$ 1,768,097</u>

-6- The accompanying notes are an integral part of these financial statements.

Village of Empire

GOVERNMENTAL FUNDS - BALANCE SHEET

February 28, 2007

	General Fund	Major Street Fund	Local Street Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 238,417	\$ 48,563	\$ 34,308	\$ 43,216	\$ 20,782	\$ 385,286
Investments	148,365	24,000	5,000	-	-	177,365
Receivables						
Taxes	1,693	-	-	-	-	1,693
Accounts	381	-	-	-	-	381
Prepaid expenses	13,688	-	-	-	-	13,688
Total assets	\$ 402,544	\$ 72,563	\$ 39,308	\$ 43,216	\$ 20,782	\$ 578,413
LIABILITIES						
Accounts payable	\$ 14,745	\$ 34	\$ 56	\$ -	\$ -	\$ 14,835
Accrued liabilities	2,552	62	79	-	-	2,693
Due to other funds	55,343	-	-	-	-	55,343
Total liabilities	72,640	96	135	-	-	72,871
FUND BALANCE						
Reserved for						
Debt service	-	-	-	-	6,081	6,081
Designated	263,001	-	-	-	-	263,001
Unreserved and undesignated	66,903	72,467	39,173	43,216	14,701	236,460
Total fund balance	329,904	72,467	39,173	43,216	20,782	505,542
Total liabilities and fund balance	\$ 402,544	\$ 72,563	\$ 39,308	\$ 43,216	\$ 20,782	

Reconciliation of Governmental Fund Balance to District-Wide Governmental Activities Net Assets

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,151,393 and the accumulated depreciation is \$99,709. 1,051,684

Internal service funds are used by management to charge the costs of certain activities, such as equipment rent, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 377,747

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(597,000)
Accrued leave	(4,044)

Total net assets - governmental activities	\$ 1,333,929
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Village of Empire

GOVERNMENTAL FUNDS - STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 28, 2007

	General Fund	Major Street Fund	Local Street Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 246,869	\$ -	\$ -	\$ -	\$ 1,097	\$ 247,966
Intergovernmental revenues	33,869	23,874	14,624	24,788	1,055	98,210
Contributions	35,135	-	-	-	65	35,200
Interest income	10,122	2,322	1,387	345	575	14,751
Other	12,295	18,298	-	-	-	30,593
	<u>338,290</u>	<u>44,494</u>	<u>16,011</u>	<u>25,133</u>	<u>2,792</u>	<u>426,720</u>
Total revenues						
EXPENDITURES						
Legislative						
Council	6,572	-	-	-	-	6,572
General government						
Administrative	88,942	-	-	-	-	88,942
Elections	1,463	-	-	-	-	1,463
Clerk	41,193	-	-	-	-	41,193
Treasurer	3,964	-	-	-	-	3,964
Public safety	18,144	-	-	-	194	18,338
Public works	8,605	23,368	31,866	-	-	63,839
Recreation and cultural						
Park department	46,212	-	-	-	-	46,212
Debt service						
Principal	-	-	-	48,000	5,000	53,000
Interest	-	-	-	-	19,410	19,410
Capital outlay	146,585	13,173	48,928	113,569	-	322,255
	<u>361,680</u>	<u>36,541</u>	<u>80,794</u>	<u>161,569</u>	<u>24,604</u>	<u>665,188</u>
Total expenditures						
REVENUES (UNDER) OVER EXPENDITURES	<u>(23,390)</u>	<u>7,953</u>	<u>(64,783)</u>	<u>(136,436)</u>	<u>(21,812)</u>	<u>(238,468)</u>
OTHER FINANCING SOURCES (USES)						
Note proceeds	-	-	-	169,100	-	169,100
Operating transfers in	-	-	20,968	-	13,656	34,624
Operating transfers out	(45,000)	(5,968)	-	-	-	(50,968)
	<u>(45,000)</u>	<u>(5,968)</u>	<u>20,968</u>	<u>169,100</u>	<u>13,656</u>	<u>152,756</u>
Total other financing sources (uses)						
NET CHANGE IN FUND BALANCE	(68,390)	1,985	(43,815)	32,664	(8,156)	(85,712)
Fund balance, beginning of year	398,294	70,482	82,988	10,552	28,938	591,254
Fund balance, end of year	<u>\$ 329,904</u>	<u>\$ 72,467</u>	<u>\$ 39,173</u>	<u>\$ 43,216</u>	<u>\$ 20,782</u>	<u>\$ 505,542</u>

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

Village of Empire

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE WITH THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2007

Total net change in fund balance - governmental funds \$ (85,712)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds expenditures. However, those costs are allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation expense during the period.

