

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Caspian	County Iron
Audit Date 6/30/07	Opinion Date 8/31/07	Date Accountant Report Submitted to State: 9/13/07	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

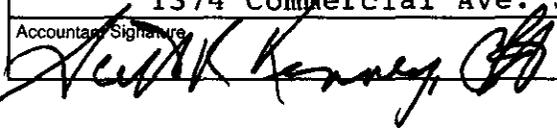
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) Scott R. Kenney, CPA			
Street Address 1374 Commercial Ave. Suite 1	City Crystal Falls	State MI	ZIP 49920
Accountant Signature 		Date 8/31/07	

CITY OF CASPIAN
AUDITED FINANCIAL STATEMENTS
IRON COUNTY, MICHIGAN

Fiscal Year Ended June 30, 2007

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis	5
 <u>FINANCIAL STATEMENTS</u>	
Government Wide Statement of Net Assets	10
Government Wide Statement of Statement of Activities	11
Governmental Funds Balance Sheet	12
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets.	13
Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance	14
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	15
Proprietary Funds Statement of Net Assets.	16
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Assets	17
Proprietary Funds Statement of Cash Flows	18
Fiduciary Funds - Statement of Net Assets	19
Notes to Financial Statements	20
 <u>REQUIRED SUPPLEMENTAL INFORMATION</u>	
Budgetary Comparison Schedules:	
General Fund	33
Major Street Fund	34
Local Street Fund.	35
Tax Incremental Financing Fund	36
Pension Funding and Statistics	37
 <u>ADDITIONAL INFORMATION</u>	
Comparative Financial Statements:	
Water Utility Fund:	
Balance Sheet.	39
Statement of Revenues, Expenses and Changes in Retained Earnings	40
Statement of Cash Flows.	41

SCOTT R. KENNEY

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Caspian
Caspian, Michigan 49915

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Caspian, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's elected officials and management. My responsibility is to express an opinion on these financial statements based on my audit.

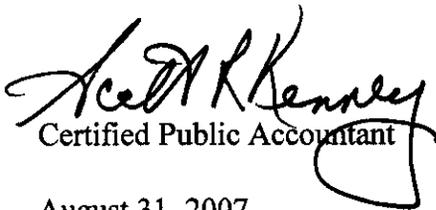
I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Caspian, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 33 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Caspian, Michigan's basic financial statements. The introductory section, statistical tables and additional information section are presented for additional analysis and are not a required part of the basic financial statements. The additional information section has been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on them.


Certified Public Accountant

August 31, 2007

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

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 City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The City's combined net assets decreased 1.1% from a year ago - decreasing from \$2.439 million to \$2.413 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$12,000 during the year (1.8% decrease). This is attributed to an increase in employee benefit costs and significant capital spending primarily as required matching funds on various grants. The business-type activities experienced a \$14,000 decrease in net assets, primarily due to a decrease in revenues (less metered sales) in both the water and sewer funds. While generating positive cash flow, charges in the water fund are not sufficient to make the fund profitable based on current expense levels. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	2006	2007	Restated 2006
Current Assets	\$ 359	\$ 426	\$ 172	\$ 203	\$ 531	\$ 629
Noncurrent Assets	<u>470</u>	<u>444</u>	<u>2,622</u>	<u>2,683</u>	<u>3,092</u>	<u>3,127</u>
Total Assets	\$ 829	\$ 870	\$ 2,794	\$ 2,886	\$3,623	\$ 3,756
Long-Term Debt Outstanding	\$ 128	\$ 132	\$ 994	\$ 1,012	\$1,122	\$ 1,144
Other Liabilities	<u>47</u>	<u>72</u>	<u>41</u>	<u>101</u>	<u>88</u>	<u>173</u>
Total Liabilities	<u>\$ 175</u>	<u>\$ 204</u>	<u>\$ 1,035</u>	<u>\$ 1,113</u>	<u>\$1,210</u>	<u>\$ 1,317</u>
Net Assets						
Invested in Capital Assets—Net of Debt	\$ 440	\$ 415	\$ 1,550	\$ 1,600	\$1,990	\$ 2,015
Restricted	30	29	78	70	108	99
Unrestricted (Deficit)	<u>184</u>	<u>222</u>	<u>131</u>	<u>103</u>	<u>315</u>	<u>325</u>
Total Net Assets	\$ 654	\$ 666	\$ 1,759	\$ 1,773	\$2,413	\$ 2,439

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$38,000 for the governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$184,000 after the restatement of 2006 amounts to exclude the unfunded accrued pension actuarial liability for the face of the financial statements.

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	2006	2007	Restated 2006
Program Revenues						
Charges for Services	\$ 79	\$ 82	\$ 314	\$ 306	\$ 393	\$ 388
Operating Grants and Contributions	130	131	4	0	134	131
Capital Grants and Contributions	0	0	0	128	0	128
General Revenues						
Property Taxes	\$ 264	\$ 258	\$ 0	\$ 0	\$ 264	\$ 258
State-Shared Revenues	158	163	0	0	158	163
Unrestricted Investment Earnings	29	29	10	2	39	31
Reimbursements	3	1	0	0	3	1
Sale of property	5	4	0	0	5	4
Transfers and Other Revenue	<u>2</u>	<u>9</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>9</u>
Total Revenues	\$ 670	\$ 677	\$ 328	\$ 436	\$ 998	\$1,113
Program Expenses						
General Government	\$ 144	\$ 127	\$ 0	\$ 0	\$ 144	\$ 127
Public Safety	95	92	0	0	95	92
Public Works	268	300	0	0	268	300
Employee benefits	123	138	0	0	123	138
Insurance	23	24	0	0	23	24
Recreation & Culture	22	20	0	0	22	20
Interest on Long-Term Debt	6	6	0	0	6	6
Water & Sewer	<u>0</u>	<u>0</u>	<u>342</u>	<u>354</u>	<u>342</u>	<u>354</u>
Total Expenses	\$ <u>681</u>	\$ <u>707</u>	\$ <u>342</u>	\$ <u>354</u>	\$ <u>1,023</u>	\$ <u>1,061</u>
Change in Net Assets	\$ (11)	\$ (30)	\$ (14)	\$ 82	\$ (25)	\$ 52

The City's net assets continue to remain healthy. The City has obtained several grants during the

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

current year that require matching City money and the payment or obligations of the matching funds on these and future grants will be watched closely.

Governmental Activities

The City's total governmental revenues decreased by approximately \$7,000 due to decreases in revenue sharing from the State of Michigan.

Cash expenditures decreased by more than \$26,000 during the year. This was due to prior year capital acquisitions of more than \$128,000 compared to \$71,000 during the current year. The primary current year capital project was an extension of a gas line to the industrial park and was paid for with Tax Incremental Finance funds. Other expenditures increased by approximately normal inflationary rates.

