

Auditing Procedures Report

Issued under P.A. 2 of 1988, 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 Mendon Village	County St Joseph
Fiscal Year End March 31, 2007	Opinion Date June 27, 2007	Date Audit Report Submitted to State August 9, 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).

SM **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 type="checkbox"/>	No comments and recommendations.
Other (Describe)	<input checked="" type="checkbox"/>	Audit under GAS Yellow Book Report with SAS 112 wording.
Certified Public Accountant (Firm Name) Norman & Paulsen, P.C.		Telephone Number 269-651-3228
Street Address 127 W. Chicago Road		City Sturgis
		State MI
		Zip 49091
Authorizing CPA Signature 		Printed Name Michael R. Wilson CPA
		License Number 1101017570

VILLAGE OF MENDON, MICHIGAN
ST. JOSEPH COUNTY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

March 31, 2007

VILLAGE OF MENDON

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VILLAGE OF MENDON

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Mendon, Michigan

Norman & Paulsen, P.C.

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We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Mendon, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Mendon 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 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 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Mendon, Michigan, as of March 31, 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.

Donald L. Paulsen, CPA
Patrick J. Monahan, CPA
Bruce S. A. Gosling, CPA
Michael R. Wilson, CPA
Rick L. Strawser, CPA
Jamel T. Norman (1941-1982)

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007, on our consideration of the Village of Mendon internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 27, 2007

Norman J. Paulson, P.C.

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Mendon financial performance provides an overview of the Village's financial activities for the fiscal year ended March 31, 2007. Please read it in conjunction with the Village's financial statements.

Financial Highlights

The Village's overall financial position decreased by \$168,263 during the fiscal year ended March 31, 2007, which represents 3 percent of the net asset position at the beginning of the year. Included in the Village's total net assets of \$5,244,636 are the Sewer Disposal System Fund net assets of \$3,802,358 and the Water Supply System Fund net assets of \$180,585. The Sewage Disposal System's net assets decreased by \$67,114 and the Water Supply System's net assets decreased by \$6,645.

The Village's Governmental Funds reflected a total fund balance at March 31, 2007 of \$516,706, which was a decrease of \$66,797 from the prior year end. Included in this decrease was the General Fund which reflected a decrease of \$6,271; the Vehicle Sinking Fund which reflected a decrease of \$7,605 and the Major Street and Local Street Funds which reflected a combined decrease of \$52,921.

The total Governmental Fund expenditures for the year ended March 31, 2007, amounted to \$546,132, of which \$231,483 (42 percent) was for public works; \$128,122 (23 percent) was for public safety; and \$142,799 (26 percent) was for general government.

Using This Annual Report

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

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current year end and compared to the prior year end under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
Assets	\$ 532	\$ 697	\$ 6,002	\$ 6,159
Liabilities	15	113	2,019	2,103
Fund Equity				
Invested in capital assets, net of related debt	-	-	2,071	2,124
Retained Earnings				
Restricted	-	-	327	325
Unreserved	-	-	1,585	1,607
Fund				
Reserved	60	75	-	-
Unreserved	457	509	-	-
Total Fund Equity	<u>\$ 517</u>	<u>\$ 584</u>	<u>\$ 3,983</u>	<u>\$ 4,056</u>

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the net assets of the current date as required by GASB 34 stated under the full accrual basis.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Current and other assets	\$ 527	\$ 694	\$ 1,928	\$ 1,935
Capital assets	745	773	4,074	4,224
Total assets	1,272	1,467	6,002	6,159
Long-term debt outstanding	-	-	2,003	2,100
Other liabilities	10	111	16	3
Total liabilities	10	111	2,019	2,103
Net assets				
Invested in capital assets, net of related debt	745	773	2,071	2,124
Restricted	-	-	327	325
Unrestricted	517	583	1,585	1,607
Total net assets	\$ 1,262	\$ 1,356	\$ 3,983	\$ 4,056

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets during the current year as compared to the prior year, under the modified accrual basis of accounting:

(dollars presented in thousands)

	Governmental Funds		Enterprise Funds	
	2007	2006	2007	2006
	Revenue			
Taxes	\$ 142	\$ 165	\$ -	\$ -
Licenses and permits	8	4	-	-
Federal grants	-	-	-	-
State shared revenue	158	157	9	-
Charges for services	34	22	261	243
Fines and forfeitures	3	3	-	-
Rents	81	81	-	-
Interest	27	17	102	85
Other	26	27	-	-
Total revenue	479	476	372	328
Program expenses				
General government	143	136	-	-
Public safety	128	119	-	-
Public works	232	217	-	-
Recreation	20	3	-	-
Capital outlay	23	7	-	-
Sewer system	-	-	67	58
Water system	-	-	129	109
Depreciation	-	-	150	150
Interest expense	-	-	100	105
Total expenses	546	482	446	422
Excess (deficiency)	\$ (67)	\$ (6)	\$ (74)	\$ (94)

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows, in a condensed format, the changes in net assets as of the current date as required by GASB 34 stated under the full accrual basis of accounting.

