

Auditing Procedures Report

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

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Kalkaska	County Kalkaska
Fiscal Year End 2/28/2007	Opinion Date 8/28/2007	Date Audit Report Submitted to State 9/19/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Single audit		
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 731 South Garfield Ave		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

VILLAGE OF KALKASKA, MICHIGAN
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED FEBRUARY 28, 2007

TABLE OF CONTENTS

	<u>PAGE</u>
Management's Discussion and Analysis	1-6
Independent Auditor's Report	7-8
Basic Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Balance Sheets – Governmental Funds	11
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Funds	12
Statements of Revenues, Expenditures and Changes in Fund balance - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	14
Statement of Net Assets – Proprietary Funds	15
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	16
Statements of Cash Flows - Proprietary Funds	17-18
Statement of Fiduciary Net Assets	19
Notes to Financial Statements	20-39
Supplementary Data:	
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:	
General Fund	40
Major Street Fund	41
Local Street Fund	42
Notes to Required Supplementary Information	43

TABLE OF CONTENTS
(Continued)

	<u>PAGE</u>
Combining and Individual Fund Statements:	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund	44-45
Combining Balance Sheets – nonmajor governmental funds	46
Combining Statements of Revenues, Expenditures and Changes in Fund Balance - Nonmajor governmental funds	47
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Downtown Development Authority - A Component Unit	48
Schedule of Revenue Bonds Payable - 1996 Water Supply and Sewage Disposal System Revenue Bonds - Schedule A	49
Schedule of Water and Sewage Disposal System Revenue Bonds 1975 Issue - Schedule B	50
Schedule of General Obligation Bonds Payable - 1996 Downtown Development Bonds (Limited Tax General Obligation) - Schedule C	51
Schedule of Sewage Disposal System Revenue Bonds (Junior Lien) Series 2002	52
Report on compliance and on internal control over financial reporting based an audit of general purpose financial statements performed in accordance with <i>Government Auditing Standards</i>	53-54
Report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133	55-56
Schedule of expenditures of federal awards	57
Notes to schedule of expenditures of federal awards	58
Schedule of findings and questioned costs	59-60
Schedule of prior audit findings	61

Village of Kalkaska
Management's Discussion and Analysis
February 28, 2007

This section of Village of Kalkaska's annual financial report presents its discussion and analysis of the government's financial performance during the year ending February 28, 2007. In future years, this section will emphasize current-year results in comparison with the prior year. Please be advised that this report does not present some prior year data, for it was not readily available. The lack of prior year data is due to this reporting period being the first time the district implemented the reporting changes called for by GASB Statement No. 34.

Financial Highlights

The Village of Kalkaska utilized the 2006-07 fiscal year to improve the organization of its finances by carefully tracking receipts and expenditures throughout the year. The budget was amended numerous times to provide the Council with a clearer picture of where the Village was situated financially during the year. The Village adjusted its bank relationship by creating a new account set up that resulted in much higher interest received by the Village. The Village continued to review and expand the use of Certificates of Deposits to further protect and increase on savings.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Village of Kalkaska's basic financial statements. Village of Kalkaska's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Village of Kalkaska's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of Village of Kalkaska's assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Village of Kalkaska is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

Both the government-wide financial statements distinguish functions of Village of Kalkaska that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Village of Kalkaska include general government, public safety, health and welfare, recreation and culture and other services. The business-type activities of Village of Kalkaska include public and regional transportation, commissary inmate trust and purchasing of delinquent taxes.

Village of Kalkaska
Management's Discussion and Analysis
February 28, 2007

The government-wide financial statements include not only Village of Kalkaska itself (known as the primary government), but also the legally separate Downtown Development Authority for which Village of Kalkaska is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Kalkaska, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Village of Kalkaska can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows* and *outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments' near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Village of Kalkaska maintains 7 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, major street fund, local street fund and debt service fund, each of which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

Village of Kalkaska adopts an annual appropriated budget for its general and special revenue funds. A budgetary comparison statement has been provided for the general and special revenue funds to demonstrate compliance with this budget.

Proprietary funds. Village of Kalkaska maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. Village of Kalkaska uses enterprise funds to account for its Water and Sewer Funds

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for each enterprise funds, all of which are considered to be major funds of Village of Kalkaska.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Village of Kalkaska's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Village of Kalkaska
Management's Discussion and Analysis
February 28, 2007

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Kalkaska, assets exceeded liabilities by \$6,944,684 and \$6,267,728 as of February 28, 2007 and 2006.

A large portion of Village of Kalkaska's net assets is its investment in capital assets, less any debt to acquire those assets that is still outstanding. Village of Kalkaska uses these assets to provide services to citizens; consequently, these assets are not available for future spending. Although Village of Kalkaska's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from future operations, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF KALKASKA
NET ASSETS
FEBRUARY 28, 2007 AND 2006

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 781,567	\$ 1,309,253	\$ 2,090,820	\$ 616,610	\$ 2,022,881	\$ 2,639,491
Capital assets	<u>1,481,754</u>	<u>10,149,148</u>	<u>11,630,902</u>	<u>1,485,127</u>	<u>9,472,064</u>	<u>10,957,191</u>
Total assets	<u>\$ 2,263,321</u>	<u>\$ 11,458,401</u>	<u>\$ 13,721,722</u>	<u>\$ 2,101,737</u>	<u>\$ 11,494,945</u>	<u>\$ 13,596,682</u>
Long-term liabilities outstanding	\$ 117,933	\$ 5,924,573	\$ 6,042,506	\$ 135,065	\$ 6,306,669	\$ 6,441,734
Other liabilities	<u>317,764</u>	<u>416,768</u>	<u>514,701</u>	<u>347,002</u>	<u>540,218</u>	<u>887,220</u>
Total liabilities	<u>435,697</u>	<u>6,341,341</u>	<u>6,557,207</u>	<u>482,067</u>	<u>6,846,887</u>	<u>7,328,954</u>
Net assets:						
Invested in capital assets, net of related debt	1,352,518	3,582,916	4,935,434	1,330,062	3,059,395	4,389,457
Unrestricted	<u>475,106</u>	<u>1,534,144</u>	<u>2,009,250</u>	<u>289,608</u>	<u>1,588,663</u>	<u>1,878,271</u>
Total net assets	<u>1,827,624</u>	<u>5,117,060</u>	<u>6,944,684</u>	<u>1,619,670</u>	<u>4,648,058</u>	<u>6,267,728</u>
Total liabilities and net assets	<u>\$ 2,263,321</u>	<u>\$ 11,458,401</u>	<u>\$ 13,721,722</u>	<u>\$ 2,101,737</u>	<u>\$ 11,494,945</u>	<u>\$ 13,596,682</u>

The Village's net assets increased by \$676,956 during the 2006-07 fiscal year. This was due to receiving a \$1,200,000 capital grant for the construction of the iron removal plant.

**Village of Kalkaska
Management's Discussion and Analysis
February 28, 2007**

**VILLAGE OF KALKASKA
CHANGES IN NET ASSETS
FOR THE YEAR ENDED FEBRUARY 28, 2007 AND 2006**

	2007			2006		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 101,108	\$ 1,154,629	\$ 1,255,737	\$ 65,290	\$ 1,106,710	\$ 1,172,000
Operating grants and contributions	271,831		271,831	198,175		198,175
Capital grants and contributions		507,258	507,258		497,646	497,646
General revenues:						
Property taxes	644,007		644,007	632,830		632,830
State shared revenues	189,993		189,993	193,048		193,048
Investment earnings	51,561	15,047	66,608	75,677	9,092	84,769
Miscellaneous revenues	99,201	11,191	110,392	4,588	2,356	6,944
Gain on sale of assets	77,592		77,592	3,050	121,074	124,124
Total revenues	<u>1,435,293</u>	<u>1,688,125</u>	<u>3,123,418</u>	<u>1,172,658</u>	<u>1,736,878</u>	<u>2,909,536</u>
Expenses:						
Governmental activities:						
Judicial	63,267		63,267	51,492		51,492
General government	175,215		175,215	118,310		118,310
Public safety	550,553		550,553	484,600		484,600
Public works	329,567		329,567	351,380		351,380
Recreation	22,559		22,559	16,659		16,659
Other	78,796		78,796	67,781		67,781
Interest on long-term debt	7,825		7,825	9,363		9,363
Water fund		339,648	339,648		291,157	291,157
Sewer fund		863,475	863,475		827,267	827,267
Total expenses	<u>1,227,782</u>	<u>1,203,123</u>	<u>2,430,905</u>	<u>1,099,585</u>	<u>1,118,424</u>	<u>2,218,009</u>
Increase in net assets before transfers	<u>207,511</u>	<u>485,002</u>	<u>692,513</u>	<u>73,073</u>	<u>618,454</u>	<u>691,527</u>
Transfers in (out)	<u>443</u>	<u>(16,000)</u>	<u>(15,557)</u>	<u>(29,000)</u>		<u>(29,000)</u>
Increase (decrease) in net assets	<u>207,954</u>	<u>469,002</u>	<u>676,956</u>	<u>44,073</u>	<u>618,454</u>	<u>662,527</u>
Net assets, beginning	<u>1,619,670</u>	<u>4,648,058</u>	<u>6,267,728</u>	<u>1,575,597</u>	<u>4,029,604</u>	<u>5,605,201</u>
Net assets, ending	<u>\$ 1,827,624</u>	<u>\$ 5,117,060</u>	<u>\$ 6,944,684</u>	<u>\$ 1,619,670</u>	<u>\$ 4,648,058</u>	<u>\$ 6,267,728</u>

The Village sold a building during the year resulting in a gain of \$77,592. Also, the Village completed the iron removal plant and water main replacement which it received a \$507,258 capital grant to complete the project.