Business-Type Activities

The City's business-type activities consist of the Water and Sewer Funds. The City provides water to residents, which comes from the City's own water system. The City also provides sewage treatment to residents, through the West Iron County Sewage Authority. In 2006-2007 year, the City increased the base sewer charge pursuant to a plan adopted in the prior fiscal year. This resulted in gross revenues increasing by \$12,000 and increasing net income by approximately \$5,000 more than the prior year. The Water Fund revenues decreased slightly due to decreased water usage. The decrease in water usage resulted in a lowering of operating expenses of \$22,000 so the net operating loss decreased from \$27,000 to \$10,000. The increased performance in the utility funds resulted in an increase in net revenues in both funds.

The City's Funds

Analysis of the City's major funds begins on page 12, following the entity-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as a special property tax millage. The City's major funds for 2006 include the General Fund, Major Street Fund, Local Street Fund, Tax Incremental Financing Fund, Water Fund and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant are general maintenance of city property and building, maintaining the City's equipment, police and fire services and general administration. These services are primarily funded from property taxes assessed to the residents of the City and revenues shared with the State of Michigan.

CITY OF CASPIAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007

General Fund Budgetary Highlights

Over the course of the year, the City Council did amend the budget for various expenditures and projects. The most significant variations during the 2006-2007 year occurred with an increase in property tax revenues, a decrease in state shared revenues and various grant receipts and expenditures. Both revenues and expenditures exceeded budgeted amounts in various areas as outlined in the footnotes to the financial statements.

Capital Asset and Debt Administration

At the end of 2006-2007, the City had a broad range of capital assets, including snow removal equipment, police and fire equipment, water and sewer systems. In addition, the City has invested significantly in roads and buildings within the City with a net book value of \$2.965 million. The cost value of the roads and buildings acquired prior to July 1, 2003, are not required to be reported in the City's financial statements under accounting principles generally accepted in the United States of America. Consequently, the cost of the roads and buildings acquired prior to the 2003-2004 fiscal year are not included in these financial statements.

Economic Factors and Next Year's Budgets and Rates

The City's budget for 2007-2008 calls for a freeze on property tax rates. This can be accomplished because of the controls that are being placed on governmental fund expenditures. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than the inflationary rate, the mathematical result of this is that the total taxable value for the City will grow at a rate less than inflation, before considering new property additions.

As discussed above, the sewer rates will be increased in 2006-2007 to maintain adequate cash flows within the fund. The City will closely monitor the rates for the user based services provided by the City and adjust the rates as necessary to provide adequate cash flows and profit.

Contacting the City's Management

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

FINANCIAL

STATEMENTS

CITY OF CASPIAN
GOVERNMENT WIDE STATEMENT OF NET ASSETS
June 30, 2007

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>TOTAL</u>	<u>COMPONENT UNIT</u>
ASSETS				
CURRENT ASSETS				
Cash and equivalents	\$ 267,647	\$ 132,066	\$ 399,713	\$ 5,226
Receivables - net	<u>91,283</u>	<u>39,720</u>	<u>131,003</u>	<u>2,119</u>
TOTAL CURRENT ASSETS	\$ 358,930	\$ 171,786	\$ 530,716	\$ 7,345
RESTRICTED ASSETS - Cash and equivalents	\$ 30,267	\$ 96,135	\$ 126,402	\$ 0
NON-CURRENT ASSETS				
Property and equipment, net of depreciation	\$ <u>440,253</u>	\$ <u>2,525,721</u>	\$ <u>2,965,974</u>	\$ <u>0</u>
TOTAL ASSETS	\$ 829,450	\$ 2,793,642	\$ 3,623,092	\$ 7,345
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 24,091	\$ 21,177	\$ 45,268	\$ 0
Accrued and other liabilities	18,713	19,476	38,189	0
Current part of non-current liabilities	<u>4,710</u>	<u>0</u>	<u>4,710</u>	<u>0</u>
TOTAL CURRENT LIABILITIES	\$ 47,514	\$ 40,653	\$ 88,167	\$ 0
LIABILITIES PAYABLE FROM RESTRICTED ASSETS	\$ 0	\$ 18,000	\$ 18,000	\$ 0
NON-CURRENT LIABILITIES				
Compensated absences	\$ 35,257	\$ 0	\$ 35,257	\$ 0
Loan payable	92,303	0	92,303	0
Revenue bonds payable	<u>0</u>	<u>976,000</u>	<u>976,000</u>	<u>0</u>
TOTAL NON-CURRENT LIABILITIES	\$ <u>127,560</u>	\$ <u>976,000</u>	\$ <u>1,103,560</u>	\$ <u>0</u>
TOTAL LIABILITIES	\$ <u>175,074</u>	\$ <u>1,034,653</u>	\$ <u>1,209,727</u>	\$ <u>0</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ 440,253	\$ 1,549,721	\$ 1,989,974	\$ 0
Restricted for				
Capital projects	30,267	0	30,267	0
Debt service	0	78,135	78,135	0
Unrestricted	<u>183,856</u>	<u>131,133</u>	<u>314,989</u>	<u>7,345</u>
TOTAL NET ASSETS	\$ <u><u>654,376</u></u>	\$ <u><u>1,758,989</u></u>	\$ <u><u>2,413,365</u></u>	\$ <u><u>7,345</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 GOVERNMENT WIDE STATEMENT OF ACTIVITIES
 Year ended June 30, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET REVENUE (EXPENSE) AND CHANGES IN NET ASSETS			COMPONENT UNIT
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
Governmental Activities								
General government	\$ 145,009	\$ 0	\$ 0	\$ 0	\$ (145,009)		\$ (145,009)	
Public safety	95,264	0	0	0	(95,264)		(95,264)	
Public works	267,767	79,253	130,406	0	(58,108)		(58,108)	
Recreation and culture	22,257	0	0	0	(22,257)		(22,257)	
Employee benefits	122,591	0	0	0	(122,591)		(122,591)	
Insurance	22,679	0	0	0	(22,679)		(22,679)	
Interest on long-term debt	5,798	0	0	0	(5,798)		(5,798)	
TOTAL GOVERNMENTAL ACTIVITIES	\$ 681,365	\$ 79,253	\$ 130,406	\$ 0	\$ (471,706)		\$ (471,706)	
Business-Type Activities								
Water	\$ 201,268	\$ 146,300	\$ 3,742	\$ 0		\$ (51,226)	\$ (51,226)	
Sewer	141,093	167,375	0	0		26,282	26,282	
TOTAL BUSINESS-TYPE ACTIVITIES	\$ 342,361	\$ 313,675	\$ 3,742	\$ 0		\$ (24,944)	\$ (24,944)	
TOTAL PRIMARY GOVERNMENT	\$ 1,023,726	\$ 392,928	\$ 134,148	\$ 0	\$ (471,706)	\$ (24,944)	\$ (496,650)	
Component unit - Caspian Recreation Association	\$ 9,675	\$ 0	\$ 0	\$ 0				\$ (9,675)
GENERAL REVENUES								
Property taxes					\$ 264,063	\$ 0	\$ 264,063	\$ 9,802
State shared revenues and grants					157,713	0	157,713	0
Unrestricted investments earnings					28,579	10,392	38,971	70
Reimbursements					2,571	0	2,571	0
Other					2,271	0	2,271	0
SPECIAL ITEM - Sale of property					5,331	0	5,331	0
TOTAL GENERAL REVENUES AND SPECIAL ITEMS					\$ 460,528	\$ 10,392	\$ 470,920	\$ 9,872
CHANGE IN NET ASSETS								
Net assets - beginning (as restated)					\$ (11,178)	\$ (14,552)	\$ (25,730)	\$ 197
					665,554	1,773,541	2,439,095	7,148
NET ASSETS - ENDING					\$ 654,376	\$ 1,758,989	\$ 2,413,365	\$ 7,345