Capital outlays	\$ 318,466	
Depreciation expense	<u>(26,187)</u>	292,279

In the statement of activities, certain operating expenses - accrued leave - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. This year, the accrued leave was less than the amount used by \$1,585. 1,585

Internal service funds are used by management to charge the costs of certain activities, such as equipment rent, to individual funds. The net revenue of the internal service funds is reported with governmental activities. 34,697

Repayment of bond principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 53,000

Note proceeds are a revenue in the governmental funds, but it is recorded as a liability in the statement of net assets. (169,100)

Change in net assets of governmental activities \$ 126,749

Village of Empire

PROPRIETARY FUNDS - BALANCE SHEET

February 28, 2007

	Business-Type Activities - Enterprise Funds Water Fund	Governmental Activities - Internal Service Fund Equipment Fund
ASSETS		
CURRENT ASSETS		
Cash	\$ 14,013	\$ 201,725
Cash restricted for debt retirement	30,000	-
Investments	121,671	-
Accounts receivable	5,429	30
Due from other funds	51,117	4,226
Prepaid expenses	2,815	6,183
Total current assets	225,045	212,164
PROPERTY, PLANT AND EQUIPMENT		
Building and equipment	612,282	334,196
Less accumulated depreciation	(277,834)	(166,214)
Net property, plant and equipment	334,448	167,982
	\$ 559,493	\$ 380,146
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 291	\$ 2,201
Accrued wages and related liabilities	36	198
Deferred revenues	998	-
Current portion of long-term debt	6,000	-
Total current liabilities	7,325	2,399
LONG-TERM DEBT , net of current maturities	118,000	-
Total liabilities	125,325	2,399
NET ASSETS		
Invested in capital assets, net of related debt	210,448	167,982
Restricted	30,000	82,579
Unrestricted	193,720	127,186
Total net assets	434,168	377,747
	\$ 559,493	\$ 380,146

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

Village of Empire

PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

Year Ended February 28, 2007

	<u>Business-Type Activities - Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
	<u>Water Fund</u>	<u>Equipment Fund</u>
Operating revenues		
Charges for services	\$ 84,204	\$ 57,399
Other	<u>4,015</u>	<u>-</u>
Total operating revenues	<u>88,219</u>	<u>57,399</u>
Operating expenses		
Payroll and related benefits	23,545	15,559
Supplies	5,253	3,374
Contractual services	13,907	-
Utilities	4,483	8,489
Repairs and maintenance	2,215	1,060
Equipment rental	2,522	-
Insurance	4,230	9,350
Depreciation	12,556	20,962
Miscellaneous	<u>2,872</u>	<u>613</u>
Total operating expenses	<u>71,583</u>	<u>59,407</u>
Operating income (loss)	<u>16,636</u>	<u>(2,008)</u>
Nonoperating revenues (expenses)		
Interest income	4,566	6,705
Interest expense	<u>(6,250)</u>	<u>-</u>
Total nonoperating (expenses) revenues	<u>(1,684)</u>	<u>6,705</u>
INCOME BEFORE TRANSFERS	14,952	4,697
Transfers (to) from other funds	<u>(13,656)</u>	<u>30,000</u>
CHANGE IN NET ASSETS	1,296	34,697
Net assets, beginning of year	<u>432,872</u>	<u>343,050</u>
Net assets, end of year	<u><u>\$ 434,168</u></u>	<u><u>\$ 377,747</u></u>