(dollars presented in thousands)

	Governmental Activities		Business-Type Activities	
	2007	2006	2007	2006
Revenues				
Program revenues				
Charges for service	\$ 41	\$ 25	\$ 261	\$ 243
Operating grants and contributions	81	82	9	-
Capital grants and contributions	-	-	-	-
General revenues				
Property taxes	142	165	-	-
State shared revenues	78	79	-	-
Unrestricted investment earnings	27	10	102	85
Miscellaneous	81	116	-	-
Total revenues	450	477	372	328
Expenses				
General government	152	145	-	-
Public safety	135	124	-	-
Public works	232	200	-	-
Recreation	25	8	-	-
Sewer system	-	-	290	285
Water system	-	-	156	137
Total expenses	544	477	446	422
Change in net assets	\$ (94)	\$ -	\$ (74)	\$ (94)

The Village's Funds

Our analysis of the Village's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. Major funds for the fiscal year ended March 31, 2007 include the General Fund and the Major Street and Local Street Funds.

The General fund pays for most of the Village's governmental services. The primary services include police protection services and administrative services related to general operations that support the primary services. The General Fund is funded primarily by property taxes and state shared revenues.

VILLAGE OF MENDON

MANAGEMENT'S DISCUSSION AND ANALYSIS

General Fund Budgetary Highlights

As shown in the required supplemental information, the Village budgeted an increase of \$82,370 in the original budget and a decrease of \$31,030 in the amended budget. Actual operating results ended up as a decrease of \$6,271.

The actual results ended the fiscal year within \$24,759 of the amended budget.

Capital Assets and Debt Administration

During the year ended March 31, 2007, the total capital assets of the Village increased by \$23,328 which was for vehicle and machinery.

During the year ended March 31, 2007, the total debt obligations of the Village decreased by the scheduled principal payment of \$97,000. Total debt obligations at March 31, 2007 amounted to \$2,003,000.

Contacting the Village's Management

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF MENDON

**STATEMENT OF NET ASSETS
MARCH 31, 2007**

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS				
Cash and investments	\$ 453,179	\$ 942,950	\$ 1,396,129	\$ 419,585
Receivables, net	63,411	103,295	166,706	260,141
Receivables, long- term portion	-	880,964	880,964	-
Internal balances	-	-	-	-
Prepaid and other assets	10,565	1,048	11,613	-
Capital assets - net	744,987	4,074,207	4,819,194	873,482
Total assets	1,272,142	6,002,464	7,274,606	1,553,208
LIABILITIES				
Accounts payable	7,949	15,921	23,870	65,056
Accrued and other liabilities	2,500	600	3,100	-
Debt obligations:				
Due within one year	-	97,000	97,000	119,500
Due in more than one year	-	1,906,000	1,906,000	223,275
Total liabilities	10,449	2,019,521	2,029,970	407,831
NET ASSETS				
Invested in capital assets, net of related debt	744,987	2,071,207	2,816,194	530,707
Restricted:				
Debt service	-	243,422	243,422	-
Other purposes	-	83,570	83,570	-
Unrestricted	516,706	1,584,744	2,101,450	614,670
Total net assets	\$ 1,261,693	\$ 3,982,943	\$ 5,244,636	\$ 1,145,377

See accompanying notes to the financial statements

VILLAGE OF MENDON

STATEMENT OF ACTIVITIES
MARCH 31, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary government				
Governmental activities:				
General government	\$ 151,914	\$ 28,470	\$ -	\$ -
Public safety	134,828	7,251	1,386	-
Public works	231,546	5,183	79,253	-
Recreation	<u>25,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	543,508	40,904	80,639	-
Business-type activities:				
Sanitary sewer	289,778	121,600	-	-
Water	<u>156,426</u>	<u>139,229</u>	<u>9,163</u>	<u>-</u>
Total business-type activities	<u>446,204</u>	<u>260,829</u>	<u>9,163</u>	<u>-</u>
Total primary government	<u>\$ 989,712</u>	<u>\$ 301,733</u>	<u>\$ 89,802</u>	<u>\$ -</u>
Component units				
Downtown Development Authority	<u>\$ 94,997</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
CHANGE IN NET ASSETS				
NET ASSETS - BEGINNING OF YEAR				
NET ASSETS - END OF YEAR				

See accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets

Primary Government

<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>	<u>Component</u> <u>Units</u>
\$ (123,444)	\$ -	\$ (123,444)	\$ -
(126,191)	-	(126,191)	-
(147,110)	-	(147,110)	-
<u>(25,220)</u>	<u>-</u>	<u>(25,220)</u>	<u>-</u>
(421,965)	-	(421,965)	-
-	(168,178)	(168,178)	-
<u>-</u>	<u>(8,034)</u>	<u>(8,034)</u>	<u>-</u>
-	(176,212)	(176,212)	-
(421,965)	(176,212)	(598,177)	<u>\$ -</u>
			\$ (94,997)
142,067	-	142,067	345,028
77,510	-	77,510	-
26,789	102,453	129,242	18,529
<u>81,095</u>	<u>-</u>	<u>81,095</u>	<u>5,284</u>
<u>327,461</u>	<u>102,453</u>	<u>429,914</u>	<u>368,841</u>
(94,504)	(73,759)	(168,263)	273,844
<u>1,356,197</u>	<u>4,056,702</u>	<u>5,412,899</u>	<u>871,533</u>
<u>\$ 1,261,693</u>	<u>\$ 3,982,943</u>	<u>\$ 5,244,636</u>	<u>\$ 1,145,377</u>