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
GOVERNMENTAL FUNDS BALANCE SHEET
COMBINED BALANCE SHEET
June 30, 2007

	<u>GENERAL</u>	<u>MAJOR</u>	<u>LOCAL</u>	<u>TAX</u>	<u>TOTAL</u>	<u>COMPONENT</u>
	<u>FUND</u>	<u>STREET</u>	<u>STREET</u>	<u>INCREMENTAL</u>	<u>PRIMARY</u>	<u>UNIT</u>
	<u>FUND</u>	<u>FUND</u>	<u>FUND</u>	<u>FINANCING</u>	<u>GOVERNMENTAL</u>	<u>FUNDS</u>
	<u>FUND</u>	<u>FUND</u>	<u>FUND</u>	<u>FUND</u>	<u>FUNDS</u>	<u>UNIT</u>
ASSETS						
Cash and equivalents	\$ 179,311	\$ 25,366	\$ 16,626	\$ 76,611	\$ 297,914	\$ 5,226
Taxes receivable - net	22,944	0	0	0	22,944	1,093
Accounts receivable	8,631	0	0	0	8,631	0
Due from other funds	0	0	0	9,993	9,993	0
Due from primary government	0	0	0	0	0	1,026
Due from other governmental units	<u>24,710</u>	<u>12,860</u>	<u>5,277</u>	<u>0</u>	<u>42,847</u>	<u>0</u>
TOTAL ASSETS	\$ <u>235,596</u>	\$ <u>38,226</u>	\$ <u>21,903</u>	\$ <u>86,604</u>	\$ <u>382,329</u>	\$ <u>7,345</u>
LIABILITIES						
Accounts payable	\$ 22,674	\$ 317	\$ 0	\$ 1,100	\$ 24,091	\$ 0
Accrued payroll	3,194	257	44	0	3,495	0
Due to other funds	13,458	0	0	0	13,458	0
Due to component unit	1,026	0	0	0	1,026	0
Due to other governmental units	<u>734</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>734</u>	<u>0</u>
TOTAL LIABILITIES	\$ 41,086	\$ 574	\$ 44	\$ 1,100	\$ 42,804	\$ 0
FUND BALANCES						
Reserved for Capital projects	\$ 30,267	\$ 0	\$ 0	\$ 0	\$ 30,267	\$ 0
Unreserved	<u>164,243</u>	<u>37,652</u>	<u>21,859</u>	<u>85,504</u>	<u>309,258</u>	<u>7,345</u>
TOTAL FUND EQUITY	\$ <u>194,510</u>	\$ <u>37,652</u>	\$ <u>21,859</u>	\$ <u>85,504</u>	\$ <u>339,525</u>	\$ <u>7,345</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u>235,596</u>	\$ <u>38,226</u>	\$ <u>21,903</u>	\$ <u>86,604</u>	\$ <u>382,329</u>	\$ <u>7,345</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balance - total governmental funds	\$	339,525
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Long term accounts receivable - Caspian-Gaastra Fire Department		6,868
Capital assets used in governmental activities are not financial resources and are not reported in the funds		440,253
Long term liabilities:		
Loan not due and payable within the current period and not reported in the funds		(97,013)
Accumulated employee vacation and personal pay not used in current period		<u>(35,257)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES \$		<u><u>654,376</u></u>

CITY OF CASPIAN
GOVERNMENTAL FUNDS STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TAX INCREMENTAL FINANCING FUND	TOTAL GOVERNMENTAL FUNDS	COMPONENT UNIT
REVENUES						
Property taxes	\$ 197,799	\$ 0	\$ 0	\$ 66,264	\$ 264,063	\$ 9,802
State shared revenues and grants	157,713	94,449	35,957	0	288,119	0
Fines and forfeitures	146	0	0	0	146	0
Charges for services	79,253	0	0	0	79,253	0
Interest and rentals	73,863	2,029	471	312	76,675	70
Sale of property	5,331	0	0	0	5,331	0
Reimbursements	2,571	0	0	0	2,571	0
Other	4,425	0	0	0	4,425	0
TOTAL REVENUES	\$ 521,101	\$ 96,478	\$ 36,428	\$ 66,576	\$ 720,583	\$ 9,872
EXPENDITURES						
Current						
General government	\$ 143,564	\$ 0	\$ 0	\$ 0	\$ 143,564	\$ 0
Public safety	78,818	0	0	0	78,818	0
Public works	178,080	84,500	31,483	3,573	297,636	0
Recreation	12,161	0	0	0	12,161	9,675
Employee benefits	122,139	0	0	0	122,139	0
Insurance	22,679	0	0	0	22,679	0
Capital outlay	15,313	0	0	56,439	71,752	0
Debt service	0	0	0	10,257	10,257	0
TOTAL EXPENDITURES	\$ 572,754	\$ 84,500	\$ 31,483	\$ 70,269	\$ 759,006	\$ 9,675
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES						
	\$ (51,653)	\$ 11,978	\$ 4,945	\$ (3,693)	\$ (38,423)	\$ 197
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ 0	\$ 0	\$ 1,000	\$ 0	\$ 1,000	\$ 0
Transfers (out)	(1,000)	0	0	0	(1,000)	0
TOTAL OTHER FINANCING SOURCES (USES)	\$ (1,000)	\$ 0	\$ 1,000	\$ 0	\$ 0	\$ 0
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES						
	\$ (52,653)	\$ 11,978	\$ 5,945	\$ (3,693)	\$ (38,423)	\$ 197
Fund balance - beginning	247,163	25,674	15,914	89,197	377,948	7,148
FUND BALANCE - JUNE 30	194,510	37,652	21,859	85,504	339,525	7,345

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
RECONCILIATION OF STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2007

Net change in fund balance - total governmental funds	\$	(38,423)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities these costs are allocated over their estimated useful life and reported as depreciation.		25,538
Repayment of note receivable is recorded as revenue in the governmental funds but not in the Statement of Activities (where it reduces note receivable balance)		(2,300)
Repayments of loan principal is an expenditure in the governmental funds but not in the Statement of Activities (where it reduces long-term debt).		4,459
Increases in accumulated employee vacation and personal pay are recorded when earned in the Statement of Activities.		<u>(452)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$		<u><u>(11,178)</u></u>