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

Village of Empire

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended February 28, 2007

	Business-Type Activities - Enterprise Funds Water Fund	Governmental Activities - Internal Service Fund Equipment Fund
Operating activities		
Cash received from customers	\$ 101,157	\$ 57,399
Cash paid to suppliers and employees	(71,547)	(36,356)
Net cash provided by operating activities	29,610	21,043
Investing activities		
Interest received	4,566	6,705
Proceeds from sale of investments	6,037	-
Net cash provided by investing activities	10,603	6,705
Capital and related financing activities		
Interest paid	(6,250)	-
Purchase of fixed assets	(903)	(9,360)
Bonds retired	(6,000)	-
Net cash used by capital and related financing activities	(13,153)	(9,360)
Non-capital financing activities		
Transfers (to) from other funds	(13,656)	30,000
NET INCREASE IN CASH	13,404	48,388
Cash, beginning of year	30,609	153,337
Cash, end of year	\$ 44,013	\$ 201,725

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

Village of Empire

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting and reporting framework and the significant accounting principles and practices of the Village of Empire (the "Village") are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the Village's financial activities for the year ended February 28, 2007.

The Financial Reporting Entity

The Village's financial statements include the accounts of all Village operations. In accordance with generally accepted accounting principles and Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, the Village is financially accountable if it appoints a voting majority of an organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Village. Additionally, the Village is required to consider other organizations for which the nature and significance of their relationship with the Village are such that exclusion would cause the Village's financial statements to be misleading or incomplete. The Village has not identified any blended or discreetly presented component units requiring inclusion in the Village's financial statements.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the Village as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and general revenues.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are certain charges between the Village's water and equipment pool 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.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with that fund. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Village's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

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 our proprietary funds relates to charges to customers for sales and services. The Water Fund also recognizes 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.

Fund Financial Statements

The balance sheets and statements of revenues, expenditures/expenses and changes in fund balance/net assets (i.e. fund financial statements) for the Village's governmental, proprietary and fiduciary funds display information about the major and aggregated non-major funds for the various fund types. Major funds are generally those that represent 10% or more of the respective fund type's assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The fund financial statements of the Village are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The Village applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements and applicable Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Village does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using the same focus and basis of accounting, although internal activity is not eliminated in these statements. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

The governmental funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the financial resources measurement focus, only current assets and current liabilities are generally included on governmental fund balance sheets. An exception to this general rule is long-term interfund advances which are recorded on governmental fund balance sheets. The governmental fund operating statements present a summary of sources and uses of available spendable resources. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants are recognized when grantor eligibility requirements are met. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

NOTES TO FINANCIAL STATEMENTS - Continued

The proprietary funds use the accrual basis of accounting and are accounted for on a cost-of-service or "capital maintenance" measurement focus. Under the capital maintenance measurement focus, all assets and liabilities associated with the fund's activities are included on its balance sheet. Under the accrual basis, revenues are recognized when earned and expenses are recognized when they are incurred.

Fund Types and Major Funds

Activities in Major Funds

GOVERNMENTAL FUNDS

General Fund - This fund is used to account for all financial resources except those provided for in other funds. The fund includes the general operating expenditures of the Village.

Major Street Fund - This fund is used to account for all repairs and maintenance to major streets within the Village.

Local Street Fund - This fund is used to account for all repairs and maintenance to local streets within the Village.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the Village.

PROPRIETARY FUNDS

Water Fund - This fund is used to account for operations of the water system. Financing is provided by user charges.

Equipment Fund - This fund is used to account for operations of Village equipment. Financing is provided by rental fees.

Activities in Non-Major Funds

GOVERNMENTAL FUNDS

Special Revenue Funds - These funds are used to account for specific revenue (other than special assessments, expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Debt Service Fund - These funds are used for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Budgets and Budgetary Accounting

Budgets are adopted by Village officials for the primary government's General and Special Revenue Funds. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the functional level and control is exercised at the functional level.