FUND FINANCIAL STATEMENTS

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
BALANCE SHEET
MARCH 31, 2007

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 273,343
Accounts receivable	23,416
Due from other governmental units	26,441
Due from other funds	886
Prepaid expenditures	<u>9,615</u>
Total assets	<u>\$ 333,701</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 7,332
Accrued liabilities	2,500
Due to other funds	3,495
Due to other governmental units	<u>-</u>
Total liabilities	13,327
FUND BALANCE	
Reserved for road maintenance	60,102
Unreserved, undesignated	<u>260,272</u>
Total fund balance	<u>320,374</u>
Total liabilities and fund balance	<u>\$ 333,701</u>

See accompanying notes to financial statements

Major Street Fund	Local Street Fund	Vehicle Sinking Fund	Total Governmental Funds
\$ 163,741	\$ 3,786	\$ 12,309	\$ 453,179
-	-	-	23,416
9,953	3,601	-	39,995
1,398	2,097	-	4,381
<u>475</u>	<u>475</u>	<u>-</u>	<u>10,565</u>
<u>\$ 175,567</u>	<u>\$ 9,959</u>	<u>\$ 12,309</u>	<u>\$ 531,536</u>

\$ 354	\$ 263	\$ -	\$ 7,949
-	-	-	2,500
443	443	-	4,381
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
797	706	-	14,830
-	-	-	60,102
<u>174,770</u>	<u>9,253</u>	<u>12,309</u>	<u>456,604</u>
<u>174,770</u>	<u>9,253</u>	<u>12,309</u>	<u>516,706</u>
<u>\$ 175,567</u>	<u>\$ 9,959</u>	<u>\$ 12,309</u>	<u>\$ 531,536</u>

VILLAGE OF MENDON

GOVERNMENTAL FUNDS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2007

Total governmental fund balances \$ 516,706

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

Capital assets used in governmental activities
are not financial resources and therefore are
not reported in the funds.

Governmental capital assets	\$ 1,204,331	
Less accumulated depreciation	<u>(459,344)</u>	<u>744,987</u>
Net assets of governmental activities		<u>\$ 1,261,693</u>

See accompanying notes to financial statements

VILLAGE OF MENDON
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED MARCH 31, 2007

	<u>General Fund</u>
REVENUE	
Taxes	\$ 142,067
Licenses and permits	8,328
State grants	78,896
Federal grants	-
Charges for services	33,653
Fines and forfeitures	3,213
Rents	80,968
Interest	16,916
Other	<u>26,168</u>
Total revenue	390,209
EXPENDITURES	
Legislative	15,140
General government	127,659
Public safety	128,122
Public works	85,159
Recreation	20,400
Capital outlay	<u>-</u>
Total expenditures	<u>376,480</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	13,729
OTHER FINANCING SOURCES (USES)	
Transfers from other funds	-
Transfers to other funds	<u>(20,000)</u>
Total other financing sources (uses)	<u>(20,000)</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(6,271)
FUND BALANCE - BEGINNING OF YEAR	<u>326,645</u>
FUND BALANCE - END OF YEAR	<u>\$ 320,374</u>

See accompanying notes to financial statements

<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Vehicle Sinking Fund</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 142,067
-	-	-	8,328
57,025	22,228	-	158,149
-	-	-	-
-	-	-	33,653
-	-	-	3,213
-	-	-	80,968
8,160	990	723	26,789
<u>-</u>	<u>-</u>	<u>-</u>	<u>26,168</u>
65,185	23,218	723	479,335
-	-	-	15,140
-	-	-	127,659
-	-	-	128,122
62,776	83,548	-	231,483
-	-	-	20,400
<u>-</u>	<u>-</u>	<u>23,328</u>	<u>23,328</u>
<u>62,776</u>	<u>83,548</u>	<u>23,328</u>	<u>546,132</u>
2,409	(60,330)	(22,605)	(66,797)
-	20,000	15,000	35,000
<u>(15,000)</u>	<u>-</u>	<u>-</u>	<u>(35,000)</u>
<u>(15,000)</u>	<u>20,000</u>	<u>15,000</u>	<u>-</u>
(12,591)	(40,330)	(7,605)	(66,797)
<u>187,361</u>	<u>49,583</u>	<u>19,914</u>	<u>583,503</u>
<u>\$ 174,770</u>	<u>\$ 9,253</u>	<u>\$ 12,309</u>	<u>\$ 516,706</u>