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF NET ASSETS
 June 30, 2007

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
ASSETS			
Current Assets			
Cash and equivalents	\$ 104,824	\$ 27,242	\$ 132,066
Accounts receivable	18,530	21,190	39,720
Due from other governmental units	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL CURRENT ASSETS	\$ 123,354	\$ 48,432	\$ 171,786
Noncurrent Assets			
Restricted cash and equivalents	\$ 96,135	\$ 0	\$ 96,135
Capital assets, net	<u>2,365,326</u>	<u>160,395</u>	<u>2,525,721</u>
TOTAL NONCURRENT ASSETS	\$ 2,461,461	\$ 160,395	\$ 2,621,856
TOTAL ASSETS	<u>\$ 2,584,815</u>	<u>\$ 208,827</u>	<u>\$ 2,793,642</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 597	\$ 20,580	\$ 21,177
Accrued expenses	<u>19,166</u>	<u>310</u>	<u>19,476</u>
TOTAL CURRENT LIABILITIES	\$ 19,763	\$ 20,890	\$ 40,653
Noncurrent Liabilities			
Current liabilities payable from restricted assets	\$ 18,000	\$ 0	\$ 18,000
Revenue bonds payable	<u>976,000</u>	<u>0</u>	<u>976,000</u>
TOTAL NONCURRENT LIABILITIES	\$ 994,000	\$ 0	\$ 994,000
TOTAL LIABILITIES	<u>\$ 1,013,763</u>	<u>\$ 20,890</u>	<u>\$ 1,034,653</u>
NET ASSETS			
Invested in capital assets-net of related debt	\$ 1,389,326	\$ 160,395	\$ 1,549,721
Restricted from debt service	78,135	0	78,135
Unrestricted	<u>103,591</u>	<u>27,542</u>	<u>131,133</u>
TOTAL NET ASSETS	<u>\$ 1,571,052</u>	<u>\$ 187,937</u>	<u>\$ 1,758,989</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF REVENUES,
 EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2007

	<u>WATER UTILITY</u>	<u>SEWER UTILITY</u>	<u>TOTAL</u>
OPERATING REVENUES			
Metered sales	\$ 145,154	\$ 167,100	\$ 312,254
Water taps and other services	<u>1,146</u>	<u>275</u>	<u>1,421</u>
TOTAL OPERATING REVENUES	\$ 146,300	\$ 167,375	\$ 313,675
OPERATING EXPENSES			
Personal services	\$ 24,147	\$ 13,469	\$ 37,616
Employee benefits	23,144	12,906	36,050
Supplies	4,375	262	4,637
Purchased services	9,643	109,258	118,901
Equipment rental	3,077	1,456	4,533
Utilities	7,647	0	7,647
Other	575	198	773
Depreciation	<u>83,457</u>	<u>3,544</u>	<u>87,001</u>
TOTAL OPERATING EXPENSES	\$ 156,065	\$ 141,093	\$ 297,158
OPERATING INCOME (LOSS)	\$ (9,765)	\$ 26,282	\$ 16,517
NONOPERATING REVENUES (EXPENSES)			
Interest earned	\$ 8,598	\$ 1,794	\$ 10,392
Wellhead protection grant	3,742	0	3,742
Interest expense	<u>(45,203)</u>	<u>0</u>	<u>(45,203)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	\$ (32,863)	\$ 1,794	\$ (31,069)
NET INCOME (LOSS)	\$ (42,628)	\$ 28,076	\$ (14,552)
Total net assets - beginning	<u>1,613,680</u>	<u>159,861</u>	<u>1,773,541</u>
TOTAL NET ASSETS - ENDING	\$ <u>1,571,052</u>	\$ <u>187,937</u>	\$ <u>1,758,989</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 PROPRIETARY FUNDS STATEMENT OF CASH FLOW
 Year ended June 30, 2007

	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>
	<u>UTILITY</u>	<u>UTILITY</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 147,939	\$ 215,993	\$ 363,932
Payments to suppliers	(28,005)	(168,331)	(196,336)
Payments to or on behalf of employees	<u>(47,229)</u>	<u>(26,506)</u>	<u>(73,735)</u>
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 72,705	\$ 21,156	\$ 93,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	\$ (63,539)	\$ 0	\$ (63,539)
Capital grant proceeds	3,742	0	3,742
Purchases of capital assets	0	(18,313)	(18,313)
Funding of restricted accounts	<u>(7,772)</u>	<u>0</u>	<u>(7,772)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING	\$ (67,569)	\$ (18,313)	\$ (85,882)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	\$ <u>8,598</u>	\$ <u>1,794</u>	\$ <u>10,392</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	\$ 13,734	\$ 4,637	\$ 18,371
Cash and equivalents - beginning	<u>91,090</u>	<u>22,605</u>	<u>113,695</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>104,824</u>	\$ <u>27,242</u>	\$ <u>132,066</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (9,765)	\$ 26,282	\$ 16,517
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation	83,457	3,544	87,001
Change in Assets and Liabilities			
Receivables - net	1,639	48,618	50,257
Accounts payable	(2,688)	(57,157)	(59,845)
Accrued payroll expense	<u>62</u>	<u>(131)</u>	<u>(69)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>72,705</u>	\$ <u>21,156</u>	\$ <u>93,861</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
 FIDUCIARY FUNDS - STATEMENT OF NET ASSETS
 June 30, 2007

		<u>AGENCY FUND TYPE</u> <u>(Tax Collections)</u>
ASSETS		
Cash and equivalents	\$	39
Due from other funds		4,056
Due from other governmental units		<u>518</u>
TOTAL ASSETS	\$	<u><u>4,613</u></u>
LIABILITIES		
Due to other funds	\$	753
Due to other governmental units		3,068
Due to taxpayers		<u>792</u>
TOTAL LIABILITIES	\$	<u><u>4,613</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Caspian (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

I. Reporting Entity

The City is governed by an elected five member council (Council). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations.

DISCRETELY PRESENTED COMPONENT UNIT

The following component unit is reported within the "component unit" column in the government wide financial statements. The discretely presented component unit is an entity that is legally separate from the City of Caspian, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Caspian Recreation Association

The Caspian Recreation Association is governed by a board of trustees appointed by the City Council. Its purpose is to provide recreational opportunities for the citizens of the City of Caspian by operating and maintaining a recreational center and surrounding property located in the City. The citizens of the City of Caspian have approved a 0.9768 mill levy on property located within the City. The levy is set to expire in 2007 and resulted in revenues of \$ 9,802 during the year. Separate financial statements are not prepared and as such are included as part of this report.

Jointly Governed Organizations

Caspian-Gaastra Fire Authority

The Cities of Caspian and Gaastra participate jointly in the operation of the Caspian-Gaastra Fire Authority. Each city appoints two board members to the fire authority's governing board with the governing board appointing a fifth member. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the City of Gaastra offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Fire Authority for the audit period was \$13,263 from its general fund for operations and \$10,257 from its Tax Incremental Financing Fund for debt retirement.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Jointly Governed Organizations (Continued)

West Iron County Sewage Authority

The City is one of five municipalities participating jointly in the Sewage Authority. All of the financial operations of the Authority are recorded in a separate set of financial records and are available at the Sewage Authority Offices.