Cash and Investments

The Village considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. Assets acquired by gift or bequest are recorded at their fair market value at the date of transfer. The Village generally capitalizes assets with costs of \$1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The estimated useful lives, in years, for depreciable assets are as follows:

Land improvements	20 years
Buildings and improvements	20 - 50 years
Water systems	40 - 60 years
Equipment	5 - 10 years
Vehicles	5 - 10 years

Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reserves of fund equity represent portions of fund equity not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. Unrestricted net assets of proprietary funds represent the net assets that have not been legally identified for specific purposes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE B - CASH AND INVESTMENTS

At February 28, 2007, the Village's cash and investments include the following:

	<u>Balance Sheet Classification</u>			<u>Total</u>
	<u>Cash and Equivalents</u>	<u>Investments</u>	<u>Restricted Cash</u>	
Bank deposits and cash on hand	\$ 601,024	\$ -	\$ -	\$ 601,024
CD and money market investments	-	140,100	30,000	170,100
Treasury Notes	-	158,936	-	158,936
Total	<u>\$ 601,024</u>	<u>\$ 299,036</u>	<u>\$ 30,000</u>	<u>\$ 930,060</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the Village's deposits may not be returned to it. As of February 28, 2007, \$531,339 of the Village's cash and investments was insured. The remaining bank balance of \$466,183 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
Certificates of Deposit	\$ 170,100	\$ 170,100	\$ -	\$ -	\$ -
Treasury Notes	<u>158,936</u>	<u>158,936</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 329,036</u>	<u>\$ 329,036</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the Village's investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds or similar investment pools,

NOTES TO FINANCIAL STATEMENTS - Continued

and limiting the average maturity in accordance with the Village's cash requirements.

NOTE C - PROPERTY TAXES

The Village collects real property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The county pays the Village for uncollected taxes as of September 15 out of proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. The total levy is 7.15 mills for real and personal property. The Village levied a total real and personal property tax of \$246,869.

NOTE D - INVESTMENT IN CAPITAL ASSETS

Investment in capital assets changed as follows during the year ended February 28, 2007:

Governmental Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Adjustments</u>	<u>Ending</u>
Land and land improvements	\$ 35,562	\$ 141,603	\$ -	\$ 177,165
Building and improvements	111,737	9,360	-	121,097
Equipment	363,268	501	-	363,769
Water system	-	740,588	-	740,588
Construction-in-progress	<u>647,196</u>	<u>82,970</u>	<u>647,196</u>	<u>82,970</u>
Total depreciable assets	1,157,763	975,022	647,196	1,485,589
Less accumulated depreciation	<u>(218,774)</u>	<u>(47,149)</u>	<u>-</u>	<u>(265,923)</u>
Total capital assets, net	<u>\$ 938,989</u>	<u>\$ 927,873</u>	<u>\$ 647,196</u>	<u>\$ 1,219,666</u>

Business-Type Activities

	<u>Beginning</u>	<u>Capital Acquisitions</u>	<u>Sales and Adjustments</u>	<u>Ending</u>
Buildings	\$ 6,078	\$ -	\$ -	\$ 6,078
Water systems	583,540	-	-	583,540
Equipment	21,761	904	-	22,665
Construction-in-progress	<u>51,117</u>	<u>-</u>	<u>51,117</u>	<u>-</u>
Total depreciable assets	662,496	904	51,117	612,283
Less accumulated depreciation	<u>(265,279)</u>	<u>(12,556)</u>	<u>-</u>	<u>(277,835)</u>
Total capital assets, net	<u>\$ 397,217</u>	<u>\$ (11,652)</u>	<u>\$ 51,117</u>	<u>\$ 334,448</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following:

2005 General Obligation Unlimited Tax Bonds; annual required principal payments range from \$5,000 to \$37,000 through May 1, 2043; interest rate of 4.125%. The maximum amount that may be borrowed is \$650,000.	\$ 597,000
1980 Water Bonds are recorded in the Water Fund. Annual required principal payments range from \$6,000 to \$13,000, plus interest at 5% through 2020.	<u>124,000</u>
Total debt	721,000
Current portion	<u>(13,000)</u>
Total long-term debt	<u><u>\$ 708,000</u></u>

The following is a summary of changes in long-term debt:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
General Obligation Bonds	\$ 480,900	\$ 169,100	\$ (53,000)	\$ 597,000
Water System Bonds	<u>130,000</u>	<u>-</u>	<u>(6,000)</u>	<u>124,000</u>
	<u><u>\$ 610,900</u></u>	<u><u>\$ 169,100</u></u>	<u><u>\$ (59,000)</u></u>	<u><u>\$ 721,000</u></u>