VILLAGE OF MENDON

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
MARCH 31, 2007**

	<u>Sewage Disposal System Fund</u>	<u>Water Supply System Fund</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 898,226	\$ 44,724	\$ 942,950
Special assessments	68,090	-	68,090
Accounts receivable	12,161	13,881	26,042
Grant receivable	-	9,163	9,163
Prepaid and other assets	<u>524</u>	<u>524</u>	<u>1,048</u>
Total current assets	979,001	68,292	1,047,293
NONCURRENT ASSETS			
Special assessments	880,964	-	880,964
Capital assets, net of depreciation	<u>3,898,431</u>	<u>175,776</u>	<u>4,074,207</u>
Total noncurrent assets	<u>4,779,395</u>	<u>175,776</u>	<u>4,955,171</u>
Total assets	5,758,396	244,068	6,002,464
LIABILITIES			
CURRENT LIABILITIES			
Current portion of long-term debt	90,000	7,000	97,000
Accounts payable	1,038	14,883	15,921
Accrued liabilities	<u>-</u>	<u>600</u>	<u>600</u>
Total current liabilities	91,038	22,483	113,521
NONCURRENT LIABILITIES			
Long-term debt, net of current portion	<u>1,865,000</u>	<u>41,000</u>	<u>1,906,000</u>
Total liabilities	<u>1,956,038</u>	<u>63,483</u>	<u>2,019,521</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,943,431	127,776	2,071,207
Restricted for debt service	224,200	19,222	243,422
Restricted for maintenance	83,570	-	83,570
Unrestricted	<u>1,551,157</u>	<u>33,587</u>	<u>1,584,744</u>
Total net assets	<u>\$3,802,358</u>	<u>\$ 180,585</u>	<u>\$ 3,982,943</u>

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2007

	Sewer Fund	Water Fund	Totals
OPERATING REVENUE			
Charges for services	\$ 83,195	\$ 133,975	\$ 217,170
Debt retirement	35,630	-	35,630
Rental	500	2,596	3,096
Wellhead grant	-	9,163	9,163
Other	<u>2,275</u>	<u>2,658</u>	<u>4,933</u>
Total operating revenue	121,600	148,392	269,992
OPERATING EXPENSES			
Salaries	10,742	17,459	28,201
Fringe benefits	7,729	8,672	16,401
Operating supplies	1,320	5,445	6,765
Administration	7,038	9,135	16,173
Professional services	960	2,686	3,646
Repairs and maintenance	12,896	24,583	37,479
Insurance	4,000	4,000	8,000
Utilities	4,259	12,457	16,716
Equipment rental	14,494	42,843	57,337
Miscellaneous	3,840	1,484	5,324
Depreciation	<u>125,000</u>	<u>25,000</u>	<u>150,000</u>
Total operating expenses	<u>192,278</u>	<u>153,764</u>	<u>346,042</u>
OPERATING INCOME (LOSS)	(70,678)	(5,372)	(76,050)
NONOPERATING REVENUE (EXPENSE)			
Interest income	101,064	1,389	102,453
Interest expense	<u>(97,500)</u>	<u>(2,662)</u>	<u>(100,162)</u>
Net nonoperating revenue (expense)	<u>3,564</u>	<u>(1,273)</u>	<u>2,291</u>
CHANGE IN NET ASSETS	(67,114)	(6,645)	(73,759)
NET ASSETS - BEGINNING OF YEAR	<u>3,869,472</u>	<u>187,230</u>	<u>4,056,702</u>
NET ASSETS - END OF YEAR	<u>\$3,802,358</u>	<u>\$ 180,585</u>	<u>\$3,982,943</u>

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2007

	Sewage Disposal System Fund	Water Supply System Fund	Total
Cash flows from operating activities			
Receipts from customers	\$ 123,213	\$ 136,531	\$ 259,744
Receipts from Wellhead grant	-	-	-
Payments to suppliers	(41,207)	(80,165)	(121,372)
Payments to employees	(10,742)	(17,459)	(28,201)
Benefit payments	(7,729)	(8,672)	(16,401)
Payments for interfund services used	<u>(7,038)</u>	<u>(9,135)</u>	<u>(16,173)</u>
Net cash provided (used) by operating activities	56,497	21,100	77,597
Cash flows from capital and related financing activities			
Receipts from special assessments	68,963	-	68,963
Principal paid on debt	(90,000)	(7,000)	(97,000)
Interest paid on debt	(97,500)	(2,750)	(100,250)
Acquisition of capital assets	<u>-</u>	<u>-</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	(118,537)	(9,750)	(128,287)
Cash flows from investing activities			
Interest received	<u>101,064</u>	<u>1,389</u>	<u>102,453</u>
Net increase (decrease) in cash	39,024	12,739	51,763
Cash and Cash Equivalents - Beginning of Year	<u>859,202</u>	<u>31,985</u>	<u>891,187</u>
Cash and Cash Equivalents - End of Year	<u>\$ 898,226</u>	<u>\$ 44,724</u>	<u>\$ 942,950</u>

See accompanying notes to financial statements

VILLAGE OF MENDON

PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS - Continued
 YEAR ENDED MARCH 31, 2007