The funding formula approved by the members of the Local Units is based pro rata on each unit's population. The City's contribution to the Sewage Authority for the audit period was \$108,936

II. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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

Taxes Receivable—Current Property Taxes

The City property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The City's 2006 ad valorem tax is levied and collectible on July 1, 2006. It is the City's policy to recognize revenue from the current tax levy when the tax is levied for real property and when collected for personal property as the amounts are then "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of the City totaled \$11.7 million, on which ad valorem taxes levied consisted of 19.5377 mills for the City operating purposes, raising \$197,799 for financing operations. This amount is recognized in the General Fund financial statements as property taxes.

The government reports the following major governmental funds:

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

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

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

The Tax Incremental Financing Fund accounts for the taxes collected that are restricted for use in the Tax Incremental Financing District and the payment of obligated loans.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The government reports the following major proprietary funds:

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

The Sewer Fund accounts for the activities of the sewer collection system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the City's proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognizes the portion of the fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Bank Deposits and Investments— Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of six months or less when acquired. Investments are stated at fair value.

Receivables and Payables— In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "due to/from other funds."

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items— Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets— The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets— Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets acquired prior to July 1, 2003, have been excluded from the financial statements in compliance with Governmental Accounting Standards Board Statement No. 34. The value of future acquisitions of infrastructure assets will be capitalized and depreciated.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	40 to 60 years
Roads	10 to 30 years
Other Infrastructure	10 to 40 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

III. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Compensated Absences (Vacation, Personal and Sick Leave)— It is the government's policy to permit employees to accumulate earned but unused vacation, personal and sick pay benefits. A liability for unpaid accumulated sick leave cannot be determined since the government pays one half of the accumulated sick leave but only after 10 consecutive years of employment and upon retirement from the City. All vacation and personal leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations— In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity— In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications— Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information— Annual budgets are adopted on a cash basis. All annual appropriations lapse at fiscal year end. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. (i.e., The level at which expenditures may not legally exceed appropriations.)

Excess of Expenditures Over Appropriations in Budgeted Funds— During the year, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE B-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Excess of Expenditures Over Appropriations in Budgeted Funds (Continued)

Budget Item	Budget Appropriation	Actual Expenditure
General - City Council	\$ 2,084	\$ 3,121
General - City Manager	20,000	25,576
General - Treasurer	12,000	16,629
General - Clerk	6,500	12,728
General - Elections	1,500	2,045
General - Counsel	10,728	17,185
General - Audit	7,000	7,515
General - Building and Grounds	22,000	36,367
General - Cemetery	9,000	15,952
General - Police	55,159	65,555
General - Public Works	83,000	106,248
General - Street Lighting	12,000	17,020
General - Insurance	20,500	22,679
General - capital outlay	12,000	15,313
General - transfers out	0	1,000
Major Streets - Street sweeping	100	4,072
Major Streets - Roadside Maintenance	0	1,769
Major Streets - Traffic Services	0	2,109
Major Streets - Winter Maintenance	7,377	52,242
Major Streets - Administration	4,615	6,593
Local Streets - Street Sweeping	900	2,803
Local Streets - Winter Maintenance	9,320	14,276
Local Streets - Administration	1,000	4,397
Tax Incremental Finance - capital outlay	35,908	56,439
Tax Incremental Finance - other improvements	0	1,000
Tax Incremental Finance - purchased services	0	2,573
Tax Incremental Finance - debt service	0	10,257

NOTE C-RESTATEMENT OF BEGINNING NET ASSETS

The City had inappropriately included the unfunded accrued actuarial pension liability as a liability for the determination of net assets in the prior fiscal year. As a result of this change, the beginning net assets of the City are restated as follows:

June 30, 2006 net assets as originally reported	\$ 429,743
Add: adjustment to unfunded accrued actuarial liability	<u>235,811</u>
Restated June 30, 2005 Net Assets	<u>\$ 665,554</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE D-DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; bond securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated 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 which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The City has designated three banks and one investment organization for the deposit of Township funds. The investments policy adopted by the board in accordance with Public Act 196 of 1997, as amended, had authorized investment in bonds and securities of the United States government and its agencies and bank time deposit accounts but not the remainder of State statutory authority as listed above. The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Unit
Cash & Cash Equivalents	\$ 267,647	\$ 132,066	\$ 39	\$ 399,752	\$ 5,226
Restricted Assets	30,267	96,135	0	126,402	0
Total	<u>\$ 297,914</u>	<u>\$ 228,201</u>	<u>\$ 39</u>	<u>\$ 526,154</u>	<u>\$ 5,226</u>

All of the cash and equivalents have been placed in bank accounts at the various approved financial institutions. The primary government bank balance is \$526,154 of which \$398,702 is covered by federal depository insurance and the entire component unit cash balance is covered by federal depository insurance.

NOTE E - ACCUMULATED DEFICITS

The City does not have accumulated deficits in its unreserved fund balance or retained earnings accounts in any of its funds.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE F - INTERFUND TRANSFERS, RECEIVABLES AND PAYABLE

The City Council approved and transferred \$1,000 from the General Fund to the Local Street Fund to comply with the funding requirements of Michigan statutes.

The June 30, 2007 balances of interfund receivables and payables are as follows:

<u>Due From</u>	<u>Due to</u>	<u>Amount</u>
General	Tax Incremental Finance	\$ 9,402
Tax	Tax Incremental Finance	591
General	Tax	4,056
General	Caspian Recreation Assoc	1,023

NOTE G - CHANGES IN CAPITAL ASSETS

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

	Beginning	Additions	Disposals	Ending
Governmental Funds				
Assets not depreciated - Land	\$ 18,000	\$ 0	\$ 0	\$ 18,000
Assets depreciated				
Buildings	136,519	0	0	136,519
Equipment	350,341	71,751	0	422,092
Total at Historic Cost	<u>\$ 504,860</u>	<u>\$ 71,751</u>	<u>\$ 0</u>	<u>\$ 576,611</u>
Less Accumulated Depreciation for:				
Buildings	\$ 11,311	\$ 3,882	\$ 0	\$ 15,193
Equipment	78,833	42,332	0	121,165
Total Accumulated Depreciation	<u>\$ 90,144</u>	<u>\$ 46,214</u>	<u>\$ 0</u>	<u>\$ 136,358</u>
Net Governmental Funds - Capital Assets	<u>\$ 414,716</u>			<u>\$ 440,253</u>
Business Type Funds				
Assets depreciated				
Sewer utility system	\$ 147,470	\$ 18,313	\$ 0	\$ 165,783
Water utility system	3,255,134	0	0	3,255,134
Total at Historic Cost	<u>\$3,402,604</u>	<u>\$ 18,313</u>	<u>\$ 0</u>	<u>\$3,420,917</u>
Less Accumulated Depreciation for:				
Sewer utility system	\$ 1,844	\$ 3,544	\$ 0	\$ 5,388
Water utility system	806,350	83,457	0	889,807
Total Accumulated Depreciation	<u>\$ 808,194</u>	<u>\$ 87,001</u>	<u>\$ 0</u>	<u>\$ 895,195</u>
Net Business Type Funds - Capital Assets	<u>\$2,594,410</u>			<u>\$2,525,722</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE G - CHANGES IN CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
General Government	\$	1,445
Public Safety		16,446
Public Works		18,227
Parks and Recreation		<u>10,096</u>
Total Governmental Activities	\$	<u>46,214</u>
Business Type Activities		
Water	\$	3,544
Sewer		<u>83,457</u>
Total Business Type Activities	\$	<u>87,001</u>