Annual requirements to amortize long-term debt outstanding as of February 28, 2007 are as follows:

<u>Years Ending</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 13,000	\$ 30,582
2009	14,000	29,968
2010	14,000	29,329
2011	14,000	28,691
2012	15,000	28,027
2013-2017	80,000	128,878
2018-2022	104,000	105,231
2023-2027	61,000	90,111
2028-2032	81,000	75,714
2033-2037	110,000	56,513
2038-2042	150,000	29,494
2043-2044	<u>65,000</u>	<u>2,702</u>
Total	<u><u>\$ 721,000</u></u>	<u><u>\$ 635,240</u></u>

Interest paid for the year ended February 28, 2007 was \$25,660.

NOTE F - INTERFUND TRANSFERS

Operating Transfers

A summary of operating transfers in and out of individual funds follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 45,000
Local Street Fund	20,968	-
Major Street Fund	-	5,968
Debt Retirement Fund	13,656	-
Water Fund	-	13,656
Equipment Fund	<u>30,000</u>	<u>-</u>
Total	<u>\$ 64,624</u>	<u>\$ 64,624</u>

NOTE G - PENSION PLAN

The Village participates in a defined contribution (money purchase) pension plan. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the year ended February 28, 2007 was \$103,147; total payroll for the year ended February 28, 2007 was \$132,565. Employer contributions are based upon a percentage of annual payroll. Employees make additional contributions of 4% of gross wages. Employees are vested 100% immediately in employee contributions and are vested as follows in employer contributions:

<u>Years of Service</u>	<u>Vested</u>
0 - 2	20 %
3	40 %
4	50 %
5	75 %
6	100 %

The Village fully funded its required contribution for the year ended February 28, 2007. Employer contributions for the years ended February 28, 2007, 2006 and 2005 amounted to \$5,158, \$4,896 and \$4,280, or 5%, of covered payroll. There were employee contributions of \$4,821 during the year.

None of the plan's assets are invested in the Village securities or those of related parties. There are no loans from the plan to the Village.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - BUDGET VARIANCE UNDER P.A. 621

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated.

During the year ended February 28, 2007, the Village incurred expenditures which were in excess of the amounts appropriated as follows:

General Fund	
Public Safety	\$ 4,988
Public works	605
Capital outlay	51,415
Local Street Fund	
Public works	3,746
Capital outlay	16,218

NOTE I - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Village carries worker's compensation insurance with the Accident Fund Company. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - RECONCILIATION OF CASH FLOWS

A reconciliation of operating income to net cash provided by operating activities follows:

Operating income	\$ 14,628
Adjustments to reconcile net earnings	
Depreciation and amortization	33,518
Increase in accounts receivable	(88)
Decrease in prepaid expenses	1,269
Increase in accounts payable	855
Increase in deferred revenue	<u>471</u>
Net cash provided by operating activities	<u><u>\$ 50,653</u></u>

NOTE K - SUBSEQUENT EVENTS

The Village has made a commitment to two construction projects: M-22 project and the beach improvement project, beginning in 2008 and Spring 2007, respectively. The estimated cost of the M-22 project is \$643,000 and the estimated cost of the beach improvement project is \$482,000. As of February 28, 2007, \$1,700 and \$41,500, respectively, has been spent on the projects. The projects will be funded with grants and Village matching funds. Matching funds required to be paid by the Village are estimated at \$103,000 and \$125,000 for the M-22 and beach improvement projects, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended February 28, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Property taxes	\$ 256,921	\$ 245,950	\$ 246,869	\$ (10,971)	\$ 919
Intergovernmental revenues	32,500	32,500	33,869	-	1,369
Contributions	-	-	35,135	-	35,135
Interest income	5,500	5,500	10,122	-	4,622
Other	4,470	50,576	12,295	46,106	(38,281)
	<u>299,391</u>	<u>334,526</u>	<u>338,290</u>	<u>35,135</u>	<u>3,764</u>
Total revenues					
EXPENDITURES					
Legislative	6,976	8,451	6,572	(1,475)	1,879
General government	168,144	166,669	135,562	1,475	31,107
Public safety	13,156	13,156	18,144	-	(4,988)
Public works	8,000	8,000	8,605	-	(605)
Recreation and cultural	53,615	53,615	46,212	-	7,403
Other	-	1,500	-	(1,500)	1,500
Capital outlay	52,000	95,170	146,585	(43,170)	(51,415)
	<u>301,891</u>	<u>346,561</u>	<u>361,680</u>	<u>(44,670)</u>	<u>(15,119)</u>
Total expenditures					
REVENUES OVER (UNDER) EXPENDITURES	(2,500)	(12,035)	(23,390)	(9,535)	(11,355)
OTHER FINANCING USES					
Operating transfers out	(60,000)	(60,000)	(45,000)	-	15,000
NET CHANGE IN FUND BALANCE	(62,500)	(72,035)	(68,390)	(9,535)	3,645
Fund balance, beginning of year	<u>398,294</u>	<u>398,294</u>	<u>398,294</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 335,794</u>	<u>\$ 326,259</u>	<u>\$ 329,904</u>	<u>\$ (9,535)</u>	<u>\$ 3,645</u>

