

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 type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Unit Name Cassopolis Area Utilities Authority	County Cass
Fiscal Year End December 31, 2007	Opinion Date April 25, 2008	Date Audit Report Submitted to State June 3, 2008		

We affirm that:

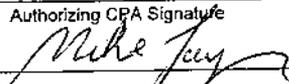
We are certified public accountants licensed to practice in Michigan.

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

- YES NO Check each applicable box below. (See instructions for further detail.)
- 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.
 - 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.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - 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.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - 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).
 - 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.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - 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"/>	N/A		
Certified Public Accountant (Firm Name) Schaffer & Layher, PLLC		Telephone Number 269-983-0131		
Street Address 805 Van Brunt Ave.		City St. Joseph	State MI	Zip 49085
Authorizing CPA Signature 		Printed Name Michael W. Layher		License Number

CASSOPOLIS AREA UTILITIES AUTHORITY

FINANCIAL REPORT

December 31, 2007

AUTHORITY BOARD MEMBERS

<u>Office</u>	<u>Official</u>	<u>Representing</u>
Chairperson	Ronald Francis	Penn Township
Vice Chairperson	Gene Decker	LaGrange Township
Board Member	Larry Balok	Penn Township
Board Member	Mike Seedorf	Calvin Township
Board Member	Betty Argersinger	Jefferson Township
Board Member	Ronald Bass	Village of Cassopolis
Board Member	Kevin Gillette	Village of Cassopolis

Board Secretary/Treasurer
Cheri Martine

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INDEPENDENT AUDITOR'S REPORT

To the Board Members of
Cassopolis Area Utilities Authority

We have audited the accompanying financial statements of the business-type activities of the Cassopolis Area Utilities Authority as of December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cassopolis Area Utilities Authority's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Cassopolis Area Utilities Authority as of December 31, 2007 and the changes in financial position, including cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis information on pages 2 through 5 are not a required part of the basic financial statements, but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Schaffer & Layher". The signature is written in a cursive, flowing style.

Schaffer & Layher
April 25, 2008

The following management's discussion and analysis (MD&A) of the Cassopolis Area Utilities Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenues, expenses, and changes in net assets, the statement of cash flows, and other information contained in this report.

About the Authority

Cassopolis Area Utilities Authority (CAUA or the "Authority"), through an intergovernmental agreement between the Village of Cassopolis and four townships located in Cass County: Calvin, Jefferson, LaGrange, and Penn townships, operates the sewage transportation system for these communities.

Financial Highlights

- The Authority's net assets at December 31, 2007 were \$4,608,208, of which \$3,662,761 was invested in capital assets. At December 31, 2006, net assets were \$4,662,108.
- Operating revenues decreased by 11.2 percent from \$480,722 in 2006 to \$426,884 in 2007, due to decreased permit and tap-in charges.
- Operating expenses increased by 1.5 percent from \$494,965 in 2006 to \$502,509 in 2007, due to an increase in repair and maintenance expenses.

Overview of the Financial Statements

This report consists of two parts – *management's discussion and analysis* (this section), and the *basic financial statements*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total net assets decreased by \$53,900 from 2006 to 2007 with net assets of \$4,608,208 at December 31, 2007 and \$4,662,108 at December 31, 2006.

	<u>2007</u>	<u>2006</u>
Current Assets	\$ 964,971	\$ 886,511
Capital Assets	3,662,761	3,815,992
Other Assets	825,000	1,100,000
Total Assets	<u>\$ 5,452,732</u>	<u>\$ 5,802,503</u>
Total Liabilities	<u>\$ 844,524</u>	<u>\$ 1,140,395</u>
Net Assets		
Invested in capital assets	\$ 3,662,761	\$ 3,815,992
Unrestricted	945,447	846,116
Total Net Assets	<u>\$ 4,608,208</u>	<u>\$ 4,662,108</u>

Financial Analysis of the Authority as a Whole, Concluded

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$(53,900) and \$(19,856) for the years ended December 31, 2007 and 2006, respectively.