Financial Analysis of the Government's Funds

As noted earlier, Village of Kalkaska uses fund accounting to insure and demonstrate compliance with finance-related requirements.

Governmental funds. The focus of Village of Kalkaska's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing Village of Kalkaska's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of February 28, 2007, Village of Kalkaska's governmental funds reported combined ending fund balances of \$427,397. Approximately 95% of this total constitutes unreserved fund balance, which is available for spending at Village of Kalkaska's discretion. The remainder of the fund balance is reserved for specific commitments.

The general fund is the chief operating fund of Village of Kalkaska. As of February 28, 2007, unreserved fund balance of the general fund was \$(197,617). This negative fund balance was the result of purchasing a new office building for the Village offices in the year ended February 28, 2006.

The fund balance of Village of Kalkaska's general fund increased by \$222,307 during the current fiscal year. Key factors in this increase are as follows:

The Village sold a building and received \$82,838. Tax revenues increased by \$11,177. Money was set aside for future health insurance premium payments. And the Village increased its share of the payments for employee retirement accounts to the Municipal Employees Retirement System.

Proprietary funds. Village of Kalkaska's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the proprietary funds at February 28, 2007 were \$1,315,692.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$92,570 increase in appropriations) and can be briefly summarized as follows:

Funds were appropriated for future health insurance premiums. There was an increase in Medicare insurance reimbursements. There was an increase in the reimbursements for prescriptions.

**Village of Kalkaska
Management's Discussion and Analysis
February 28, 2007**

Capital Asset and Debt Administration

Capital assets. Village of Kalkaska's investment in capital assets for its governmental and business type activities as of February 28, 2007, amounts to \$11,339,182 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

The Village completed the iron removal plant and water main replacements project \$1,194,047

Long-term debt. At February 28, 2007, Village of Kalkaska had total bonded debt outstanding of \$6,112,000 and notes payable of \$247,865.

Major debt transactions during the current fiscal year included the following:

The Village has a long-term loan for the Clean Water Plant. Repayment of a loan for construction of the IDC II Park was to start in May, 2007. The Village made principle payment on bonds of \$126,000.

Economic Factors and Next Years Budgets and Rates

The 2007-07 budget was prepared with a slight increase in income due to development activity and property taxes. Plans to reduce health care costs are underway, and all expenditures are examined to verify their need to fulfill the mission of the Village.

Requests for Information

This financial report is designed to provide a general overview of Village of Kalkaska's finances for all those with an interest in the government's finances. Questions concerning any of the financial information should be addressed to the Village Manager, 200 Hyde Street, Kalkaska, MI 49646.



HARRIS GROUP

Certified Public Accountants

Independent Auditor's Report

Members of the Village Council
Village of Kalkaska
Kalkaska, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Kalkaska management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Kalkaska, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2007 on our consideration of the Village of Kalkaska's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377
www.harrisgroupecpa.com

Village of Kalkaska
Independent Auditor's Report

The managements discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally if inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Kalkaska's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants
August 28, 2007

FINANCIAL SECTION

**VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
FEBRUARY 28, 2007**

	Governmental Activities	Business-type Activities	Total	Component Unit Downtown Development Authority
ASSETS				
Cash	\$ 532,335	\$ 970,163	\$ 1,502,498	\$ 480,514
Taxes receivable	45,943		45,943	51
Accounts receivable	804	93,181	93,985	
Due from other governmental units	8,869		8,869	51,097
Due from State	171,397		171,397	
Inventories of supplies	1,618	8,013	9,631	
Prepaid expenses	20,601	19,434	40,035	
Restricted assets – cash		218,462	218,462	
Total Current Assets	781,567	1,309,253	2,090,820	531,662
Capital asset, net of accumulated depreciation	1,481,754	9,857,428	11,339,182	
Construction in progress		33,020	33,020	
Due from other funds		258,700	258,700	
TOTAL ASSETS	\$ 2,263,321	\$ 11,458,401	\$ 13,721,722	\$ 531,662
LIABILITIES:				
Accounts payable	\$ 7,638	\$ 16,673	\$ 24,311	\$
Checks written in excess of deposits	971		971	
Current portion of bonds and notes payable	26,951	123,000	149,951	
Accrued liabilities	20,439	48,466	68,905	30
Due to other governmental units				
Accrued sick and vacation	49,649		49,649	
Deferred revenues				40
Notes payable	12,285	228,629	247,865	
TOTAL LIABILITIES	117,933	416,768	514,701	70
Non-current liabilities				
Bonds payable	90,000	5,879,000	5,989,000	
Capital lease payable		45,573	45,573	
Due to other funds	227,764		227,764	
TOTAL NON-CURRENT LIABILITIES	317,764	5,924,573	6,262,337	
NET ASSETS:				
Invested in capital assets, net of related debt	1,352,518	3,582,916	4,935,434	
Net assets:				
Unreserved	475,106	1,534,144	2,009,250	531,592
TOTAL FUND EQUITY	1,827,624	5,117,060	6,944,684	531,592
TOTAL LIABILITIES & NET ASSETS	\$ 2,263,321	\$ 11,458,401	\$ 13,721,722	\$ 531,662

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
Legislative	\$ 63,267	\$	\$	\$
General government	175,215	35,915		
Public safety	550,553	42,778	1,188	
Public works	329,567	18,616	270,643	
Recreation	22,559	3,799		
Other	78,796			
Interest on long term debt	7,825			
Total governmental activities	<u>1,227,782</u>	<u>101,108</u>	<u>271,831</u>	
Business-type activities:				
Water fund	339,648	401,436		507,258
Sewer fund	863,475	753,193		
Total business-type activities	<u>1,203,123</u>	<u>1,154,629</u>		<u>507,258</u>
Total primary government	<u>\$ 2,430,905</u>	<u>\$ 1,255,737</u>	<u>\$ 271,831</u>	<u>\$ 507,258</u>
Component units:				
Downtown Development Authority	<u>\$ 15,375</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

General Revenues:

Property Taxes – general purposes
Property Taxes – debt
State Shared Revenue
Unrestricted investment earnings
Miscellaneous revenues
Gain on sale of fixed assets
Transfers

Total general revenues and transfers

Change in net assets

Net assets – beginning

Net assets – ending

The accompanying notes are an integral part of these statements.

Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	Downtown Development Authority
\$ (63,267)	\$	\$ (63,267)	\$
(139,300)		(139,300)	
(506,587)		(506,587)	
(40,308)		(40,308)	
(18,760)		(18,760)	
(78,796)		(78,796)	
(7,825)		(7,825)	
<u>(854,843)</u>		<u>(854,843)</u>	
	569,046	569,046	
	<u>(110,282)</u>	<u>(110,282)</u>	
	458,764	458,764	
<u>\$ (854,843)</u>	<u>\$ 458,764</u>	<u>\$ (396,079)</u>	
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (15,375)</u>
623,436		623,436	130,656
20,571		20,571	
189,993		189,993	
51,561	15,047	66,608	5
99,201	11,191	110,392	180
77,592		77,592	
443	(16,000)	(15,557)	(16,443)
<u>1,062,797</u>	<u>10,238</u>	<u>1,073,035</u>	<u>114,398</u>
207,954	469,002	676,956	99,023
<u>1,619,670</u>	<u>4,648,058</u>	<u>6,267,728</u>	<u>432,569</u>
<u>\$ 1,827,624</u>	<u>\$ 5,117,060</u>	<u>\$ 6,944,684</u>	<u>\$ 531,592</u>

**VILLAGE OF KALKASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
FEBRUARY 28 2007**

	<u>General Fund</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash	\$ 195,421	\$ 167,652	\$ 45,477	\$	\$ 29,768	\$ 438,318
Receivables:						
Taxes	43,072		2,871			45,943
Due from:						
Other governmental units				8,869		8,869
State	59,309	66,639	45,449			171,397
Other funds	31,536	156,820	103,880		346	292,582
Employees	282					282
Other					520	520
Inventory of supplies	1,618					1,618
Prepaid expenses	13,075	1,313	963			15,351
TOTAL ASSETS	<u>\$ 344,313</u>	<u>\$ 392,424</u>	<u>\$ 198,640</u>	<u>\$ 8,869</u>	<u>\$ 30,634</u>	<u>\$ 974,880</u>
LIABILITIES & FUND EQUITY						
LIABILITIES:						
Accounts payable	\$ 6,367	\$	\$ 92	\$	\$	\$ 6,459
Checks written in excess of deposits				971		971
Accrued liabilities	15,217	2,139	2,351			19,707
Due to other funds	519,996					519,996
Due to other governmental units	350					350
Deferred revenue						
TOTAL LIABILITIES	<u>541,930</u>	<u>2,139</u>	<u>2,443</u>	<u>971</u>		<u>547,483</u>
FUND EQUITY:						
Fund balances:						
Reserved for inventory	1,618					1,618
Reserved for debt service				7,898		7,898
Reserved for prepaid expenses	13,075	1,313	963			15,351
Unreserved:						
Undesignated	(212,310)	388,972	195,234		30,634	402,530
TOTAL FUND EQUITY	<u>(197,617)</u>	<u>390,285</u>	<u>196,197</u>	<u>7,898</u>	<u>30,634</u>	<u>427,397</u>
TOTAL LIABILITIES & FUND EQUITY	<u>\$ 344,313</u>	<u>\$ 392,424</u>	<u>\$ 198,640</u>	<u>\$ 8,869</u>	<u>\$ 30,634</u>	<u>\$ 974,880</u>

The accompanying notes are an integral part of these statements.

VILLAGE OF KALKASKA
RECONCILIATION OF TOTAL GOVERNMENT FUND BALANCE
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
FEBRUARY 28, 2007

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

Total Governmental Fund Balances	\$	427,397
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Capital assets		2,733,478
Accumulated depreciation		(1,251,724)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets		
		97,358
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Notes payable		(110,000)
Bonds payable		(19,236)
Accrued sick and vacation pay		(49,649)
		(178,885)
Net Assets of Governmental Activities	\$	1,827,624

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	General Fund	Major Street	Local Street	Debt Service	Other Governmental Funds	Total
REVENUES:						
Taxes	\$ 584,247	\$	\$ 39,189	\$ 20,571	\$	\$ 644,007
Licenses and permits	3,421					3,421
State grants	189,993	183,486	87,157		1,188	461,824
Contributions from local units	77,759					77,759
Charges for services	14,539	4,137	2,319			20,995
Fines	37,544					37,544
Interest, rents, royalties	84,474	8,429	6,743			99,646
Other	345					345
TOTAL REVENUES	<u>992,322</u>	<u>196,052</u>	<u>135,408</u>	<u>20,571</u>	<u>1,188</u>	<u>1,345,541</u>
EXPENDITURES:						
Current:						
Legislative	61,616					61,616
General government	153,771					153,771
Public safety	508,031				775	508,806
Public works	96,697	144,641	108,949			350,287
Recreation	21,981					21,981
Other	76,400					76,400
Debt service:						
Principal	5,829			20,000		25,829
Interest	1,122			6,703		7,825
TOTAL EXPENDITURES	<u>925,447</u>	<u>144,641</u>	<u>108,949</u>	<u>26,703</u>	<u>775</u>	<u>1,206,515</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>66,875</u>	<u>51,411</u>	<u>26,459</u>	<u>(6,132)</u>	<u>413</u>	<u>139,026</u>
OTHER FINANCING SOURCES (USES):						
Sale of village property	82,838					82,838
Operating transfers in (out)	(10,000)	(3,000)	(3,000)	16,443		443
TOTAL OTHER FINANCING SOURCES (USES)	<u>72,838</u>	<u>(3,000)</u>	<u>(3,000)</u>	<u>16,443</u>		<u>83,281</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER FINANCIAL USES	139,713	48,411	23,459	10,311	413	222,307
FUND BALANCE, beginning	<u>(337,330)</u>	<u>341,874</u>	<u>172,738</u>	<u>(2,413)</u>	<u>30,221</u>	<u>205,090</u>
FUND BALANCE, ending	<u>\$ (197,617)</u>	<u>\$ 390,285</u>	<u>\$ 196,197</u>	<u>\$ 7,898</u>	<u>\$ 30,634</u>	<u>\$ 427,397</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2007**

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

Net change in fund balance – total governmental funds	\$	222,307
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay recorded as a capital expense		89,503
Depreciation recorded as an expense		(68,138)
Internal service funds are used by management to charge the costs of fleet management to individual funds. The net revenue of certain activities of internal service funds is reported with Governmental activities		
		(6,652)
Repayment of bond and note principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		
		25,829
Governmental funds measure termination benefits when paid, in the statement of activities these benefits are measured on a yearly basis.		
		(49,649)
Governmental funds report sales of assets as other financing sources, in the statement of activities the basis of the item sold is adjusted to reflect the net book value		
		(5,246)
Change in net assets of governmental activities	\$	207,954

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FEBRUARY 28, 2007**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
ASSETS				
Cash	\$ 129,014	\$ 841,149	\$ 970,163	\$ 94,017
Accounts receivable	22,506	70,675	93,181	
Due from other funds		258,700	258,700	
Inventory of supplies	5,260	2,753	8,013	
Prepaid expenses	3,647	15,787	19,434	5,250
Restricted Assets:				
Cash	103,266	115,196	218,462	
Land		87,934	87,934	
Buildings		62,661	62,661	
Construction work in progress		33,020	33,020	
Improvements other than buildings	4,369,621	8,300,462	12,670,083	
Machinery and equipment	34,400	191,623	226,023	489,021
Accumulated depreciation	(1,312,397)	(1,876,876)	(3,189,273)	(350,676)
TOTAL ASSETS	\$ 3,355,317	\$ 8,103,084	\$ 11,458,401	\$ 237,612
LIABILITIES & FUND EQUITY				
LIABILITIES:				
Accounts payable	\$ 7,210	\$ 9,463	\$ 16,673	\$ 1,179
Accrued liabilities	6,181	42,285	48,466	731
Due to other funds				
Notes payable	68,783	159,846	228,629	
Capital lease payable		45,573	45,573	
Bonds payable – short term	38,500	84,500	123,000	
Revenue bonds payable	361,500	5,517,500	5,879,000	
TOTAL LIABILITIES	482,174	5,859,167	6,341,341	1,910
NET ASSETS:				
Invested in capital assets – net of related debt	2,622,841	960,075	3,582,916	138,345
Restricted for debt service	103,266	115,196	218,462	
Unrestricted	147,036	1,168,646	1,315,682	97,357
TOTAL NET ASSETS	2,873,143	2,243,917	5,117,060	235,702
TOTAL LIABILITIES & NET ASSETS	\$ 3,355,317	\$ 8,103,084	\$ 11,458,401	\$ 237,612