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE MAJOR STREET FUND

Year Ended February 28, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Intergovernmental revenues	\$ 23,000	\$ 23,000	\$ 23,874	\$ -	\$ 874
Interest income	1,500	1,500	2,322	-	822
Other	<u>13,000</u>	<u>13,000</u>	<u>18,298</u>	-	<u>5,298</u>
Total revenues	<u>37,500</u>	<u>37,500</u>	<u>44,494</u>	-	<u>6,994</u>
EXPENDITURES					
Public works	29,282	29,282	23,368	-	5,914
Capital outlay	<u>24,326</u>	<u>24,326</u>	<u>13,173</u>	-	<u>11,153</u>
Total expenditures	<u>53,608</u>	<u>53,608</u>	<u>36,541</u>	-	<u>17,067</u>
REVENUES OVER (UNDER) EXPENDITURES	(16,108)	(16,108)	7,953	-	24,061
OTHER FINANCING USES					
Operating transfers out	<u>(5,750)</u>	<u>(5,750)</u>	<u>(5,968)</u>	-	<u>(218)</u>
NET CHANGE IN FUND BALANCE	(21,858)	(21,858)	1,985	-	23,843
Fund balance, beginning of year	<u>70,482</u>	<u>70,482</u>	<u>70,482</u>	-	-
Fund balance, end of year	<u>\$ 48,624</u>	<u>\$ 48,624</u>	<u>\$ 72,467</u>	<u>\$ -</u>	<u>\$ 23,843</u>

Village of Empire

BUDGETARY COMPARISON SCHEDULE FOR THE LOCAL STREET FUND

Year Ended February 28, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
REVENUES					
Intergovernmental revenues	\$ 15,000	\$ 15,000	\$ 14,624	\$ -	\$ (376)
Interest income	1,500	1,500	1,387	-	(113)
Total revenues	<u>16,500</u>	<u>16,500</u>	<u>16,011</u>	<u>-</u>	<u>(489)</u>
EXPENDITURES					
Public works	28,120	28,120	31,866	-	(3,746)
Capital outlay	32,710	32,710	48,928	-	(16,218)
Total expenditures	<u>60,830</u>	<u>60,830</u>	<u>80,794</u>	<u>-</u>	<u>(19,964)</u>
REVENUES UNDER EXPENDITURES	(44,330)	(44,330)	(64,783)	-	(20,453)
OTHER FINANCING SOURCES					
Operating transfers in	20,750	20,750	20,968	-	218
NET CHANGE IN FUND BALANCE	(23,580)	(23,580)	(43,815)	-	(20,235)
Fund balance, beginning of year	<u>82,988</u>	<u>82,988</u>	<u>82,988</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 59,408</u>	<u>\$ 59,408</u>	<u>\$ 39,173</u>	<u>\$ -</u>	<u>\$ (20,235)</u>