	Sewage Disposal System Fund	Water Supply System Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating income (loss)	\$ (70,678)	\$ (5,372)	\$ (76,050)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities			
Depreciation	125,000	25,000	150,000
(Increase) decrease in:			
Accounts receivable	1,613	(2,698)	(1,085)
Grant receivable	-	(9,163)	(9,163)
Prepaid expenses	(62)	(62)	(124)
Due from other funds	-	-	-
Increase (decrease) in:			
Accounts payable	<u>624</u>	<u>13,395</u>	<u>14,019</u>
Net cash provided by (used for) operating activities	<u>\$ 56,497</u>	<u>\$ 21,100</u>	<u>\$ 77,597</u>

See accompanying notes to financial statements

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Mendon conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to villages. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB 20 and 34 provide the Village the option of electing to apply FASB pronouncements issued after November 30, 1989. The Village has elected not to apply those pronouncements. The more significant accounting policies establishing GAAP and used by the Village are discussed below.

Reporting Entity

The Village of Mendon operates a Council-President form of government and provides the following services as authorized by its charter: public safety (police, fire and inspections), highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

As required by generally accepted accounting principles, GASB 14, these financial statements present the Village (the primary government) and its component units, entities for which the Village is considered to be financially accountable.

Discretely Presented Component Units - The component units' columns in the government-wide financial statements include the financial data of the Village's other component units. These units are reported in a separate column to emphasize that they are legally separate from the Village.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. Members of the DDA are appointed by the Village Council and the Authority is fiscally dependent on the Village since the Village Council approves the DDA budget and must approve any debt issuance.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Government-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Village as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in preparation of the proprietary fund financial statements but differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each segment of the business-type activities of the Village and for each governmental and component unit program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Some functions, such as administrative and financial services include expenses that are, in essence, indirect expenses of other functions. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Village.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting - Fund Financial Statements - Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. A fund is considered major if it is the primary operating fund of the Village or meets the following criteria:

- * Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- * Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- * Any fund the Village elects to include as a major fund.

Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

The Village reports the following major funds:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds

Major Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of major streets within the Village.

Local Street Fund - To account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of local streets within the Village.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Vehicle Sinking Fund - To account for funds set aside for vehicle replacement costs.

Enterprise Funds

Sewage Disposal System Fund - To account for user charges and for operating expenses and debt service of the Village's sewer system.

Water Supply System Fund - To account for user charges and for operating expenses and debt service of the Village's water system.

The following is a description of two major categories and various fund types within those categories into which the funds are grouped:

Governmental Fund - All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition - "Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Village considers property taxes, special assessments, licenses, interest revenue and charges for sales and services as susceptible to accrual if the amount was due on or before fiscal year end and collection was within one year after year end except for property taxes for which collection must be within two months of year end. Reimbursements due for state and federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expenditure Recognition - The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The following is a description of the governmental fund types of the Village:

General Fund - The general fund is the general operating fund of the Village. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state shared revenues and charges for services.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds - All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

The following is a description of the proprietary fund types of the Village:

Enterprise Funds - Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Budgets and Budgetary Accounting - Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are legally adopted for the general and special revenue funds. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and an annual appropriation act to implement the budget. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- * On or about February 1, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- * Public hearings are conducted to obtain taxpayer comments.
- * On or about April 1, the budget is legally enacted through passage of resolution.
- * The Village Manager is authorized to transfer budgeted amounts within departments.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- * The budget for the general fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- * Appropriations for the general fund and special revenue funds lapse at the end of the fiscal year.
- * Budgeted amounts are as originally adopted or as amended by the Village Council.

Deposits and Investments - Statutes authorize the primary government and component units to invest in the following:

- * In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- * In certificates of deposit, savings accounts, deposit accounts or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a saving and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- * In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- * In United States government of federal agency obligation repurchase agreements.
- * In banker's acceptances of United States banks.
- * In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- * In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 "advances to/from other funds." All other outstanding balances between funds are reported as "due to/due from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets and Depreciation - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village 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 of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Land improvements	15-40
Streets	15-20
Utility systems	30-50
Buildings and improvements	15-50
Machinery and equipment	5-20
Vehicles	2-7
Furniture and other	3-7

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Property Taxes - The Village's property taxes are levied as an enforceable lien on property as of December 1. Village taxes are levied on the following July 1 and are payable without penalty through September 16. Real property taxes not collected as of March 1 are turned over to St. Joseph County for collection. The County advances the Village 100% for delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village's treasurer. The Village's property taxes levied on July 1 provide the revenue for the current fiscal year.

The assessed and state equalized taxable value of real and personal property located in the Village totaled \$30,504,554. The Village's general operating levy for the year was based on a millage rate of 9.1643.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - It is the Village's policy to not pay for unused vacation or sick days and not to allow accumulation of unpaid days. Therefore, no current or long-term liability has been accrued.

Fund Equity - In the fund statements, reservations of fund balance represent amounts that are not available for appropriation or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 2 - CASH AND INVESTMENTS

The Village uses financial institutions for investments purposes, which are in accordance with statutory authority.