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
OPERATING REVENUES:				
Charges for services	\$ 401,436	\$ 753,193	\$ 1,154,629	\$ 103,005
Interest	3,429	11,618	15,047	
TOTAL OPERATING REVENUES	<u>404,865</u>	<u>764,811</u>	<u>1,169,676</u>	<u>103,005</u>
OPERATING EXPENSES				
Personal services	165,775	104,630	270,405	40,893
Contractual services	15,226	273,756	288,982	8,413
Supplies	5,368	3,094	8,462	16,458
Materials	14,489	2,663	17,152	
Heat, light, and maintenance	22,719	6,287	29,006	
Repairs and maintenance	6,122	25,512	31,634	15,662
Equipment rental	6,642		6,642	
Depreciation	81,915	179,781	261,696	28,231
TOTAL OPERATING EXPENSES	<u>318,256</u>	<u>595,723</u>	<u>913,979</u>	<u>109,657</u>
OPERATING INCOME (LOSS)	<u>86,609</u>	<u>169,088</u>	<u>255,697</u>	<u>(6,652)</u>
NON-OPERATING INCOME (EXPENSES):				
Interest and fiscal charges	(21,392)	(267,752)	(289,144)	
Grant revenue	507,258		507,258	
Other revenue	2,661	8,530	11,191	
Transfers to other funds	(8,000)	(8,000)	(16,000)	
TOTAL NON-OPERATING INCOME (EXPENSES)	<u>480,527</u>	<u>(267,222)</u>	<u>213,305</u>	
CHANGE IN NET ASSETS	567,136	(98,134)	469,002	(6,652)
NET ASSETS, beginning	<u>2,306,007</u>	<u>2,342,051</u>	<u>4,648,058</u>	<u>242,354</u>
NET ASSETS, ending	<u>\$ 2,873,143</u>	<u>\$ 2,243,917</u>	<u>\$ 5,117,060</u>	<u>\$ 235,702</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
Cash Flows From Operating Activities:				
Other revenues and grants	\$ 7,565	\$ 8,530	\$ 16,095	\$
Cash received from customers	402,602	751,895	1,154,497	103,005
Cash paid to suppliers and employees	(540,490)	(480,029)	(1,020,519)	(84,480)
Net Cash Provided By Operating Activities	<u>(130,323)</u>	<u>280,396</u>	<u>150,073</u>	<u>18,525</u>
Cash Flows From Capital And Related Financing Activities:				
Principal paid on long-term debt	(31,400)	(105,067)	(136,467)	
Principal received on long-term debt				
Capital Grants	502,354		502,354	
Interest paid on long-term debt	(21,392)	(267,752)	(289,144)	(8,740)
Acquisition of plant	(678,389)	(1,692)	(680,081)	
Increase in restricted cash – bond covenant	(29,414)	(491)	(29,905)	
Transfers to other funds	(8,000)	(2,700)	(10,700)	
Net Cash (Used In) Capital And Related Financing Activities	<u>(266,241)</u>	<u>(377,702)</u>	<u>(643,943)</u>	<u>(8,740)</u>
Cash Flows From Investing Activities:				
Interest on investments	3,429	11,618	15,047	
Net Cash Provided By Investing Activities	<u>3,429</u>	<u>11,618</u>	<u>15,047</u>	
Net Increase (Decrease) in Cash & Cash Equivalents	(393,135)	(85,688)	(478,823)	9,785
Cash & Cash Equivalents, beginning	522,149	926,837	1,448,986	84,232
Cash & Cash Equivalents, ending	<u>\$ 129,014</u>	<u>\$ 841,149</u>	<u>\$ 970,163</u>	<u>\$ 94,017</u>

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2007
(Continued)**

	Business-type Activities – Enterprise Funds			Governmental Activities - Internal Service Fund
	Water Fund	Sewer Fund	Total	Equipment
Reconciliation of Net Operating Income to Net Cash				
Provided By Operating Activities:				
Net Operating Income (Loss)	\$ 86,609	\$ 169,088	\$ 255,697	\$ (6,652)
Adjustments to Reconcile Net Operating Income to Net				
Cash Provided by Operating Activities:				
Depreciation	81,915	179,781	261,696	28,231
Other revenue and grants	7,565	8,530	16,095	
Decrease (increase) in:				
Receivables	1,166	(1,298)	(132)	
Inventories	847	847	1,694	
Prepaid expenses	(2,203)	1,351	(852)	218
Increase (decrease) in:				
Accounts payable and accrued liabilities	(302,793)	(66,285)	(369,078)	(3,272)
Interest Income classified as an investing activity	(3,429)	(11,618)	(15,047)	
Net Cash Provided By Operating Activities	\$ (130,323)	\$ 280,396	\$ 150,073	\$ 18,525

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
FEBRUARY 28, 2007**

	Post Retirement Benefit Fund
ASSETS	
Cash	\$ 381,342
Amounts to be provided by other funds	
TOTAL ASSETS	\$ 381,342
LIABILITIES	
Due to other funds	\$ 31,286
Amount provided by other funds for retiree insurance	350,056
TOTAL LIABILITIES	\$ 381,342

The accompanying notes are an integral part of these statements.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Introduction

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

B. Reporting Entity

The Village of Kalkaska was organized in 1887 and covers an area of approximately two square miles. The Village operates under an elected Council (7 members) and provides services to its more than 2,552 residents in many areas including law enforcement, street development and maintenance, parks and sewer and water services.

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the Village's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Village and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Village and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, no required organizations have been omitted from these financial statements.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Government-wide and fund financial statements

The government-wide financial 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 the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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 enterprise funds are reported as separate columns in the fund financial statements.

D. Measurement Focus, Basis of Accounting and Basis of 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

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

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

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued

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 Village, except those required to be accounted for in another fund.

The *major street fund* accounts for the maintenance and construction of the major street system.

The *local street fund* accounts for the maintenance and construction of the local street system.

The *debt service fund* reports the activities of Downtown Development Authority Bonds which the Village has a legal responsibility for repayment.

The government reports the following major proprietary funds:

The *Water fund* accounts for the revenue and expenses of operating the Village's water distribution system.

The *Sewer fund* accounts for the revenue and expenses of operating the Village's sewer collection system.

Additionally, the government reports the following fund types:

The *internal service fund* is established for the financing of goods and services provided by one department to other departments of the Village on a cost reimbursement basis. The Village's Equipment Fund is an Internal Service Fund.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Measurement Focus, Basis of Accounting and Basis of Presentation - continued

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues 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 revenues of the governments enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

E. Budgets

Annual operating budgets are adopted by the Village Council for the General, Special Revenue and Debt Service Funds in accordance with Public Act 621 of 1978.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. At the first meeting in February, the Village Manager submits to the Village Council a proposed operating budget for the year commencing the following March 1st. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- b. Public hearings are conducted at the Village Offices to obtain taxpayer comments.
- c. Prior to February 28, the budget is legally enacted on a departmental (activity) basis through passage of a resolution.
- d. The President or their designee is authorized to transfer budgeted amounts within departmental appropriation accounts, however, any revisions that alter the total expenditures of any department must be approved by the Village Council.
- e. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
- f. Budget appropriations lapse at year end.
- g. The original budget was amended during the year in compliance with the Village procedures and applicable state laws. The budget to actual expenditures in the financial statements represent the amended budgetary expenditures of the Village Council.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Encumbrance System

The Village does not use an encumbrance system.

G. Assets and Liabilities

1. Cash and investments

Michigan Compiled Laws, Section 129.91, authorizes the Village of Kalkaska to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involve no more than 50 percent of any one fund; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council Board has designated one bank for the deposit of Village funds.

The Village's deposits and investments are in accordance with statutory authority.

2. Accounts Receivable

It is the Village's policy to place delinquent sewer and water bills on the tax rolls on an annual basis.

3. Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

4. Utility Plant In Service and Depreciation

Utility plant in service of the Enterprise Fund is stated at cost. Depreciation is computed over the estimated useful life of the assets using the straight-line method.

5. Internal Service Fund Equipment and Depreciation

Equipment in service of the Internal Service Fund is stated at cost. Depreciation is computer over the estimated useful life of the assets using the straight-line method.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G. Assets and Liabilities

6. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Donated fixed assets are stated at their fair market value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

The accounting and financial reporting treatment of a funds is determined by its measurement focus. General capital assets are long-lived assets of the Village as a whole. Infrastructure such as streets, traffic signals and signs will be capitalized on a prospective basis. The valuation basis for the general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement costs.

Proprietary fund fixed assets are recorded in the respective funds and depreciated using the straight-line method.

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

Lift Station	10
Water System	20 – 50
Sewer	25 – 50
Furniture, fixtures, & equipment	5 – 40
Buildings	45
Infrastructure	50
Vehicles	10

7. Capitalization of Interest on Fixed Assets

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. As of February 28, 2007, no interest has been capitalized.

H. Allowance for Doubtful Accounts

The Village does not use an allowance for doubtful accounts. Any uncollected amount is included in the residents tax billing.

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

I. Accumulated Unpaid Sick Pay Benefit Amounts

The Village maintains a policy providing sick pay benefits for its employees. Accrued sick pay is being reported in the Trust and Agency Fund. Annually, the operating funds of the Village will fund any change in this liability.

J. Fund Balance Reserve

The Fund Balance Reserve, in the fund basis statements, reflects an offset for inventories and prepaid expenses. Under the modified accrual basis of accounting when inventories and prepaid expenses are reported on the financial statements, they are to be equally offset by a fund balance reserve account. This indicates that even though inventories and prepaid expenses are a component of net current assets, they do not represent an "available spendable resource." The fund balance reserves for the various restricted assets indicates that these restricted assets, reported on the financial statements, are designated by the Village Council for a specific use and, therefore, are not an "available spendable resource."

K. Retained Earnings Reserve

Retained earnings reserve for restricted assets represent funds or resources that have also been designated by the Village Council for a particular use.

L. Post Retirement Benefits

The Village has entered into an arrangement with its employees by which medical benefits will be provided to the employees after retirement. All of the full-time Village employees are eligible to participate and are participating in the plan. The Village is setting aside funds in a Trust and Agency Fund annually to provide monies for this future cost. As of February 28, 2007, there were five employees and two spouses of former employees eligible under the plan. The estimated liability to the Village had not been calculated. Funds available in the Trust and Agency Fund are \$381,342 as of February 28, 2007.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statement, the Village's actual expenditures and budget expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

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

Fund	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund:			
Debt Service:			
Interest	\$ 1,073	\$ 1,122	\$ 49
Operating transfers out	-	10,000	10,000
Major Street Fund			
Operating transfers out	-	3,000	3,000
Local Street Fund			
Winter Maintenance	26,662	28,202	1,540
Operating transfers out	-	3,000	3,000

Deficit fund equity

The following funds have a deficit fund balance as of February 28, 2007:

General Fund	\$197,617
--------------	-----------

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS

A. Assets

1. Deposits and Investments

At year end, the Village's deposits and investments were reported in the basis financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash	\$ 438,318	\$ 1,064,180	\$ 381,342	\$ 1,883,840	\$ 480,514
Cash - restricted		218,462		218,462	
Checks written in excess of deposits	(971)			(971)	
 Total Deposits	 <u>\$ 437,347</u>	 <u>\$ 1,282,642</u>	 <u>\$ 381,342</u>	 <u>\$ 2,101,331</u>	 <u>\$ 480,514</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

1. Deposits and Investments - Continued

Cash and deposits are recorded in the financial statements as follows:

	Primary Government	Component Units
Bank deposits	\$ 1,288,796	\$ 480,514
Certificates of deposit	812,535	
Total cash and deposits	\$ 2,101,331	\$ 480,514

At year-end, the carrying amount of the Village's deposits were \$1,768,536 and the bank balance was \$1,785,631 of which \$300,000 was covered by federal depository insurance and \$1,485,631 was uninsured and uncollateralized. The component units deposits are pooled with the primary government to maximize investment earnings.

Interest Rate Risk – The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State statutes authorize the Village to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Village is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The Village has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Village places no limit on the amount it may invest in any one issuer.

Restricted cash in the Enterprise Fund in the amount of \$218,462 represents cash restricted to meet bond covenants and future asset purchases.

For purposes of the statement of cash flows, the Village considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

2. Property Taxes Receivable and Property Tax Calendar

	<u>Mills</u>	<u>Adjusted Levy</u>	<u>Collections</u>	<u>Delinquent Real</u>	<u>Unpaid Personal</u>
Village -					
General	11.25	\$ 654,189	\$ 521,360	\$ 89,757	\$ 43,072
Streets	0.75	43,607	34,753	5,983	2,871
Downtown Development Authority	1.00	17,820	15,753	2,017	50

Details of the property tax calendar are as follows:

Levy date:	December 31 st of prior year
Lien date:	July 1 st
Due date:	July 1 st
Collection date:	July 1 st through September 14 th

On September 15th, the Village Treasurer turns the delinquent real taxes over to the County Treasurer for collection. Uncollected taxes as of September 14th of each year are purchased by the County tax revolving fund and paid to the Village in October of each year.

Property tax revenues are recognized in the fiscal year for which they have been levied and become available. Available means when due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay current period liabilities. The current period referred to here is a period of time not exceeding 60 days.

The Village's Taxable Value is presented in detail below:

	<u>Village Taxable Value</u>
Real Property	45,583,025
Personal Property	11,111,100
Downtown Development Authority	17,801,438

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Capital Assets

A summary of the changes in the capital assets of the primary government follows:

Primary Government	<u>Balance 2/28/06</u>	<u>Increases</u>	<u>Decreases/ Transfers</u>	<u>Balance 2/28/07</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 41,421	\$	\$	\$ 41,421
Total capital assets not being depreciated	<u>41,421</u>			<u>41,421</u>
Capital assets, being depreciated				
Buildings	666,071	8,028		674,099
Improvements – land and buildings	929,923		5,920	924,003
Equipment and vehicles	959,012	16,215		975,227
Infrastructure	44,728	74,000		118,728
Total capital assets being depreciated	<u>2,599,734</u>	<u>98,243</u>	<u>5,920</u>	<u>2,692,057</u>
Less accumulated depreciation for:				
Buildings	74,273	13,404		87,677
Improvements – land and buildings	345,285	30,965	674	375,576
Equipment and vehicles	735,303	50,983		786,286
Infrastructure	1,167	1,018		2,185
Total accumulated depreciation	<u>1,156,028</u>	<u>96,370</u>	<u>674</u>	<u>1,251,724</u>
Total capital assets, being depreciated, net	<u>1,443,706</u>	<u>1,873</u>	<u>5,246</u>	<u>1,440,333</u>
Governmental activities capital assets, net	<u>\$ 1,485,127</u>	<u>\$ 1,873</u>	<u>\$ 5,246</u>	<u>\$ 1,481,754</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

A. Assets - Continued

3. Capital Assets - continued

	Balance 2/28/06	Increases/ Transfers	Decreases/ Transfers	Balance 2/28/07
Business-type activities:				
Capital assets, not being depreciated				
Land	87,934			87,934
Construction in progress	546,988	1,690	546,988	1,690
Total capital assets not being depreciated	634,922	1,690	546,988	89,624
Capital assets, being depreciated				
Buildings	62,661			62,661
Improvements – land and buildings	11,476,035	1,194,048		12,670,083
Equipment and vehicles	226,023			226,023
Total capital assets being depreciated	11,764,719	1,194,048		12,958,767
Less accumulated depreciation for:				
Buildings	33,430	1,393		34,823
Improvements – land and buildings	2,706,242	252,776		2,959,018
Equipment and vehicles	187,905	7,527		195,432
Total accumulated depreciation	2,927,577	261,696		3,189,273
Total capital assets, being depreciated, net	8,837,142	932,352		9,769,494
Business-type activities capital assets, net	\$ 9,472,064	934,042	546,988	9,859,118

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

Governmental Activities:	
Legislative	\$ 1,651
General government	17,370
Public Safety	28,695
Public works	45,680
Recreation	578
Other	2,396
Total depreciation expense – governmental activities	\$ 96,370
Business-type activities:	
Water fund	\$ 81,915
Sewer fund	179,781
Total depreciation expense – business-type	\$ 261,696

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities

1. Bonds Payable

Bonds payable at February 28, 2007 are as follows:

Governmental activities:

Downtown Development General Obligation Bonds Payable Series 1996 bearing interest from 5.10% to 7.00% and maturing on September 1, 2011	<u><u>\$ 110,000</u></u>
--	--------------------------

Business-type activities:

Water Supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest at 5% and maturing on January 1 st of each Year until 2015	\$ 455,000
Water supply and Sewage Disposal System Revenue Bonds – 1996 Issue bearing interest from 3.25% to 7.20% and maturing on January 1 st of each year until 2016	510,000
Sewage Disposal System Revenue Bonds Series 2002. Interest at 4.5% and maturing in 2042	<u>5,037,000</u>
	6,002,000
Less Current Maturities	<u>123,000</u>
Total Business-type activities	<u><u>\$ 5,879,000</u></u>

The annual requirements to amortize long-term obligations outstanding as of February 28, 2007 are as follows:

Year ending February 28,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 20,000	\$ 6,162	\$ 123,000	\$ 275,070
2009	20,000	5,082	125,000	268,490
2010	20,000	3,982	137,000	261,780
2011	25,000	2,862	139,000	254,890
2012	25,000	1,438	151,000	247,910
2013-2017			787,000	1,125,776
2018-2022			675,000	964,128
2023-2027			800,000	801,002
2028-2032			925,000	609,752
2033-2037			1,040,000	390,602
2038-2042			<u>1,100,000</u>	<u>150,302</u>
	<u>\$ 110,000</u>	<u>\$ 19,526</u>	<u>\$ 6,002,000</u>	<u>\$ 5,349,702</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities – Continued

1. Bonds Payable - continued

For the 1996 Issue, Bond Ordinance No. A-26 requires a quarterly payment to be deposited in a special bond redemption fund until the sum of \$80,000 has been attained and additional quarterly deposits in a bond and interest redemption fund account to cover current principal and interest maturities. The Village currently has \$103,266 in this account.

For the 1996 Issue, Bond Ordinance No. 432 and all provisions of Ordinance No. A-26, except that in the event the Outstanding Bonds are no longer outstanding the provisions requiring the consent of Farmers Home Administration no longer apply. Bond ordinance No. A-26 requires the Bond Reserve Account be further increased by the quarterly deposit of funds beginning July 1, 1996 and ending April 1, 2007 until another sum of \$80,000 has been attained. The Village currently has \$115,196 in this account.

Changes in bonds payable were as follows:

	<u>Balance 2/28/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2/28/07</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
1996 Downtown Development Bonds (Limited Tax General Obligation Bonds)	\$ 130,000	\$	\$ 20,000	\$ 110,000	\$ 20,000
<u>Business-type Activities:</u>					
1996 Water Supply and Sewage Disposal Revenue Bonds	\$ 490,000	\$	\$ 35,000	\$ 455,000	\$ 40,000
1996 Water Supply and Sewage Disposal Revenue Bonds	560,000		50,000	510,000	55,000
2003 Sewage Disposal System Revenue Bonds	5,063,000		26,000	5,037,000	28,000
	<u>\$ 6,113,000</u>	<u>\$</u>	<u>\$ 111,000</u>	<u>\$ 6,002,000</u>	<u>\$ 123,000</u>

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities – Continued

2. Notes Payable

Governmental Activities:

Note payable – Michigan Department of Transportation, annual Payments of \$6,951, including interest at 4.41%. Matures July 2009	\$ 19,236
---	-----------

Business-type Activities:

Note payable – Michigan Economic Development Corporation, The Village can earn credits of \$3,323 toward the repayment of the loan for each new job created within the Kalkaska Industrial Park through February 28, 2007. Credits may not exceed 50% of the loan balance plus accrued interest. Interest accrues at 5%. Principal and interest payments commence on May 1, 2007. As of February 28, 2007, no Credits have been earned.	206,350
---	---------

Note payable – Kalkaska County Industrial Development Corporation, repayment based on sale of lots in the Kalkaska Industrial Park. Upon the sale of each lot 30% of the net proceeds shall be paid to the mortgagor until 70% of the purchase price has been paid, then 100% of the net sale price shall be paid to the mortgagor until paid in full. There will be no interest charged on any part of the unpaid balance	22,279
	\$ 228,629

The Note payable – MEDC does not amortize until May 1, 2007. Note payable (Michigan Department of Transportation) matures as follows:

2008	\$	6,091
2009		6,365
2010		6,780
	\$	19,236

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

B. Liabilities - continued

3. Capital lease payable

The Village has one capital lease payable outstanding as of February 28, 2007. The amortization expense is reported with depreciation expense in the Sewer Fund. The asset is reported with the Sewer fund Improvements.

Assets under capital lease payable	\$ 124,430
Accumulated amortization as of 2/28/06	<u>22,812</u>
Net assets under capital lease	<u>\$ 101,618</u>

The liability for the capital lease is recorded in the Sewer fund.

Capital lease payable	<u>\$ 45,573</u>
Future minimum lease payments are as follows:	
2008	\$ 29,120
2009	16,453

4. Risk management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical benefits claims and participates in the Michigan Municipal League & Property Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation.

This policy complies with Act 294, P.A. 1972, as amended.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: DETAILED NOTES ON FUNDS AND ACCOUNT GROUPS - Continued

C. Interfund Transactions

Following is a description of the basic types of interfund transactions made during the year and the related accounting policy:

Transactions for services rendered or facilities provided; these transactions are recorded as revenue in the receiving fund and expenditures in the disbursing fund.

Transactions to transfer revenue or contributions from the fund budgeted to receive them to the fund budgeted to expend them; these transactions are recorded as transfers in and transfers out.

Interfund receivables or payables as of February 28, 2007 were as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 31,536	\$ 519,996
Major Street Fund	156,820	
Local Street Fund	103,880	
Justice Training Fund	346	
Sewer Fund	258,700	
Post Retirement Benefit Fund		31,286
	\$ 551,282	\$ 551,282

Amounts in the general fund due to the Local Street, Major Street and Sewer Funds will be repaid to those funds over next 20 years. The amounts are as follows: Major Street - \$160,000; Local Street - \$106,000; Sewer Fund - \$264,000.

Interfund transfers consisted of the following transactions:

General Fund - Transfers Out:

To: Trust & Agency – Postretirement benefit fund	\$ 32,000
Debt Service	16,443
From: General Fund	(10,000)
Major Street Fund	(3,000)
Local Street Fund	(3,000)
Water Fund	(8,000)
Sewer Fund	(8,000)
Downtown Development Authority	(16,443)
Total	\$ -

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: SEGMENT INFORMATION FOR THE ENTERPRISE FUNDS

The Village maintains two Enterprise Fund which provides water and sewer services. Segment information for the year ended February 28, 2007 is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Operating revenues (including interest)	\$ 404,865	\$ 764,811
Depreciation	81,915	179,781
Operating income (loss)	86,609	169,088
Change in net assets	567,136	(98,134)
Property, plant, and equipment		
Additions	678,389	1,692
Net working capital	181,519	1,092,666
Total assets	3,355,317	8,103,084
Bonds outstanding	400,000	5,602,000
Net assets	2,873,143	2,243,917

NOTE 5: ACCUMULATED UNPAID SICK PAY BENEFIT AMOUNTS

The Village policy allows each employee to accumulate the equivalent of a maximum sick time of 600 hours. At current rates, the Village, as of February 28, 2007, had accrued \$49,649 of sick and vacation pay which is recorded in the Government-wide financial statements.

NOTE 6: EMPLOYEES RETIREMENT SYSTEM

A. Plan Description

The Village has an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts 1984, as amended, and the Constitution of the State of Michigan. The Village has no administrative responsibility for the plan. The Michigan Municipal Retirement System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing Municipal Employee Retirement Systems of Michigan, Lansing, Michigan 48917 or calling (800) 767-6377.

**VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: EMPLOYEES RETIREMENT SYSTEM - Continued

B. Funding Policy

The plan provides for vesting of benefits after 10 years of credited service for all full-time employees. Effective March 1, 1999 all full-time police officers are able to obtain tenure after six years of full-time service, excluding the police chief. Participants may elect normal retirement at age 60 with 10 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to reduction of benefits as outlined below.

The retirement allowance is reduced ½% of 1% for each complete month retirement benefits are available. The plan provides that the employer contribute amounts necessary to fund the actuarially determined benefits. The Village makes employer contributions in accordance with funding requirements determined by MERS' actuary. The MERS' actuary uses the entry age normal actuarial cost method.

C. Annual Pension Costs

The Village's pension cost for the fiscal year ending February 28, 2007, 2006 and 2005 was \$131,966, \$98,158 and \$72,075 respectively. The required contribution was determined as part of December 31, 2006 actuarial valuation using the entry age normal actuarial cost method.

The significant actuarial assumptions to be used to compute the actuarial accrued liabilities are as follows: (1) the entry age normal actuarial cost method of valuation was used in determining age and service benefit liabilities and normal cost; (2) an 8% rate of return on investment of present and future assets was used based on estimated long-yield considering (a) the nature and mix of current and expected investments; and (b) the basis used to value those assets; (3) projected salary increases are based on 4.5% raises for merit, seniority, and inflation rate allowances. Benefits will not increase after retirement except that some participants will receive cost of living allowances. Unfunded accrued liabilities are amortized over 40 year period reduced by one year until it reaches 30.

D. Trend Information

	2007	2006	2005
Actuarial value of assets	\$ 2,563,989	\$ 2,377,156	\$ 2,282,273
Actuarial Accrued Liability (entry age)	3,616,647	3,585,994	3,381,701
Unfunded Actuarial Accrued Liability (UAAL)	1,052,658	1,208,838	1,099,428
Funded Ratio	71%	66%	67%
Covered Payroll	535,861	512,902	513,246
UAAL as a percent of covered payroll	50.91%	42.43%	46.68%

VILLAGE OF KALKASKA
NOTES TO FINANCIAL STATEMENTS

NOTE 7: POSTRETIREMENT PLAN OTHER THAN PENSIONS

The Village has a postretirement plan other than pensions for health insurance coverage. For Permanent employees - salaries, hourly and appointed the plan provides as follows:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive family health insurance coverage for a period of three years - paid in full by the Village. Specifically named employees are to receive lifetime hospitalization on both employee and spouse, paid in full by the Village in addition to the three (3) years family coverage and applies only to employees who have worked the required number of years and retire at age 55 or older. In case the eligible employee predeceases the spouse, the spouse will continue to receive this benefit for their lifetime.

For Police Department employees, the plan provides:

Employees 55 years of age or older that retire with at least fifteen (15) years of service with the Village of Kalkaska shall receive existing health insurance paid in full by the Village for life.

The Village has established a separate fund to account for the financing of the plan. Monies were transferred in 2007 to the fund in the amount of \$32,000. Interest earned on these monies are being maintained in the Fund. The Fund had accumulated \$381,342 as of February 28, 2007. Any amounts not available in the Fund to meet costs will be the general obligation of the Village. The Village has not accrued any liability under the plan at February 28, 2007. At February 28, 2007, the Village had five retirees participating in the plan. There were no expenses incurred or reflected, by the Village, in the financial statements for the year ended February 28, 2007.

NOTE 8: EMPLOYEE BENEFIT PROGRAM

The Village adopted an employee benefit program effective October 1, 1990. The intention of the Village is that the Plan qualify as a "Cafeteria Plan" within the meaning of Section 125 of the Internal Revenue Code of 1986, as amended, and that the benefits which an Employee elects to receive under the Plan be includable or excludable from the Employee's income under Section 125(a) and other applicable sections of the Internal Revenue Code of 1986, as amended.

Each eligible employee may elect to have the amount of their employer contributions applied to any one or more of a health insurance and/or cash benefit.

REQUIRED SUPPLEMENTARY INFORMATION

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 574,800	\$ 594,470	\$ 584,247	\$ (10,223)
Licenses and permits	3,400	3,900	3,421	(479)
State grants	223,420	223,420	189,993	(33,427)
Contributions from local units	5,900	76,920	77,759	839
Charges for services	9,500	19,000	14,539	(4,461)
Fines	18,000	41,000	37,544	(3,456)
Interest, rents, royalties	56,800	85,380	84,474	(906)
Other	1,800	1,800	345	(1,455)
	<u>893,620</u>	<u>1,045,890</u>	<u>992,322</u>	<u>(53,568)</u>
TOTAL REVENUES				
EXPENDITURES:				
Current:				
Legislative	52,471	67,262	61,616	5,646
General government	148,135	156,543	153,771	2,772
Public safety	493,715	530,717	508,031	22,686
Public works	149,202	100,846	96,697	4,149
Recreation	23,747	28,996	21,981	7,015
Other	26,350	94,870	76,400	18,470
Debt service:				
Principal		5,883	5,829	54
Interest		1,073	1,122	(49)
	<u>893,620</u>	<u>986,190</u>	<u>925,447</u>	<u>60,743</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u> </u>	<u>59,700</u>	<u>66,875</u>	<u>7,175</u>
OTHER FINANCING SOURCES (USES):				
Sale of village property		91,160	82,838	(8,322)
Operating transfers in (out)			(10,000)	(10,000)
		<u>91,160</u>	<u>72,338</u>	<u>(18,322)</u>
TOTAL OTHER FINANCING SOURCES (USES)				
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	<u>\$</u>	<u>\$ 150,860</u>	139,713	<u>\$ (11,147)</u>
FUND BALANCE, beginning			<u>(337,330)</u>	
FUND BALANCE, ending			<u>\$ (197,617)</u>	

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
State grants	\$ 160,000	\$ 167,000	\$ 183,486	\$ 16,486
Charges for services	6,000	6,000	4,137	(1,863)
Interest	3,000	9,800	8,429	(1,371)
Other	125	125		(125)
TOTAL REVENUES	169,125	182,925	196,052	13,127
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	\$37,177	40,078	31,517	8,561
Street maintenance	42,100	45,100	41,250	3,850
Traffic service	9,112	10,041	7,650	2,391
Winter maintenance	57,110	62,861	49,264	13,597
Roadside parks	6,175	6,225	1,355	4,870
Administrative	17,451	15,221	13,605	1,616
TOTAL EXPENDITURES	169,125	179,526	144,641	34,885
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		3,399	51,411	48,012
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)			(3,000)	(3,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$	\$ 3,399	48,411	\$ 45,012
FUND BALANCE, beginning			341,874	
FUND BALANCE, ending			\$ 390,285	

VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Taxes	\$ 42,850	\$ 43,850	\$ 39,189	\$ (4,661)
State grants	52,000	74,000	87,157	13,157
Charges for services	6,000	6,000	2,319	(3,681)
Interest	3,500	3,500	6,743	3,243
Other	10,050	10,050		(10,050)
TOTAL REVENUES	114,400	137,400	135,408	(1,992)
EXPENDITURES:				
Public works:				
Highways, streets and bridges:				
Routine maintenance	36,377	37,758	26,379	11,379
Street maintenance	40,400	42,000	39,617	2,383
Traffic service	3,573	3,622	1,601	2,021
Winter maintenance	17,526	26,662	28,202	(1,540)
Administrative	16,524	21,708	13,150	8,558
TOTAL EXPENDITURES	114,400	131,750	108,949	22,801
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		5,650	26,459	20,809
OTHER FINANCING SOURCES (USES):				
Operating transfers in (out)			(3,000)	(3,000)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$	\$ 5,650	23,459	\$ 17,809
FUND BALANCE, beginning			172,738	
FUND BALANCE, ending			\$ 196,197	

VILLAGE OF KALKASKA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETARY COMPARISON SCHEDULES

The Village of Kalkaska is not legally required to present budgetary information for debt service funds. Accordingly, the budgetary comparison schedules for the DDA Debt Service fund is not required.

SUPPLEMENTARY DATA SECTION

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 594,470	\$ 584,247	\$ (10,223)
Licenses and permits	3,900	3,421	(479)
State grants	223,420	189,993	(33,427)
Contributions from local units	76,920	77,759	839
Charges for services	19,000	14,539	(4,461)
Fines	41,000	37,544	(3,456)
Interest, rents, royalties	85,380	84,474	(906)
Other	1,800	345	(1,455)
TOTAL REVENUES	1,045,890	992,322	(53,568)
EXPENDITURES:			
Legislative:			
Village Council	67,262	61,616	5,646
General government:			
Administrative	85,223	85,778	(555)
Municipal building	71,120	67,993	3,127
Other buildings & ground activities	200		200
Public safety:			
Police department	530,517	508,031	22,486
Fire	200		200
Public works	100,846	96,697	4,149
Recreation:			
Recreation			
Parks	28,996	21,981	7,015
Other:			
Insurance and bonds	26,350	24,808	1,542
Parking lots	32,347	19,005	13,342
Airport	36,173	32,587	3,586
Debt service:			
Principal	5,883	5,829	54
Interest	1,073	1,122	(49)
TOTAL EXPENDITURES	986,190	925,447	60,743
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	59,700	66,875	7,175

**VILLAGE OF KALKASKA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 28, 2007
(CONTINUED)**

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES (from previous page)	\$ 59,700	\$ 66,875	\$ 7,175
OTHER FINANCING SOURCES (USES):			
Sale of village property	91,160	82,838	(8,322)
Operating transfers in (out)	<u> </u>	<u>(10,000)</u>	<u>(10,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>91,160</u>	<u>72,738</u>	<u>(18,322)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURE AND OTHER USES	<u>\$ 150,860</u>	139,713	<u>\$ (11,147)</u>
FUND BALANCE, beginning		<u>(337,330)</u>	
FUND BALANCE, ending		<u>\$ (197,617)</u>	

**VILLAGE OF KALKASKA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FEBRUARY 28, 2007**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
ASSETS					
Cash	\$ 3,298	\$ 2,529	\$ 5,827	\$ 23,941	\$ 29,768
Accounts receivable		520	520		520
Due from other funds		346	346		346
TOTAL ASSETS	\$ 3,298	\$ 3,395	\$ 6,693	\$ 23,941	\$ 30,634
LIABILITIES & FUND BALANCE					
LIABILITIES					
Accounts payable	\$	\$	\$	\$	\$
Due to other funds					
TOTAL LIABILITIES					
FUND BALANCE					
Unreserved:					
Undesignated	3,298	3,395	6,693	23,941	30,634
TOTAL FUND BALANCE	3,298	3,395	6,693	23,941	30,634
TOTAL LIABILITIES & FUND BALANCE	\$ 3,298	\$ 3,395	\$ 6,693	\$ 23,941	\$ 30,634

**VILLAGE OF KALKASKA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

	Special Revenue			Capital Projects	Total Nonmajor Governmental Funds
	Drug Enforcement	Justice Training	Total	Village Improvement	
REVENUES:					
State grants	\$	\$ 1,188	\$ 1,188	\$	\$ 1,188
Interest					
TOTAL REVENUES		1,188	1,188		1,188
EXPENDITURES:					
Public safety & police		775	775		775
TOTAL EXPENDITURES		775	775		775
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES		413	413		413
FUND BALANCE, beginning	3,298	2,982	6,280	23,941	30,221
FUND BALANCE, ending	\$ 3,298	\$ 3,395	\$ 6,693	\$ 23,941	\$ 30,634

VILLAGE OF KALKASKA
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DOWNTOWN DEVELOPMENT AUTHORITY - A COMPONENT UNIT
FOR THE YEAR ENDED FEBRUARY 28, 2007

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes	\$ 80,500	\$ 130,656	\$ 50,156
Interest	5,025	5	(5,020)
Other revenue	400	180	(220)
TOTAL REVENUES	85,925	130,841	44,916
EXPENDITURES:			
Public works:			
Highways, streets, and bridges:			
Administration	41,388	15,375	26,013
TOTAL EXPENDITURES	41,388	15,375	26,013
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	44,537	115,466	70,929
OTHER FINANCING SOURCES (USES)			
Operating transfers in (out)	(16,443)	(16,443)	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING	\$ 28,094	99,023	\$ 70,929
FUND BALANCE, beginning		432,569	
FUND BALANCE, ending		\$ 531,592	

**VILLAGE OF KALKASKA
SCHEDULE OF REVENUE BONDS PAYABLE
1996 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2007**

Schedule A

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>
5.25% to 7.20%	June 1, 1996	NBD	\$740,000

<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>January 1,</u>	<u>Interest Due July 1,</u>	<u>Total</u>
2007	\$	\$	\$ 13,590	\$ 13,590
2008	40,000	13,590	12,430	66,020
2009	40,000	12,430	11,250	63,680
2010	45,000	11,250	9,900	66,150
2011	45,000	9,900	8,550	63,450
2012	50,000	8,550	7,050	65,600
2013	55,000	7,050	5,400	67,450
2014	55,000	5,400	3,750	64,150
2015	60,000	3,750	1,950	65,700
2016	65,000	1,950		66,950
	<u>\$ 455,000</u>	<u>\$ 73,870</u>	<u>\$ 73,870</u>	<u>\$ 602,740</u>

**VILLAGE OF KALKASKA
SCHEDULE OF WATER AND SEWAGE DISPOSAL
SYSTEM REVENUE BONDS 1975 ISSUE
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2007**

Schedule B

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS 1975

<u>Bond Numbers</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>February 28, 2007</u>
	01/01/96	\$1,350,000			
169-179			5%	01/01/08	55,000
180-190			5%	01/01/09	55,000
191-202			5%	01/01/10	60,000
203-214			5%	01/01/11	60,000
215-227			5%	01/01/12	65,000
229-241			5%	01/01/13	70,000
242-255			5%	01/01/14	70,000
256-270			5%	01/01/15	<u>75,000</u>
Total					<u>\$ 510,000</u>

**VILLAGE OF KALKASKA
SCHEDULE OF GENERAL OBLIGATION BONDS PAYABLE
1996 DOWNTOWN DEVELOPMENT BONDS
(LIMITED TAX GENERAL OBLIGATION)
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2007**

Schedule C

<u>Interest Rate</u>	<u>Date of Original Issue</u>	<u>Purchaser</u>	<u>Principal Amount</u>	
5.10% to 7.00%	May 1, 1996	NBD	\$240,000	
<u>Maturity September 1,</u>	<u>Principal Amount</u>	<u>March 1,</u>	<u>Interest Due September 1,</u>	<u>Total</u>
2007	\$ 20,000	\$ 3,081	\$ 3,081	\$ 26,162
2008	20,000	2,541	2,541	25,082
2009	20,000	1,991	1,991	23,982
2010	25,000	1,431	1,431	27,862
2011	<u>25,000</u>	<u>719</u>	<u>719</u>	<u>26,438</u>
	<u>\$ 110,000</u>	<u>\$ 9,763</u>	<u>\$ 9,763</u>	<u>\$ 129,526</u>

VILLAGE OF KALKASKA
SCHEDULE OF SEWAGE DISPOSAL SYSTEM REVENUE BONDS
FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2007

Schedule D

<u>Interest Rate</u>	<u>Date of Original Issue</u>		<u>Purchaser</u>		<u>Principal Amount</u>
4.5%	July 1, 2006		RDA		\$ 5,154,000
<u>Maturity January 1,</u>	<u>Principal Amount</u>	<u>Interest Due</u>			<u>Total</u>
		<u>July 1,</u>	<u>January 1,</u>		
2008	\$ 28,000	\$ 113,445	\$ 113,445	\$ 254,890	
2009	30,000	112,815	112,815	255,630	
2010	32,000	112,140	112,140	256,280	
2011	34,000	111,420	111,420	256,840	
2012	36,000	110,655	110,655	257,310	
2013-2017	337,000	538,988	538,988	1,414,976	
2018-2022	675,000	482,064	482,064	1,639,128	
2023-2027	800,000	400,501	400,501	1,601,002	
2028-2032	925,000	304,876	304,876	1,534,752	
2033-2037	1,040,000	195,301	195,301	1,430,602	
2038-2042	1,100,000	75,151	75,151	1,250,302	
	<u>\$ 5,037,000</u>	<u>\$ 2,557,356</u>	<u>\$ 2,557,356</u>	<u>\$ 10,151,712</u>	



HARRIS GROUP

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

August 28, 2007

To the Village Council
Village of Kalkaska
Kalkaska, Michigan

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Kalkaska' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of the Village of Kalkaska in a separate letter dated August 28, 2007.

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377
www.harrisgroupecpa.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Kalkaska' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to the management of the Village of Kalkaska in a separate letter dated August 28, 2007.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



HARRIS GROUP

Certified Public Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

August 28, 2007

To the Village Council
Village of Kalkaska
Kalkaska, Michigan

Compliance

We have audited the compliance of Village of Kalkaska with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended February 28, 2007. Village of Kalkaska's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Village of Kalkaska's management. Our responsibility is to express an opinion on Village of Kalkaska's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Village of Kalkaska's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Village of Kalkaska's compliance with those requirements.

731 S. Garfield Ave., Traverse City, MI 49686 tel. 231-946-8930 fax. 231-946-1377
www.harrisgroupepa.com

In our opinion, Village of Kalkaska complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2007.

Internal Control Over Compliance

The management of Village of Kalkaska is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Village of Kalkaska's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Village Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

**VILLAGE OF KALKASKA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
<u>Federal Grants</u>			
Department of Housing and Urban Development, Passed through the Michigan Economic Development Corporation Community Development Block Grant	14.228	MSC 203076	\$ 502,354
Total Federal Grants and Loans/Loan Guarantees			<u>\$ 502,354</u>

**VILLAGE OF KALKASKA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED FEBRUARY 28, 2007**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Village of Kalkaska and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Community Development Block Grant CFDA #14.228, were audited as a major programs, representing 100.00% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. The Village of Kalkaska had the following loan balances outstanding at February 28, 2007. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA #</u>	<u>Amount Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 5,037,000
Community Development Block Grant/Loan	14.228	206,350

**VILLAGE OF KALKASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED FENRUARY 28, 2007**

Section I – Summary of Auditors’ Results

Financial statements

Type of auditors’ report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Section II – Financial Statement Findings

None.

**VILLAGE OF KALKASKA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED FEBRUARY 28, 2007
(Continued)**

Section III – Federal Award Findings and Questioned Costs

None.

**VILLAGE OF KALKASKA
SCHEDULE OF PRIOR AUDIT FINDINGS**

None



August 28, 2007

President and Members of the
Village Council of the Village of Kalkaska
Kalkaska, MI

In planning and performing our audit of the primary governments financial statements of Village of Kalkaska for the fiscal year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Kalkaska's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls 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.

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 a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Financial Statement Preparation

Effective internal control over financial reporting involves the identification and analysis of the risk of material misstatement to the governmental unit's audited financial statements and then should determine how these identified risks should be managed. Management has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent and detect material misstatements, including footnote disclosures.

Generally accepted accounting principles (GAAP) requires management to review the drafted financial statement and compare to a current GAAP checklist to help assure that the financial statements are reliable and in accordance with GAAP. This year, these procedures were performed by an employee who did not have current GAAP knowledge. As a result, material disclosure and classification misstatements were not prevented or detected prior to our review.

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

Certified Public Accountants