	<u>2007</u>	<u>2006</u>
Operating Revenues	\$ 426,884	\$ 480,722
Operating Expenses (including depreciation)	<u>502,509</u>	<u>494,965</u>
Operating Loss	\$ (75,625)	\$ (14,243)
Non-operating revenues (expenses)	<u>21,725</u>	<u>(5,613)</u>
Change in net assets	<u><u>\$ (53,900)</u></u>	<u><u>\$ (19,856)</u></u>

Analysis of Financial Position

The current year net assets decreased \$53,900. Several significant factors affecting net assets during the year are discussed below:

- 1) Operating expenses exceeded operating revenues by \$75,625, with an additional net \$21,725 of non-operating income received. This is primarily interest income.
- 2) The Authority's investment in capital assets had a decrease of \$153,231 which was all current year depreciation.

Results of Operations

The Authority's operating loss was \$75,625 as a result of the following:

- 1) Operating revenues decreased \$53,838 or 11.2% as a result of decreased permit and tap-in charges.
- 2) Operating expenses increased \$7,544 or 1.5% as the Authority's maintenance expense increased significantly. Management recognizes that control over year-to-year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Nonoperating interest income has significantly contributed to the Authority's overall revenue base. This is due to the large amount of dollars available and invested from prior years. As operating costs continue to rise, these resources will be depleted and could negatively impact future non-operating interest income.

Results of Operations, Concluded

- 4) One of the largest expenses the Authority incurs is purchased services from the Village of Cassopolis for operations and maintenance of the system. The Authority pays a monthly amount based on the collections from each municipality throughout the year, then a reconciliation is performed at the Village level to determine if enough revenue has been received to cover their expenses. At December 31, 2007, enough revenue had been collected to cover expenses and no additional amounts were due to the Village.

Sewer Rates

The Authority oversees the sewer operations for users on Diamond, Donnell, and Paradise Lakes, as well as the Village of Vandalia. The monthly rate each user is charged depends on their location, and the rate is then broken down for specific uses and restrictions. The following table breaks down those rates and uses:

Breakdown of monthly rate for use/designation

User	Monthly Rate	Village of Cassopolis for operations and maintenance	Authority operations	Designated Capital Replacement	Calvin Township Debt Retirement	Penn Township Debt Retirement	Designated for Debt Retirement
Diamond Lake	\$ 20.00	\$ 15.00	\$ 0.42	\$ 2.58	\$ -	\$ -	\$ 2.00
Donnell Lake	\$ 23.00	\$ 15.00	\$ 0.42	\$ 2.58	\$ -	\$ 5.00	\$ -
Village of Vandalia	\$ 22.00	\$ 15.00	\$ 0.42	\$ 2.58	\$ -	\$ 4.00	\$ -
Paradise Lake	\$ 21.00	\$ 15.00	\$ 0.42	\$ 2.58	\$ 3.00	\$ -	\$ -

Budgetary Highlights

During the year, the Authority had no budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements are a significant element in the Authority’s financial plan. Ongoing funding for capital improvements will be generated from operating revenues. The monies accumulated are being earmarked for capital projects.

Economic Factors and Next Year’s Forecast

The funding composition for the operation and maintenance for the Authority consists of rates established by the governmental units and ultimately paid by the customers using the sewer system. The Authority then keeps a portion of the rates and remits the remainder to the Village of Cassopolis for purchased services and other governmental entities for debt repayments.

Economic Factors and Next Year's Forecast, Concluded

The Authority's plan for budget monitoring includes reviewing the actual expenses of the Village for operations on a monthly basis, to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. Rate increases proposed by the Authority were approved by the respective member townships in 2006. The Authority is looking at increasing fees to subsidize debt retirement payments in 2008, but nothing has been passed to date.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 117 South Broadway, Suite 100, Cassopolis, MI 49031.