OTHER SUPPLEMENTARY INFORMATION

Village of Empire

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

February 28, 2007

	Special Revenue Funds			Total
	Memorial Fund	Liquor Law Enforcement Fund	Debt Retirement Fund	Other Non-Major Funds
ASSETS				
Cash	\$ 9,282	\$ 5,419	\$ 6,081	\$ 20,782
FUND BALANCE				
Reserved for Debt Service	\$ -	\$ -	\$ 6,081	\$ 6,081
Unreserved	9,282	5,419	-	14,701
 Total fund balances	 \$ 9,282	 \$ 5,419	 \$ 6,081	 \$ 20,782

Village of Empire

NON-MAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Year Ended February 28, 2007

	Special Revenue Funds			Total Other Non-Major Funds
	Memorial Fund	Liquor Law Enforcement Fund	Debt Retirement Fund	
REVENUES				
Intergovernmental revenues	\$ -	\$ 1,055	\$ -	\$ 1,055
Property taxes	-	-	1,097	1,097
Contributions	65	-	-	65
Interest income	361	126	88	575
Total revenues	426	1,181	1,185	2,792
EXPENDITURES				
Community activities	-	194	-	194
Debt Service				
Principal	-	-	5,000	5,000
Interest	-	-	19,410	19,410
Total expenditures	-	194	24,410	24,604
REVENUES OVER (UNDER) EXPENDITURES	426	987	(23,225)	(21,812)
OTHER FINANCING SOURCES				
Operating transfers in	-	-	13,656	13,656
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	426	987	(9,569)	(8,156)
Fund balance, beginning of year	8,856	4,432	15,650	28,938
Fund balance, end of year	\$ 9,282	\$ 5,419	\$ 6,081	\$ 20,782



Business and Financial Advisors
Our clients' success – our business

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

Honorable President and
Members of the Village Council
Village of Empire
Leelanau County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the *Village of Empire* (the "Village") as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

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

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the Village's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Village has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Village has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Village has committed the resources necessary to meet its internal reporting needs. In this regard, the Village is not unlike many other local governments of its size and nature. 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 Village 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*.

Honorable President and
Members of the Village Council
Village of Empire
Page 3

The Village's management's response to the findings identified in our audit are described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

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

Dennis, Gartland & Niergarth

October 25, 2007



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Our clients' success – our business

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AUDIT-RELATED COMMUNICATIONS

To the Members of the Village Council
Village of Empire

We have audited the financial statements of Village of Empire (the "Village") for the year ended February 28, 2007 and have issued our report thereon dated October 25, 2007. 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 May 17, 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 U.S. generally accepted accounting principles. 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.

Internal Control

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

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

We consider the following deficiency to be a significant deficiency in internal control:

Reporting Financial Data

The above definition of a significant deficiency includes any condition that adversely affects the Village's ability to report financial data in accordance with generally accepted accounting principles ("GAAP"). As a matter of convenience, the Village has always relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. As a consequence, the Village has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. The Village has committed the resources necessary to meet its internal reporting needs. In this regard, the Village is not unlike many other villages of its size.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Further, during the course of our audit, we became aware of a certain matter that is an opportunity for strengthening internal controls and operation efficiencies. The following paragraph summarizes our comments and suggestions regarding this matter. This letter does not effect our report dated October 25, 2007 on the financial statements of the Village.

Budget Violations

The purpose of Public Act 621 is to provide the structure necessary for a close relationship between the administration and the Village Council with regard to the establishment of budgets and appropriations. During the course of the audit, we noted three budget violations for expenditures in the general fund and two budget violations for expenditures in the local street fund. We understand there are instances when unbudgeted items arise. We would like to stress to management and the Board the importance of budget monitoring throughout the year.

Significant Accounting Policies

Management has the responsibility for 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 A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Village 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. However, we do not consider such estimates to be particularly sensitive.

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's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village, either individually or in the aggregate, indicate matters that could have a significant effect on the Village's financial reporting process.

Recorded Adjustments

We proposed various entries to adjust fixed assets, accumulated depreciation and depreciation expense. We also proposed entries to reclassify grant revenue and bond proceeds.

Unrecorded Adjustments

We identified a difference between the fair market value and recorded cost of certain investments which both we and the Village management concluded were immaterial to the financial statements.

There Were No 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 Empire's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

There Were No Difficulties Encountered in Performing the Audit

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

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

We are pleased to serve as the Village's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Dennis, Gartland & Niergarth

October 25, 2007