The accounts maintained in the financial institutions are checking, savings, certificates of deposit and investment pool funds.

At March 31, 2007, the carrying amount of the Village's deposits was \$1,396,129 and the bank balance was \$1,615,138. The differences between the balances are the result of checks issued by the Village but not yet presented for payment. The risk exposure of all cash and cash equivalents, at March 31, 2007, is as follows:

Insured	\$ 600,630
Uninsured	<u>262,749</u>
Total cash and cash equivalents	<u>\$ 863,379</u>

The total cash presented on the balance sheet at March 31, 2007, includes \$100 of imprest cash.

The Village's remaining investments at March 31, 2007, consists of an investment pool, the Government Cash Reserves Fund in the amount of \$751,759, which by definition, are not categorized by risk. The carrying values and market values are the same for these investments.

The carrying amount of deposits for Downtown Development Authority, a discretely presented component unit, was \$419,585 and the bank balance was \$420,025. Of the bank balance \$3,022 is covered by federal depository insurance, and \$-0- is uninsured and uncollateralized.

The remaining investments at March 31, 2007, consists of an investment pool, the Government Cash Reserves Fund in the amount of \$417,003, which by definition, are not categorized by risk. The carrying values and market values are the same for these investments.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 3 - RECEIVABLES

Receivables in the governmental activities are 74 percent due from other governmental units and 26 percent accounts receivable. Business-type activities receivables are 98 percent special assessments and 2 percent due from customers.

Accounts receivable in the governmental activities and the business-type activities are reported net of an allowance for uncollectible accounts of -0-.

Receivables in the component unit include \$193,301 due from Mendon Township for captured taxes and a land contract receivable collectible in monthly installments of \$652 including interest at 5.5% final installment due December, 2014, however an entire payoff was collected in May, 2007.

Accounts receivable in the component unit are reported net of an allowance for uncollectible accounts of -0-.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables consisted of the following at March 31, 2007:

<u>Fund/ Component Unit</u>	<u>Receivable</u>	<u>Fund/ Component Unit</u>	<u>Payable</u>
<u>Due from/to other funds</u>			
General		Major streets	\$ 443
		Local streets	<u>443</u>
	<u>\$ 886</u>		<u>886</u>
Major streets	<u>1,398</u>	General	<u>1,398</u>
Local streets	<u>2,097</u>	General	<u>2,097</u>
Totals	<u>\$ 4,381</u>		<u>\$ 4,381</u>

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

The Due From/To Other Fund balances resulted from a time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Transfers consisted of the following for the year ended March 31, 2007:

Fund	Transfers Out	Fund	Transfers In
General	\$ 20,000	Local street	\$ 5,000
	<u>20,000</u>	Vehicle sinking	<u>15,000</u>
			<u>20,000</u>
Major street	<u>15,000</u>	Local street	<u>15,000</u>
Totals	<u>\$ 35,000</u>		<u>\$ 35,000</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) the transfer from the major street fund to the local street fund represents the sharing of gas and weight tax revenues; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2007, was as follows:

	Balance April 1, 2006	Additions	Disposals	Balance March 31, 2007
<u>Primary Government</u>				
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 353,375	\$ -	\$ 8,500	\$ 344,875
Capital assets, being depreciated:				
Infrastructure	62,978	-	-	62,978
Land improvements	192,416	-	-	192,416
Buildings and improvements	369,282	-	-	369,282
Machinery and equipment	36,028	11,495	-	47,523
Vehicles	164,844	11,833	-	176,677
Office furniture and equipment	<u>10,580</u>	<u>-</u>	<u>-</u>	<u>10,580</u>
Subtotal	836,128	23,328	-	859,456
Accumulated depreciation				
Infrastructure	3,920	4,200	-	8,120
Land improvements	115,450	9,620	-	125,070
Buildings and improvements	184,644	9,232	-	193,876
Machinery and equipment	27,955	4,397	-	32,352
Vehicles	77,430	14,026	-	91,456
Office furniture and equipment	<u>7,410</u>	<u>1,060</u>	<u>-</u>	<u>8,470</u>
Subtotal	<u>416,809</u>	<u>42,535</u>	<u>-</u>	<u>459,344</u>
Net capital assets being depreciated	<u>419,319</u>			<u>400,112</u>
Net capital assets	<u>\$ 772,694</u>			<u>\$ 744,987</u>

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS - Continued

	Balance April 1, 2006	<u>Additions</u>	<u>Disposals/ Transfers</u>	Balance March 31, 2007
Business-Type activities				
Capital assets, not being depreciated:				
Land	\$ 190,950	\$ -	\$ -	\$ 190,950
Capital assets, being depreciated:				
Sewage disposal system	4,988,165	-	-	4,988,165
Water supply system	<u>340,132</u>	<u>-</u>	<u>-</u>	<u>340,132</u>
Subtotal	5,328,297	-	-	5,328,297
Accumulated depreciation				
Sewage disposal system	1,058,233	125,000	-	1,183,233
Water supply system	<u>236,806</u>	<u>25,000</u>	<u>-</u>	<u>261,806</u>
Subtotal	<u>1,295,039</u>	<u>150,000</u>	<u>-</u>	<u>1,445,039</u>
Net capital assets being depreciated	<u>4,033,258</u>			<u>3,883,258</u>
Net capital assets	<u>\$ 4,224,208</u>			<u>\$ 4,074,208</u>

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

Governmental activities:

Business-type activities:

General government	\$ 9,115	Sanitary Sewer	\$ 125,000
Public safety	6,706	Water	<u>25,000</u>
Public works	21,894		
Recreation	<u>4,820</u>		
Total	<u>\$ 42,535</u>	Total	<u>\$ 150,000</u>

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 5 - CAPITAL ASSETS - Continued

Component Unit:

Capital assets activity for the year ended March 31, 2007, was as follows:

<u>Component Unit</u>	<u>Balance April 1, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance March 31, 2007</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 36,265	\$ -	\$ -	\$ 36,265
Capital assets, being depreciated:				
Land improvements	532,236	208,835	-	741,071
Buildings and improvements	-	84,942	-	84,942
Machinery and equipment	<u>24,593</u>	<u>19,113</u>	<u>-</u>	<u>43,706</u>
Subtotal	556,829	312,890	-	869,719
Accumulated depreciation				
Land improvements	-	12,351	-	12,351
Buildings and improvements	-	2,831	-	2,831
Machinery and equipment	<u>12,130</u>	<u>5,190</u>	<u>-</u>	<u>17,320</u>
Subtotal	<u>12,130</u>	<u>20,372</u>	<u>-</u>	<u>32,502</u>
Net capital assets being depreciated	<u>544,699</u>			<u>837,217</u>
Net capital assets	<u>\$ 580,964</u>			<u>\$ 873,482</u>

Depreciation expense was charged to functions/programs of the Component Unit as follows:

Governmental activities:

Economic development	<u>\$ 20,372</u>
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VILLAGE OF MENDON

**NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007**

NOTE 6 - LONG-TERM DEBT

Following is a summary of long-term debt transactions for the year ended March 31, 2007:

	Balance April 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance March 31, <u>2007</u>	Current <u>Portion</u>
Business-Type Activities					
Special assessment bonds	\$ 1,530,000	\$ -	\$ 75,000	\$ 1,455,000	\$ 75,000
General obligation bonds	515,000	-	15,000	500,000	15,000
Revenue bonds	<u>55,000</u>	<u>-</u>	<u>7,000</u>	<u>48,000</u>	<u>7,000</u>
Totals	<u>\$ 2,100,000</u>	<u>\$ -</u>	<u>\$ 97,000</u>	<u>\$ 2,003,000</u>	<u>\$ 97,000</u>

Long-term debt payables at March 31, 2007, consisted of the following individual issues:

Business-Type Activities

1996 Sewage Disposal System Special Assessment Bonds payable in annual installments of \$75,000 to \$50,000 through October 1, 2025; interest at 4.875%, payable semiannually	\$ 1,455,000
1996 Sewage Disposal System General Obligation Bonds payable in annual installments of \$10,000 to \$40,000 through October 1, 2025; interest at 4.875%, payable semiannually	500,000
1974 Water Supply System Revenue Bonds payable in annual installments of \$1,000 to \$9,000 through January 1, 2013; interest at 5.0%, payable semiannually	<u>48,000</u>
Total	<u>\$ 2,003,000</u>

VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2007 including both principal and interest, are as follows:

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 97,000	\$ 97,645	\$ 194,645
2009	97,000	92,940	189,940
2010	97,000	88,235	185,235
2011	97,000	83,530	180,530
2012	97,000	78,825	175,825
2013-2017	481,000	239,015	720,015
2018-2022	450,000	223,612	673,612
2023-2026	<u>587,000</u>	<u>70,218</u>	<u>657,218</u>
Total	<u>\$ 2,003,000</u>	<u>\$ 974,020</u>	<u>\$ 2,977,020</u>

Component Unit:

Following is a summary of debt transactions for the year ended March 31, 2007:

	Balance April 1, <u>2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance March 31, <u>2007</u>
Bank note payable	<u>\$ 450,000</u>	<u>\$ -</u>	<u>\$ 107,225</u>	<u>\$ 342,775</u>

Long-term debt payable at March 31, 2007, consisted of the following individual issues:

Note payable to bank at interest rate of 3.55%, monthly payment of principle and interest of \$10,949, final payment due December 15, 2010, secured by real estate	<u>\$ 342,715</u>
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VILLAGE OF MENDON

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007

NOTE 6 - LONG-TERM DEBT - Continued

Debt Service Requirements

The annual requirements to service all debt outstanding as of March 31, 2007 including both principal and interest, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 119,500	\$ 11,888	\$ 131,388
2009	123,755	7,633	131,388
2010	<u>99,520</u>	<u>5,913</u>	<u>105,433</u>
Total	<u>\$ 342,775</u>	<u>\$ 25,434</u>	<u>\$ 368,209</u>

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for most risks of loss to which it is exposed. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 8 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles.