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 43,000	\$ 9,190
Accounts receivable	51,349	36,911
Investments	862,122	830,210
Prepaid rent	8,500	10,200
Total Current Assets	<u>\$ 964,971</u>	<u>\$ 886,511</u>
Capital Assets	<u>\$ 3,662,761</u>	<u>\$ 3,815,992</u>
Restricted Assets		
Contract receivable	<u>\$ 825,000</u>	<u>\$ 1,100,000</u>
Total Assets	<u>\$ 5,452,732</u>	<u>\$ 5,802,503</u>
Liabilities		
Accounts payable	\$ 19,524	\$ 40,395
Contract payable	825,000	1,100,000
Total Liabilities	<u>\$ 844,524</u>	<u>\$ 1,140,395</u>
Commitments and contingencies		
Net Assets		
Invested in capital assets	\$ 3,662,761	\$ 3,815,992
Unrestricted:		
Undesignated	671,109	606,004
Designated for Debt Retirement (Diamond Lake)	199,190	174,758
Designated for Capital Replacements (Village of Vandalia)	38,563	32,677
Designated for Capital Replacements (Paradise Lake)	36,585	32,677
Total Net Assets	<u>\$ 4,608,208</u>	<u>\$ 4,662,108</u>
Total Liabilities and Net Assets	<u>\$ 5,452,732</u>	<u>\$ 5,802,503</u>

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

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating Revenues		
User fees		
Fees for Village of Cassopolis (operations and maintenance)	\$ 294,729	\$ 266,927
Fees for capital replacement (Diamond and Donnell Lakes)	48,840	37,119
Fees for capital replacement (Village of Vandalia)	5,886	7,113
Fees for capital replacement (Paradise Lake)	3,908	4,742
Fees for debt retirement designation (Diamond Lake)	24,432	23,944
Fees for Penn Township debt retirement (Village of Vandalia)	8,130	8,229
Fees for Penn Township debt retirement (Donnell Lake)	20,321	20,568
Fees for Calvin Township debt retirement (Paradise Lake)	4,027	3,645
Subtotal user fees	<u>\$ 410,273</u>	<u>\$ 372,287</u>
Permits and tap-in charges	16,354	106,875
Other income	257	1,560
Total Operating Revenues	<u>\$ 426,884</u>	<u>\$ 480,722</u>
Operating Expenses		
Board per diems	\$ 5,253	\$ 5,695
Office supplies	979	1,235
Maintenance	63,957	42,422
Attorney fees	1,534	640
Audit fees	5,000	3,880
Insurance	4,573	6,369
Rent	1,700	1,700
Purchased services from Village of Cassopolis (operation and maintenance)	265,224	274,108
Depreciation expense	153,231	156,446
Other	1,058	2,470
Total Operating Expenses	<u>\$ 502,509</u>	<u>\$ 494,965</u>
Operating Loss	<u>\$ (75,625)</u>	<u>\$ (14,243)</u>
Non-Operating Revenues (Expenses)		
Investment income	\$ 56,748	\$ 30,383
Debt payments on behalf of Townships for Diamond Lake Sewer	(3,401)	(3,081)
Debt payments on behalf of Calvin Township for Paradise Lake Sewer	(4,083)	(6,501)
Payments to Penn Township for Debt Retirement (Village of Vandalia)	(7,732)	(10,312)
Payments to Penn Township for Debt Retirement (Donnell Lake)	(19,807)	(16,102)
Total Non-Operating Revenues (Expenses)	<u>\$ 21,725</u>	<u>\$ (5,613)</u>
Change in net assets	\$ (53,900)	\$ (19,856)
Net assets, beginning of year	4,662,108	4,681,964
Net assets, end of year	<u>\$ 4,608,208</u>	<u>\$ 4,662,108</u>