NOTE H - CHANGES IN LONG TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Revenue bonds involve a pledge of specific income derived from the acquisition or constructed assets to pay the associated debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Beginning</u>	<u>Additions</u>	<u>Ending</u>	<u>Due Within</u>
	<u>Rate</u>	<u>Matures</u>	<u>Balance</u>	<u>(Reductions)</u>	<u>Balance</u>	<u>One Year</u>
Governmental Type Activities						
General Obligation Bonds						
1993 Fire Hall Bonds	5.75%	10-Apr-21	\$ <u>101,471</u>	\$ <u>4,458</u>	\$ <u>97,013</u>	\$ <u>4,710</u>
Total Governmental Type Activities			\$ <u>101,471</u>	\$ <u>4,458</u>	\$ <u>97,013</u>	\$ <u>4,710</u>
Business Type Activities						
Revenue Bonds						
1995 Water System Bonds	4.50%	01-Feb-35	\$ <u>1,012,000</u>	\$ <u>18,000</u>	\$ <u>994,000</u>	\$ <u>18,000</u>
Total Governmental Type Activities			\$ <u>1,012,000</u>	\$ <u>18,000</u>	\$ <u>994,000</u>	\$ <u>18,000</u>

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE H - CHANGES IN LONG TERM DEBT (CONTINUED)

Annual debt service requirements to maturity for the above obligations are as follows:

Year end June 30	<u>Government Type Activities</u>		<u>Business Type Activities</u>	
	Principal	Interest	Principal	Interest
2008	4,710	5,547	18,000	44,730
2009	5,008	5,249	20,000	43,920
2010	5,307	4,949	20,000	43,020
2011	5,625	4,632	22,000	42,120
2012	5,950	4,306	22,000	41,130
2013-2017	35,601	15,683	128,000	189,630
2018-2022	34,811	4,077	152,000	158,670
2023-2027	0	0	180,000	122,130
2028-2032	0	0	230,000	77,625
2033-2035	<u>0</u>	<u>0</u>	<u>202,000</u>	<u>18,720</u>
Totals	<u>\$ 97,013</u>	<u>\$ 44,443</u>	<u>\$ 994,000</u>	<u>\$ 781,695</u>

NOTE I - PENSION PLAN

The City contributes to the Michigan Municipal Retirement System (MERS), a multiple-employer public retirement system that acts as a common investment and administrative agent for municipalities in the State of Michigan.

All full-time City employees and officers are eligible to participate in the MERS. Benefits vest after ten years of service. Normal retirement provisions of the MERS apply to participants who retire at or after age 60 with at least 10 years of credited service.

The annual retirement benefits of covered employees vary depending on the valuation division. The annual retirement benefits are 2.25% of final average compensation for their last five years of employment multiplied by their years of credited service.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2006. Significant actuarial assumptions used in determining the actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.0% annually for beneficiaries.

CITY OF CASPIAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE I - PENSION PLAN (CONTINUED)

GASB 25 INFORMATION (as of 12/31/06)

Actuarial Accrued Liability:	
Retiree and beneficiaries currently receiving benefits	\$ 254,701
Terminated employees not yet receiving benefits	21,955
Non-vested terminated employees	0
Current employees:	
Accumulated employee contributions including allocated investment income	0
Employer financed	<u>501,759</u>
Total Actuarial Liability	\$ 778,415
Net assets available for benefits, at actuarial value (Market Value is \$540,571)	<u>533,133</u>
Unfunded (overfunded) actuarial accrued liability	<u><u>\$ 245,302</u></u>

GASB 27 INFORMATION (as of 12/31/06)

Fiscal year beginning	July 1, 2008
Annual required contributions (ARC)	\$ 33,096
Amortization factor used	0.054719

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2006 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

NOTE J - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to prelude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

REQUIRED
SUPPLEMENTAL
INFORMATION

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 247,163	\$ 247,163	\$ 247,163	\$ 0
Resources (Inflows)				
Property taxes	171,000	171,000	197,799	26,799
State shared revenues and grants	166,733	166,733	157,713	(9,020)
Fines and forfeitures	0	0	146	146
Charges for services	75,898	75,898	79,253	3,355
Interest and rentals	81,240	81,240	73,863	(7,377)
Sale of property	12,500	12,500	5,331	(7,169)
Reimbursements	0	0	2,571	2,571
Other	4,000	4,000	4,425	425
AMOUNTS AVAILABLE FOR APPROPRIATION	\$ 758,534	\$ 758,534	\$ 768,264	\$ 9,730
Charges to Appropriations (Outflows)				
General Government				
City council	\$ 2,084	\$ 2,084	\$ 3,121	\$ (1,037)
City manager	20,000	20,000	25,576	(5,576)
Treasurer	12,000	12,000	16,629	(4,629)
Tax administration	6,400	6,400	6,446	(46)
Clerk	6,500	6,500	12,728	(6,228)
Elections	1,500	1,500	2,045	(545)
Counsel	10,728	10,728	17,185	(6,457)
Audit	7,000	7,000	7,515	(515)
Buildings and grounds	22,000	22,000	36,367	(14,367)
Cemetery	9,000	9,000	15,952	(6,952)
Public Safety				
Police	55,159	55,159	65,555	(10,396)
Fire	20,000	20,000	13,263	6,737
Public Works				
General	83,000	83,000	106,248	(23,248)
Street lighting	12,000	12,000	17,020	(5,020)
Refuse collection and disposal	55,000	55,000	54,812	188
Recreation				
Community promotion	5,000	5,000	660	4,340
Parks and other	13,106	13,106	11,501	1,605
Employee Benefits				
Paid time off	23,936	23,936	18,285	5,651
Retirement	29,500	29,500	23,513	5,987
Insurance and taxes	83,064	83,064	80,341	2,723
Insurance				
General	20,500	20,500	22,679	(2,179)
Capital outlay	12,000	12,000	15,313	(3,313)
Transfers to other funds	0	0	1,000	(1,000)
TOTAL CHARGES TO APPROPRIATIONS	\$ 509,477	\$ 509,477	\$ 573,754	\$ (64,277)
BUDGETARY FUND BALANCE--ENDING	\$ 249,057	\$ 249,057	\$ 194,510	\$ (54,547)