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Village were adopted on a fund level basis.

During the year ended March 31, 2007, the Village incurred no expenditures in excess of the amounts appropriated at the legal level of budgetary control.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
 GENERAL FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
REVENUES				
Taxes	\$ 158,000	\$ 106,000	\$ 142,067	\$ 36,067
Licenses and permits	6,050	6,050	8,328	2,278
State grants	81,500	78,000	78,896	896
Federal grants	-	-	-	-
Charges for services	31,850	31,850	33,653	1,803
Fines and forfeitures	2,050	2,050	3,213	1,163
Rent	56,800	56,800	80,968	24,168
Interest	5,000	5,000	16,916	11,916
Other	75,500	84,000	26,168	(57,832)
Total revenues	416,750	369,750	390,209	20,459
EXPENDITURES				
Legislative	14,300	14,750	15,140	(390)
General government	107,605	142,105	127,659	14,446
Public safety	115,650	122,850	128,122	(5,272)
Public works	73,600	81,350	85,159	(3,809)
Recreation	3,225	19,725	20,400	(675)
Total expenditures	314,380	380,780	376,480	4,300
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	102,370	(11,030)	13,729	24,759
OTHER FINANCING (USES) Transfers to other funds	(20,000)	(20,000)	(20,000)	-
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	82,370	(31,030)	(6,271)	24,759
FUND BALANCE - Beginning of year	326,645	326,645	326,645	-
FUND BALANCE - End of year	<u>\$ 409,015</u>	<u>\$ 295,615</u>	<u>\$ 320,374</u>	<u>\$ 24,759</u>

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
 MAJOR STREET FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED MARCH 31, 2007

	Original <u>Budget</u>	Amended <u>Budget</u>	<u>Actual</u>	Variance with Amended <u>Budget</u>
REVENUE				
State grant	\$ 65,000	\$ 67,000	\$ 57,025	\$ (9,975)
Interest	2,000	2,000	8,160	6,160
Other	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>
Total revenues	67,000	69,000	65,185	(3,815)
EXPENDITURES				
Public works	<u>53,100</u>	<u>68,350</u>	<u>62,776</u>	<u>5,574</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	13,900	650	2,409	1,759
OTHER FINANCING (USES)				
Transfer to other funds	<u>(15,000)</u>	<u>(15,000)</u>	<u>(15,000)</u>	<u> -</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES AND OTHER USES	(1,100)	(14,350)	(12,591)	1,759
FUND BALANCE - BEGINNING OF YEAR	<u>187,361</u>	<u>187,361</u>	<u>187,361</u>	<u> -</u>
FUND BALANCE - END OF YEAR	<u>\$ 186,261</u>	<u>\$ 173,011</u>	<u>\$ 174,770</u>	<u>\$ 1,759</u>

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
 LOCAL STREET FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED MARCH 31, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
REVENUE				
State grant	\$ 24,900	\$ 24,000	\$ 22,228	\$ (1,772)
Interest	500	500	990	490
Other	-	-	-	-
Total revenues	25,400	24,500	23,218	(1,282)
EXPENDITURES				
Public works	38,650	84,350	83,548	802
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(13,250)	(59,850)	(60,330)	(480)
OTHER FINANCING SOURCES				
Transfers from other funds	20,000	20,000	20,000	-
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	6,750	(39,850)	(40,330)	(480)
FUND BALANCE - BEGINNING OF YEAR	49,583	49,583	49,583	-
FUND BALANCE - END OF YEAR	<u>\$ 56,333</u>	<u>\$ 9,733</u>	<u>\$ 9,253</u>	<u>\$ (480)</u>

VILLAGE OF MENDON

REQUIRED SUPPLEMENTAL INFORMATION
 VEHICLE SINKING FUND
 BUDGETARY COMPARISON SCHEDULE
 YEAR ENDED MARCH 31, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
REVENUE				
Interest	\$ 150	\$ 150	\$ 723	\$ 573
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	150	150	723	573
EXPENDITURES				
Capital outlay	<u>10,000</u>	<u>24,000</u>	<u>23,328</u>	<u>672</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES	(9,850)	(23,850)	(22,605)	1,245
OTHER FINANCING SOURCES				
Transfer from other fund	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUE AND OTHER SOURCES OVER EXPENDITURES	5,150	(8,850)	(7,605)	1,245
FUND BALANCE - BEGINNING OF YEAR	<u>19,914</u>	<u>19,914</u>	<u>19,914</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u>\$ 25,064</u>	<u>\$ 11,064</u>	<u>\$ 12,309</u>	<u>\$ 1,245</u>



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

To the Members of the Village Council
Village of Mendon

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Mendon as of and for the year ended March 31, 2007, which collectively comprise Village of Mendon's basic financial statements and have issued our report thereon dated June 27, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Village of Mendon'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 on the Village of Mendon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Mendon's internal control over financial reporting.

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.

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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether Village of Mendon'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information 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.

June 27, 2007

Norman J. Paulson, P.C.