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

CASSOPOLIS AREA UTILITIES AUTHORITY**STATEMENTS OF CASH FLOWS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Cash received from customers	\$ 412,446	\$ 480,553
Cash payments to suppliers for goods and services	(368,449)	(354,425)
Net cash provided by (used in) operating activities	<u>\$ 43,997</u>	<u>\$ 126,128</u>
Cash flows from capital and related financing activities		
Payments for acquisition or construction of capital assets	\$ -	\$ (67,434)
Payments made on behalf of municipalities for debt	(35,023)	(35,996)
Net cash used in capital and related financing activities	<u>\$ (35,023)</u>	<u>\$ (103,430)</u>
Cash flows from investing activities		
Proceeds from sale of investments	\$ -	\$ 270,000
Purchase of investments	(31,912)	(330,191)
Investment income	56,748	30,383
Net cash provided by (used in) investing activities	<u>\$ 24,836</u>	<u>\$ (29,808)</u>
Net increase (decrease) in cash and cash equivalents	\$ 33,810	\$ (7,110)
Cash and cash equivalents, beginning of year	9,190	16,300
Cash and cash equivalents, end of year	<u>\$ 43,000</u>	<u>\$ 9,190</u>
Reconciliation of operating income to Net Cash from operating activities		
Operating loss	\$ (75,625)	\$ (14,243)
Depreciation	153,231	156,446
Adjustments to reconcile operating income to net cash from operating activities--Changes in assets and liabilities:		
Increase in accounts receivable	(14,438)	(169)
Decrease in accounts payable	(20,871)	(17,606)
Decrease in prepaid rent	1,700	1,700
Net cash provided by (used in) operating activities	<u>\$ 43,997</u>	<u>\$ 126,128</u>

There were no non-cash transactions during the years ended December 31, 2007 or 2006.

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

NOTE 1. NATURE OF ENTITY

The Cassopolis Area Utilities Authority (the "Authority") was formed through an intergovernmental agreement with the Village of Cassopolis, and the Townships in Cass County, Michigan of Calvin, Jefferson, LaGrange, and Penn and was created pursuant to Act 233, Michigan Public Acts of 1955. It is allowed to acquire, construct, purchase, finance, own, improve, enlarge, operate, maintain, administer, and manage a sewage disposal system, a solid waste management system, and/or water supply system. The Authority currently operates a sewage transportation system for these municipalities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The component unit is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies.

Basis of Accounting

In accordance with Governmental Accounting Standards Board ("GASB") No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncements conflict with, or contradict GASB pronouncements. After November 30, 1989, the Authority applies only applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing, including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all investments purchased with an original maturity of three (3) months or less to be cash equivalents.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

Investments

Investments are stated at fair value, based on quoted market prices, and consist principally of governmental securities. Investment income is composed of interest and net change in the fair value of applicable investments.

Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	7 – 10 Years
System Improvements	15 – 40 Years
Office equipment	5 – 10 Years

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Operating Revenues and Expenses

Operating revenues and expenses are those that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, permits, and tap-in fees. All other revenues and expenses are reported as nonoperating.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Information**

An annual budget was not adopted. Business-type activities are not required by generally accepted accounting principles in the United States of America to adopt a budget.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority follows GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

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

NOTE 4. DEPOSITS AND INVESTMENTS, CONCLUDED

The Authority has designated one bank for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$0 of bank deposits (checking) that were uninsured and uncollateralized. The Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the average maturities of investments are as follows:

<u>Investment</u>	Fair Market <u>Value</u>	Weighted Average <u>Maturity</u>
U.S. Treasury Note	\$ 100,258	2/15/2008
U.S. Treasury Note	171,912	11/15/2008
U.S. Treasury Note	204,266	9/15/2010
U.S. Treasury Note	72,379	8/15/2014
Federal Home Loan Bank Bonds	152,157	1/12/2009

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year-end, the credit quality rating of debt securities (other than the U.S. Government) and other investments is as follows:

<u>Investment</u>	Fair Market <u>Value</u>	<u>Rating</u>	Organization <u>Rating</u> <u>Maturity</u>
Fifth Third-Bank Investment Pool	\$ 161,150	AAA	Standard & Poor's
U.S. Treasury Note	100,258	AAA	Standard & Poor's
U.S. Treasury Note	171,912	AAA	Standard & Poor's
U.S. Treasury Note	204,266	AAA	Standard & Poor's
U.S. Treasury Note	72,379	AAA	Standard & Poor's
Federal Home Loan Bank Bonds	152,157	AAA	Standard & Poor's
	<u>\$ 862,122</u>		

NOTE 5. RESTRICTED ASSETS

The Authority's four owner townships (Penn, LaGrange, Jefferson, and Calvin), in 1990 formed a special assessment district to provide the wastewater sewer system for Diamond Lake. In order to pay for the construction costs, Cass County issued limited tax general obligation bonds, both Series A (\$5,500,000) and B (\$250,000), and are payable solely from certain contractual payments from the contracting municipalities to the County. The contracting municipalities have pledged their limited tax, full faith, and credit for the payment of their respective portion.