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 MAJOR STREET FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u>		<u>AMENDED</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>		<u>BUDGET</u>			<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 25,674	\$	25,674	\$	25,674	\$ 0
Resources (Inflows)						
State shared revenues and grants	79,635		79,635		94,449	14,814
Interest earned	<u>0</u>		<u>0</u>		<u>2,029</u>	<u>2,029</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 105,309	\$	 105,309	\$	 122,152	 \$ 16,843
 Charges to Appropriations (Outflows)						
Public Works						
Construction	\$ 40,000	\$	40,000	\$	0	\$ 40,000
Routine maintenance	31,500		31,500		17,715	13,785
Street sweeping	100		100		4,072	(3,972)
Roadside maintenance	0		0		1,769	(1,769)
Traffic services	0		0		2,109	(2,109)
Winter maintenance	7,377		7,377		52,242	(44,865)
Administration	4,615		4,615		6,593	(1,978)
Transfer to other funds	<u>0</u>		<u>0</u>		<u>0</u>	<u>0</u>
 TOTAL CHARGES TO APPROPRIATIONS	 <u>\$ 83,592</u>	\$	 <u>83,592</u>	\$	 <u>84,500</u>	 <u>\$ (908)</u>
 BUDGETARY FUND BALANCE--ENDING	 <u><u>21,717</u></u>	\$	 <u><u>21,717</u></u>	\$	 <u><u>37,652</u></u>	 <u><u>15,935</u></u>

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 LOCAL STREET FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>AMENDED</u> <u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u> <u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 15,914	\$ 15,914	\$ 15,914	\$ 0
Resources (Inflows)				
State shared revenues and grants	29,074	29,074	35,957	6,883
Interest earned	0	0	471	471
Transfer from other funds	<u>0</u>	<u>0</u>	<u>1,000</u>	<u>1,000</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 44,988	 \$ 44,988	 \$ 53,342	 \$ 8,354
Charges to Appropriations (Outflows)				
Public Works				
Construction	\$ 4,000	\$ 4,000	\$ 0	\$ 4,000
Routine maintenance	44,256	44,256	9,910	34,346
Street sweeping	900	900	2,803	(1,903)
Roadside maintenance	0	0	0	0
Traffic services	200	200	97	103
Winter maintenance	9,320	9,320	14,276	(4,956)
Administration	<u>1,000</u>	<u>1,000</u>	<u>4,397</u>	<u>(3,397)</u>
 TOTAL CHARGES TO APPROPRIATIONS	 \$ <u>59,676</u>	 \$ <u>59,676</u>	 \$ <u>31,483</u>	 \$ <u>28,193</u>
 BUDGETARY FUND BALANCE--ENDING	 \$ <u>(14,688)</u>	 \$ <u>(14,688)</u>	 \$ <u>21,859</u>	 \$ <u>36,547</u>

CITY OF CASPIAN
 BUDGETARY COMPARISON SCHEDULE
 TAX INCREMENTING FINANCING FUND
 Year ended June 30, 2007

	<u>ORIGINAL</u>	<u>AMENDED</u>	<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>BUDGET</u>	<u>BUDGET</u>		<u>AMENDED BUDGET</u>
Beginning Fund Balance	\$ 89,197	\$ 89,197	\$ 89,197	\$ 0
Resources (Inflows)				
Property taxes	42,759	42,759	66,264	23,505
Interest earned	<u>0</u>	<u>0</u>	<u>312</u>	<u>312</u>
 AMOUNTS AVAILABLE FOR APPROPRIATION	 \$ 131,956	 \$ 131,956	 \$ 155,773	 \$ 23,817
 Charges to Appropriations (Outflows)				
Public Works				
Capital outlay	\$ 35,908	\$ 35,908	\$ 56,439	\$ (20,531)
Other improvements	0	0	1,000	(1,000)
Purchased services	0	0	2,573	(2,573)
Debt service	<u>0</u>	<u>0</u>	<u>10,257</u>	<u>(10,257)</u>
 TOTAL CHARGES TO APPROPRIATIONS	 <u>\$ 35,908</u>	 <u>\$ 35,908</u>	 <u>\$ 70,269</u>	 <u>\$ (34,361)</u>
 BUDGETARY FUND BALANCE--ENDING	 <u><u>\$ 96,048</u></u>	 <u><u>\$ 96,048</u></u>	 <u><u>\$ 85,504</u></u>	 <u><u>\$ (10,544)</u></u>

CITY OF CASPIAN
MERS PENSION FUNDING AND STATISTICS
JUNE 30, 2007

SCHEDULE OF FUNDING PROGRESS

<u>ACTUARIAL VALUATION DATE</u>	<u>ACTUARIAL VALUE OF ASSETS</u>	<u>ACTUARIAL ACCRUED LIABILITY</u>	<u>UNFUNDED AAL (UAAL)</u>	<u>FUNDED RATIO</u>	<u>COVERED PAYROLL</u>	<u>UAAL AS A PERCENTAGE OF COVERED PAYROLL</u>
31-Dec-04	464,711	680,115	215,404	68%	190,407	113%
31-Dec-05	494,592	730,402	235,810	68%	201,146	117%
31-Dec-06	533,113	778,415	245,302	68%	206,206	119%

SCHEDULE OF EMPLOYER CONTRIBUTIONS:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>PERCENTAGE CONTRIBUTED</u>
31-Dec-04	28,632	100%
31-Dec-05	31,942	100%
31-Dec-06	30,862	100%

THE INFORMATION PRESENTED ABOVE WAS DETERMINED AS PART OF THE ACTUARIAL VALUATION AT THE DATES INDICATED. ADDITIONAL INFORMATION AS OF THE LATEST ACTUARIAL VALUATION IS AS FOLLOWS:

ACTUARIAL COST METHOD	ENTRY AGE NORMAL
AMORTIZATION METHOD	LEVEL PERCENTAGE OF PAYROLL
AMORTIZATION PERIOD	30 YEARS, OPEN
ASSET VALUATION METHOD	5 YEAR SMOOTHED MARKET
ACTUARIAL ASSUMPTIONS	
INVESTMENT RATE OF RETURN	8.00%
PROJECTED SALARY INCREASES*	4.5% - 12.90%
*INCLUDES MERIT AND LONGEVITY INCREASES	0% - 8.40%
INFLATION	3% - 4%
COST OF LIVING ADJUSTMENTS	2.00%
OTHER	1994 GROUP MORTALITY TABLE

ADDITIONAL

INFORMATION

CITY OF CASPIAN
 COMPARATIVE BALANCE SHEET
 WATER SUPPLY SYSTEM FUND
 June 30, 2007 and 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets:		
Cash	\$ 104,824	\$ 91,090
Accounts receivable	<u>18,530</u>	<u>20,169</u>
TOTAL CURRENT ASSETS	\$ 123,354	\$ 111,259
Restricted Assets - bond and interest redemption and bond reserve	\$ 96,135	\$ 88,363
Property and Equipment:		
Property and equipment	\$ 3,255,134	\$ 3,255,134
Less accumulated depreciation	<u>(889,808)</u>	<u>(806,350)</u>
NET PROPERTY AND EQUIPMENT	\$ <u>2,365,326</u>	\$ <u>2,448,784</u>
TOTAL ASSETS	\$ <u><u>2,584,815</u></u>	\$ <u><u>2,648,406</u></u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Account payable	\$ 597	\$ 3,285
Accrued payroll	528	466
Accrued interest	18,638	18,975
Current portion of long-term debt	<u>18,000</u>	<u>18,000</u>
TOTAL CURRENT LIABILITIES	\$ 37,763	\$ 40,726
Long-Term Debt:		
Revenue bonds	\$ 994,000	\$ 1,012,000
Less current portion included above	<u>(18,000)</u>	<u>(18,000)</u>
TOTAL LONG-TERM DEBT	\$ <u>976,000</u>	\$ <u>994,000</u>
TOTAL LIABILITIES	\$ 1,013,763	\$ 1,034,726
FUND EQUITY		
Contributed Capital:		
Federal (net of amortization)	\$ 1,392,299	\$ 1,454,874
Retained earnings:		
Reserved	\$ 96,135	\$ 88,363
Unreserved - undesignated	<u>82,618</u>	<u>70,443</u>
TOTAL RETAINED EARNINGS	\$ <u>178,753</u>	\$ <u>158,806</u>
TOTAL FUND EQUITY	\$ <u>1,571,052</u>	\$ <u>1,613,680</u>
TOTAL LIABILITIES AND FUND EQUITY	\$ <u><u>2,584,815</u></u>	\$ <u><u>2,648,406</u></u>

CITY OF CASPIAN
 COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 WATER SUPPLY SYSTEM FUND
 Years ended June 30, 2007 and 2006

	<u>2007</u> Actual	<u>2006</u> Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Charges for services:			
Customer sales	\$ 145,154	\$ 150,601	\$ (5,447)
Water taps and other services	<u>1,146</u>	<u>659</u>	<u>487</u>
TOTAL OPERATING REVENUES	\$ 146,300	\$ 151,260	\$ (4,960)
OPERATING EXPENSES			
Wages	\$ 24,147	\$ 28,758	\$ 4,611
Employee benefits	23,144	23,499	355
Supplies	4,375	2,337	(2,038)
Purchased services	9,643	27,138	17,495
Equipment rental	3,077	1,977	(1,100)
Utilities	7,647	6,473	(1,174)
Other	575	2,745	2,170
Depreciation	<u>83,457</u>	<u>85,330</u>	<u>1,873</u>
TOTAL OPERATING EXPENSES	\$ 156,065	\$ 178,257	\$ 22,192
OPERATING INCOME	\$ (9,765)	\$ (26,997)	\$ 17,232
NON-OPERATING REVENUE (EXPENSE)			
Interest income	\$ 8,598	\$ 2,116	\$ 6,482
Wellhead protection grant	3,742	0	3,742
Interest expense	<u>(45,203)</u>	<u>(45,960)</u>	<u>757</u>
TOTAL NON-OPERATING REVENUE (EXPENSE)	\$ (32,863)	\$ (43,844)	\$ 10,981
NET INCOME	\$ (42,628)	\$ (70,841)	\$ <u>28,213</u>
Add depreciation of fixed assets acquired by capital grants that reduces contributed capital from grants	62,575	62,575	
Retained Earnings - beginning	<u>158,806</u>	<u>167,072</u>	
RETAINED EARNINGS - ENDING	\$ <u>178,753</u>	\$ <u>158,806</u>	

CITY OF CASPIAN
STATEMENT OF CASH FLOWS
WATER SUPPLY SYSTEM FUND
Years ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 147,939	\$ 148,616
Payments to suppliers	(28,005)	(37,393)
Payments to or on behalf of employees	<u>(47,229)</u>	<u>(52,148)</u>
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	\$ 72,705	\$ 59,075
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on capital debt	\$ (18,000)	\$ (16,000)
Interest paid on revenue bonds	(45,539)	(46,260)
Capital grant proceeds	3,742	0
Purchases of capital assets	0	4,312
Funding of restricted accounts	<u>(7,772)</u>	<u>(7,538)</u>
TOTAL CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (67,569)	\$ (65,486)
CASH FLOWS FROM INVESTING ACTIVITIES - Interest	\$ 8,598	\$ 2,116
NET INCREASE (DECREASE) IN CASH	\$ 13,734	\$ (4,295)
Cash and equivalents - beginning	<u>91,090</u>	<u>95,385</u>
CASH AND EQUIVALENTS - ENDING	\$ <u>104,824</u>	\$ <u>91,090</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (9,765)	\$ (26,997)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation	83,457	85,330
Change in Assets and Liabilities		
Receivables - net	1,639	(2,644)
Accounts payable	(2,688)	3,277
Accrued payroll	<u>62</u>	<u>109</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>72,705</u>	\$ <u>59,075</u>

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City Council
City of Caspian
301 East Caspian Avenue
Caspian, MI 49915

In conjunction with the audit of the general purpose financial statements of the City of Caspian (City) as of and for the year ended June 30, 2007, I have reviewed the City's accounting policies and procedures and systems of internal control. My audit was conducted primarily to enable me to formulate an opinion on the City's financial statements and accordingly, would not disclose all weaknesses in the system which may exist. My review disclosed certain areas in which I believe more effective internal control or increased efficiency may be achieved. This letter is intended to summarize my findings and present my overall conclusions and recommendations. It has been prepared solely for the information of the City Council and management and should not be presented or quoted to anyone outside of the City because of the possibility of misunderstanding by other persons who may not be aware of the objectives and limitations of internal controls and my study and evaluation thereof. Statement on Audit Standard Number 112 (SAS 112) requires that I inform the City of all control deficiencies and those control deficiencies be split into one of two types. The two types of control deficiencies are "significant deficiencies" and "material weaknesses". A significant deficiency is defined as a control deficiency that has more than a remote likelihood that the entity's ability to initiate, authorize, record, process or report financial data in compliance with accounting principles generally accepted in the United States of America will be adversely affected and that such affect will be more than inconsequential. A material weakness is defined as a significant deficiency(ies) that could have a material affect on the financial statements. The first comment is repeated from the prior year's letter of comments and recommendations.

SIGNIFICANT DEFICIENCIES

1. **OBSERVATION** - Numerous items, both revenue and expenditures, were classified as miscellaneous in the financial records resulting in the misclassification of most of those items.

RECOMMENDATION - I recommend that items be entered into the accounts that are proper for the classification of each revenue or expenditure. This will assure that financial reports are properly stated.

2. **OBSERVATION** - The funding of the Water Bond Reserve Account had exceeded the necessary funding level at June 30, 2007.

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2. **RECOMMENDATION** - I recommend that the City transfer \$40,683.09 from the Water Bond Interest and Redemption account to the Water Bond Reserve account and then invest the entire proceeds in an investment that results in an increased earnings yield for the City. The amount stated above includes that amount transferred subsequent to the end of the fiscal year. Future funding of the Water Bond Reserve account can cease as the amount in the account now exceeds the necessary value stated in the Water Bond Ordinance.
3. **OBSERVATION** - The process of transferring data from the daily equipment sheets to the monthly hour summary revealed several errors. The process that is currently being used is manually completed, cumbersome and time consuming.

RECOMMENDATION - I recommend that the City evaluate the method that is currently being used and automate the process to yield timely, accurate and complete equipment rental information.

MATERIAL WEAKNESSES - None.

I would like to thank the City for allowing me to conduct the audit of the financial statements and I would especially like to thank Rich and Sandy for their assistance during the audit.

If the City would like my assistance in implementing any of the above recommendations or would like to discuss any of these items further, I am willing to assist you in any way that I can.


Certified Public Accountant

August 31, 2007