The Authority has no obligation for repayment of these outstanding bonds, but has recognized the amount payable each year as both a restricted contract receivable and payable, and has approved to make money available for debt reduction on behalf of the contracting municipalities if they cannot meet their respective obligations. The Authority has made debt payments of \$3,401 and \$3,081 for 2007 and 2006, respectively.

The amount of bonds outstanding is as follows, which is the amount of the Authority's contract receivable and payable:

Years <u>Ended</u>	Series A Bonds <u>Principal</u>
2008	275,000
2009	275,000
2010	275,000
	<u>\$ 825,000</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>1/1/07</u>	<u>Additions</u>	<u>Disposals</u>	<u>12/31/2007</u>
Capital assets being depreciated:				
Sewer system and improvements	\$ 6,040,820	\$ -	\$ -	\$ 6,040,820
Office equipment	14,775	-	-	14,775
Other equipment	55,120	-	-	55,120
Subtotal	<u>\$ 6,110,715</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,110,715</u>
Less: Accumulated depreciation	<u>(2,294,723)</u>	<u>\$ 153,231</u>	<u>\$ -</u>	<u>(2,447,954)</u>
Net total capital assets	<u>\$ 3,815,992</u>			<u>\$ 3,662,761</u>

NOTE 7. OPERATING LEASE

The Authority leases building space from the Village of Cassopolis under a twenty year agreement which began February 17, 1992 and expires February 17, 2012. The Authority paid the total amount of the lease at the time of signing in the amount of \$34,000 and the prepaid rent is being expensed at \$1,700/year. The Authority is also responsible for a one-third shared cost of utilities at the building.

NOTE 8. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9. CONTINGENCY

The Authority is required to reimburse the Village of Cassopolis (the "Village") for the cost of their operation and maintenance of the sewer transportation system. The Village operates on a fiscal year ending in February. At this time, the Village has not completed its 2008 audit, and any reconciling amounts owed to the Village by the Authority (or due to the Authority from the Village) cannot be reasonably determined or estimated at this time.

NOTE 10. SANITARY SEWAGE DISPOSAL AGREEMENTS AND NET ASSET DESIGNATION

The Authority and Penn Township entered into an agreement dated December 14, 1998 with the Village of Cassopolis to provide sewage disposal services for the Village of Vandalia. Among the items in the agreement, is that the Authority is to reserve \$2.58 collected each month from Vandalia customers for capital replacement and \$5.00 each month to be reserved for debt retirement of the bonds used to construct the new Vandalia sewer systems.

The Authority and Calvin Township entered into a second agreement dated March 27, 2002, with Cass County to apply for a Rural Development grant to provide sewage disposal service for Paradise Lake. This agreement required the Authority to reserve \$2.58 collected each month per residential customer for capital replacement and \$3.00 each month to be reserved for debt retirement.

The Authority has complied with these agreements by designating a portion of their net assets for each specific need, and the following table shows the usage and flow for each system:

**NOTE 10. SANITARY SEWAGE DISPOSAL AGREEMENTS AND NET ASSET DESIGNATION,
CONCLUDED**

	<u>Village of Vandalia</u>	<u>Paradise Lake</u>
Annual treated waste (in gallons)	7,980,246	5,062,644
Number of residential sewer customers	164	104
Number of REU's (residential equivalent units)	173	110



To the Board of Trustees
Cass Area Utilities Authority

In planning and performing our audit of the financial statements of Cass Area Utilities Authority (the "Authority") as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Cass Area Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

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

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

During the course of our engagement, we have been asked to prepare drafts of the Authority's financial statements in accordance with generally accepted accounting principles. The employees and management responsible for reviewing those financial statements lack the skill and knowledge to properly apply generally accepted accounting principles.

This communication is intended solely for the information and use of management, the Authority Board, others within the organization, and the Cass County commissioners and is not intended to be, and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Schaffer & Layher".

Schaffer & Layher
May 4, 2007

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA