

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 Caledonia	County Kent
Fiscal Year End June 30, 2007	Opinion Date December 13, 2007	Date Audit Report Submitted to State December 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

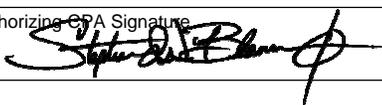
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	None noted	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 616-975-4100	
Street Address 2330 East Paris Ave., SE		City Grand Rapids	State Zip MI 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	License Number 24801

VILLAGE OF CALEDONIA



A Friendly, Growing Community

CALEDONIA, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007



REHMANN ROBSON

Certified Public Accountants

VILLAGE OF CALEDONIA

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

INDEPENDENT AUDITORS' REPORT

December 13, 2007

Honorable President and
Members of the Village Council
Village of Caledonia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan, as of and for the year ended June 30, 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 management of the Village of Caledonia, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund 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 December 13, 2007, on our consideration of the Village of Caledonia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Caledonia's basic financial statements. The individual fund schedule is presented for purposes of additional analysis and is not a required part of the Village of Caledonia's basic financial statements. The individual schedule has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Lobson".

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Village of Caledonia, we offer readers of the Village of Caledonia's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- Micro sealing of Glen Valley roads
- Preparation for Main Street and Streetscape Projects
- Capital Improvement Bond

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Caledonia's financial statements. The Village'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 the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference 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 the Village 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 fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the Village of Caledonia 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 the Village include general government administration and public works including major and local street maintenance. The business-type activities of the Village include sewer services.

The government-wide financial statements can be found on pages 9-11 of this report.

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. The Village of Caledonia, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental 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 government's 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*.

The Village maintains three 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 balances for the general, major streets, and local streets funds, each of which is considered to be a major fund.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-18 of this report.

Proprietary funds. The Village of Caledonia maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village of Caledonia uses an enterprise fund to account for its sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Individual fund schedules can be found on pages 32-33 of this report.

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 the Village of Caledonia, assets exceeded liabilities by \$7,337,221 at the close of the most recent fiscal year.

A portion of the Village's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village 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 other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Caledonia Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 1,392,835	\$ 810,938	\$ 976,182	\$ 904,128	\$ 2,369,017	\$ 1,715,066
Capital assets	4,308,509	4,304,977	2,221,687	2,300,345	6,530,196	6,605,322
Total assets	5,701,344	5,115,915	3,197,869	3,204,473	8,899,213	8,320,388
Long-term liabilities outstanding	600,000	-	886,294	910,672	1,486,294	910,672
Other liabilities	33,013	32,065	42,685	24,641	75,698	56,706
Total liabilities	633,013	32,065	928,979	935,313	1,561,992	967,378
Net assets:						
Invested in capital assets, net of related debt	4,308,509	4,304,977	1,335,393	1,389,673	5,643,902	5,694,650
Restricted	425,093	413,084	185,054	-	610,147	413,084
Unrestricted, as restated	334,729	365,789	748,443	879,487	1,083,172	1,245,276
Total net assets	\$ 5,068,331	\$ 5,083,850	\$ 2,268,890	\$ 2,269,160	\$ 7,337,221	\$ 7,353,010

Net assets of the Village decreased by \$15,789.

Village of Caledonia Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue:						
Program revenue:						
Charges for services	\$ 8,834	\$ 11,126	\$ 382,108	\$ 412,764	\$ 390,942	\$ 423,890
Capital grants and contributions	-	18,750	-	-	-	18,750
General revenue:						
Property taxes	269,533	244,845	-	-	269,533	244,845
Other governmental sources	156,413	225,347	-	-	156,413	225,347
Other	46,138	33,692	39,379	27,048	85,517	60,740
Total revenue	<u>480,918</u>	<u>533,760</u>	<u>421,487</u>	<u>439,812</u>	<u>902,405</u>	<u>973,572</u>
Expenses:						
General government	216,533	243,530	-	-	216,533	243,530
Public works	279,904	248,219	-	-	279,904	248,219
Sewer	-	-	421,757	369,464	421,757	369,464
Total expenses	<u>496,437</u>	<u>491,749</u>	<u>421,757</u>	<u>369,464</u>	<u>918,194</u>	<u>861,213</u>
Change in net assets	(15,519)	42,011	(270)	70,348	(15,789)	112,359
Net assets – beginning of year, as restated	<u>5,083,850</u>	<u>5,041,839</u>	<u>2,269,160</u>	<u>2,198,812</u>	<u>7,353,010</u>	<u>7,240,651</u>
Net assets – end of year	<u>\$ 5,068,331</u>	<u>\$ 5,083,850</u>	<u>\$ 2,268,890</u>	<u>\$ 2,269,160</u>	<u>\$ 7,337,221</u>	<u>\$ 7,353,010</u>

Governmental activities

During the year the Village continued its emphasis in public works by investing \$279,904 or 56% of governmental activities expenses. General government functions made up the remaining 44% of governmental activities expenses.

The governmental activities decrease in net assets of \$15,519 is due primarily to a decrease in revenue sharing and Act 51 funds, and an increase in operations and maintenance of the new DPW garage.

Business-type activities

Business-type activities decreased the Village's net assets by \$270. By comparison, business-type activities reported an increase in net assets the previous fiscal year of \$70,348. Key elements of this increase are as follows:

- Share expense with the Township for Professional Services as we look for ways to improve WWTP capacity.
- Timing of reimbursement from the Township for these activities.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village'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 the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,359,822 an increase of \$580,949 in comparison with the prior year.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$934,729 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 224% percent of total general fund expenditures.

The fund balance of the Village's general fund increased by \$566,343 during the current fiscal year due to the issuance of general obligation bonds.

The major and local streets funds have total fund balances of \$398,957 and \$26,136, respectively, which changed by \$17,699 and \$(3,093), respectively, during the year. Major streets funds increased as we prepare for the Main Street project. The local streets funds decreased due to the increased snow removal, street maintenance, and related payroll.

Proprietary fund. The Village's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewer fund at the end of the year amounted to \$748,443. The sewer fund had a decrease in net assets for the year of \$270. Other factors concerning the finances of this fund have already been addressed in the discussion of the Village's business-type activities.

General Fund Budgetary Highlights

Amendments were made for attorney fees associated with the resolution of 245 Kinsey and engineering fees in preparation for the Main Street project.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$6,530,196 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment.

Major capital asset additions included construction in progress for the Streetscape project.

Village of Caledonia Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,487,649	\$ 3,487,649	\$ 108,268	\$ 108,268	\$ 3,595,917	\$ 3,595,917
Construction in progress	33,276	-	-	-	33,276	-
Building and system improvements	745,592	763,584	2,096,189	2,169,599	2,841,781	2,933,183
Vehicles and equipment	41,992	53,744	17,230	22,478	59,222	76,222
Total	<u>\$ 4,308,509</u>	<u>\$ 4,304,977</u>	<u>\$ 2,221,687</u>	<u>\$ 2,300,345</u>	<u>\$ 6,530,196</u>	<u>\$ 6,605,322</u>

Additional information on the Village of Caledonia capital assets can be found in Note 4 on pages 28-29 of this report.

Long-term debt. At the end of the current fiscal year, the Village had total debt outstanding (net of unamortized discount) of \$1,486,294. The Village's total debt increased by \$575,622 during the current fiscal year. The Village is currently not rated for general obligation bond issuance. Additional information on the Village's long-term debt can be found in Note 5 on page 30 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2007-08 fiscal year:

- Main Street and Streetscape projects
- Additional parking area
- Replacement of equipment
- Capital Improvement Bond (revenues and payments)

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, 250 South Maple St., SE, Caledonia, Michigan 49316.

BASIC FINANCIAL STATEMENTS

VILLAGE OF CALEDONIA

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,366,369	\$ 611,506	\$ 1,977,875
Restricted cash and cash equivalents	-	305,449	305,449
Receivables:			
Accounts	-	59,227	59,227
Due from other governments	26,466	-	26,466
Capital assets not being depreciated	3,520,925	108,268	3,629,193
Capital assets being depreciated, net	787,584	2,113,419	2,901,003
Total assets	5,701,344	3,197,869	8,899,213
 Liabilities			
Accounts payable	33,013	42,685	75,698
Noncurrent liabilities:			
Due within one year	-	25,000	25,000
Due in more than one year	600,000	870,000	1,470,000
Unamortized discount	-	(8,706)	(8,706)
Total liabilities	633,013	928,979	1,561,992
 Net assets			
Invested in capital assets, net of related debt	4,308,509	1,335,393	5,643,902
Restricted for:			
Major streets	398,957	-	398,957
Local streets	26,136	-	26,136
Bond covenants	-	185,054	185,054
Unrestricted	334,729	748,443	1,083,172
Total net assets	\$ 5,068,331	\$ 2,268,890	\$ 7,337,221

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

VILLAGE OF CALEDONIA

Statement of Activities

For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Net (Expense) Revenue</u>
Governmental activities			
General government	\$ 216,533	\$ 5,969	\$ (210,564)
Public works	<u>279,904</u>	<u>2,865</u>	<u>(277,039)</u>
Total governmental activities	496,437	8,834	(487,603)
Business-type activities			
Sewer	<u>421,757</u>	<u>382,108</u>	<u>(39,649)</u>
Total	<u>\$ 918,194</u>	<u>\$ 390,942</u>	<u>\$ (527,252)</u>

(Continued)

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

VILLAGE OF CALEDONIA

Statement of Activities (Concluded)

For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue	\$ (487,603)	\$ (39,649)	\$ (527,252)
General revenues:			
Property taxes	269,533	-	269,533
State shared revenue	156,413	-	156,413
Unrestricted investment earnings	46,138	39,379	85,517
Total general revenues	472,084	39,379	511,463
Change in net assets	(15,519)	(270)	(15,789)
Net assets, beginning of year, as restated	5,083,850	2,269,160	7,353,010
Net assets, end of year	<u>\$ 5,068,331</u>	<u>\$ 2,268,890</u>	<u>\$ 7,337,221</u>

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

VILLAGE OF CALEDONIA

Balance Sheet Governmental Funds

June 30, 2007

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 950,072	\$ 393,052	\$ 23,245	\$ 1,366,369
Due from other governments	13,949	8,906	3,611	26,466
Total assets	<u>\$ 964,021</u>	<u>\$ 401,958</u>	<u>\$ 26,856</u>	<u>\$ 1,392,835</u>
Liabilities				
Accounts payable	\$ 29,292	\$ 3,001	\$ 720	\$ 33,013
Fund balances				
Unreserved- undesignated	934,729	398,957	26,136	1,359,822
Total liabilities and fund balances	<u>\$ 964,021</u>	<u>\$ 401,958</u>	<u>\$ 26,856</u>	<u>\$ 1,392,835</u>

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

VILLAGE OF CALEDONIA

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2007

Fund balances - total governmental funds	\$ 1,359,822
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.	
Add - capital assets not being depreciated	3,520,925
Add - capital assets being depreciated, net	787,584
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	<u>(600,000)</u>
Net assets of governmental activities	<u><u>\$ 5,068,331</u></u>

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

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2007

	General Fund	Major Streets	Local Streets	Total Governmental Funds
Revenues				
Taxes	\$ 269,533	\$ -	\$ -	\$ 269,533
Intergovernmental revenue	80,164	54,248	22,001	156,413
Licenses and permits	2,865	-	-	2,865
Interest earnings	24,955	16,734	4,449	46,138
Other	5,969	-	-	5,969
	383,486	70,982	26,450	480,918
Expenditures				
General government	225,462	-	-	225,462
Public works	191,681	50,041	29,543	271,265
Capital outlay	-	3,242	-	3,242
	417,143	53,283	29,543	499,969
Revenues over (under) expenditures	(33,657)	17,699	(3,093)	(19,051)
Other financing sources				
Issuance of long-term debt	600,000	-	-	600,000
Net change in fund balances	566,343	17,699	(3,093)	580,949
Fund balances, beginning of year, as restated	368,386	381,258	29,229	778,873
Fund balances, end of year	\$ 934,729	\$ 398,957	\$ 26,136	\$ 1,359,822

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

VILLAGE OF CALEDONIA

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$ 580,949
Amounts reported for governmental activities in the statement of activities are different because:	
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.	
Add - capital outlay	33,276
Deduct - depreciation expense	(29,744)
Some revenues and expenses reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues or expenditures in the funds.	
Deduct - issuance of long-term debt	<u>(600,000)</u>
Change in net assets of governmental activities	<u><u>\$ (15,519)</u></u>

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

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual General Fund

For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Taxes	\$ 268,823	\$ 268,823	\$ 269,533	\$ 710
Intergovernmental revenue	83,821	83,821	80,164	(3,657)
Licenses and permits	-	3,500	2,865	(635)
Interest earnings	10,000	10,000	24,955	14,955
Other	4,170	4,170	5,969	1,799
Total revenues	366,814	370,314	383,486	13,172
Expenditures				
General government	207,896	248,416	225,462	(22,954)
Public works	178,851	155,650	191,681	36,031
Total expenditures	386,747	404,066	417,143	13,077
Revenues over (under) expenditures	(19,933)	(33,752)	(33,657)	95
Other financing uses				
Issuance of long-term debt	-	-	600,000	600,000
Net change in fund balances	(19,933)	(33,752)	566,343	600,095
Fund balances, beginning of year, as restated	368,386	368,386	368,386	-
Fund balances, end of year	\$ 348,453	\$ 334,634	\$ 934,729	\$ 600,095

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

VILLAGE OF CALEDONIA

**Statement of Revenues, Expenditures and
Changes in Fund Balance -
Budget and Actual
Major Streets Special Revenue Fund**

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Revenues				
Intergovernmental revenue	\$ 57,943	\$ 57,943	\$ 54,248	\$ (3,695)
Interest earnings	10,579	10,579	16,734	6,155
 Total revenues	 <u>68,522</u>	 <u>68,522</u>	 <u>70,982</u>	 <u>2,460</u>
Expenditures				
Public works:				
Routine maintenance	-	54,000	33,510	(20,490)
Winter maintenance	-	19,150	16,531	(2,619)
Capital outlay	-	-	3,242	3,242
 Total expenditures	 <u>-</u>	 <u>73,150</u>	 <u>53,283</u>	 <u>(19,867)</u>
 Net change in fund balances	 68,522	 (4,628)	 17,699	 22,327
 Fund balances, beginning of year, as restated	 <u>381,258</u>	 <u>381,258</u>	 <u>381,258</u>	 <u>-</u>
 Fund balances, end of year	 <u><u>\$ 449,780</u></u>	 <u><u>\$ 376,630</u></u>	 <u><u>\$ 398,957</u></u>	 <u><u>\$ 22,327</u></u>

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

VILLAGE OF CALEDONIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual Local Streets Special Revenue Fund

For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental revenue	\$ 23,525	\$ 23,525	\$ 22,001	\$ (1,524)
Interest earnings	3,716	3,716	4,449	733
	27,241	27,241	26,450	(791)
Expenditures				
Public works:				
Routine maintenance	4,900	4,900	5,294	394
Winter maintenance	29,550	29,550	24,249	(5,301)
	34,450	34,450	29,543	(4,907)
Revenues over (under) expenditures	(7,209)	(7,209)	(3,093)	(4,116)
Fund balances, beginning of year, as restated	29,229	29,229	29,229	-
Fund balances, end of year	\$ 22,020	\$ 22,020	\$ 26,136	\$ (4,116)

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

VILLAGE OF CALEDONIA

Statement of Net Assets Proprietary Fund

June 30, 2007

	Sewer Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 611,506
Accounts receivable	59,227
Restricted cash and cash equivalents	305,449
Total current assets	<u>976,182</u>
Noncurrent assets:	
Capital assets not being depreciated	108,268
Capital assets being depreciated, net	2,113,419
Total noncurrent assets	<u>2,221,687</u>
Total assets	<u>3,197,869</u>
Liabilities	
Current liabilities:	
Accounts payable	42,685
Bonds payable, current portion	25,000
Total current liabilities	<u>67,685</u>
Long-term liabilities:	
Bonds payable, net of current portion and unamortized discount of \$8,706	<u>861,294</u>
Total liabilities	<u>928,979</u>
Net assets	
Invested in capital assets, net of related debt	1,335,393
Restricted for bond covenants	185,054
Unrestricted	748,443
Total net assets	<u>\$ 2,268,890</u>

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

VILLAGE OF CALEDONIA

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Fund

For the Year Ended June 30, 2007

	Sewer Enterprise Fund
Operating revenues	
Charges for services	\$ 382,108
Operating expenses	
Supplies and administration	232,481
Repairs and maintenance	56,097
Depreciation	78,658
Total operating expenses	367,236
Operating income	14,872
Nonoperating revenues (expenses)	
Interest earnings	39,379
Interest expense	(54,521)
Total nonoperating revenues (expenses)	(15,142)
Change in net assets	(270)
Net assets, beginning of year	2,269,160
Net assets, end of year	\$ 2,268,890

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

VILLAGE OF CALEDONIA

Statement of Cash Flows Proprietary Fund

For the Year Ended June 30, 2007

	Sewer Enterprise Fund
Cash flows from operating activities	
Cash received from customers	\$ 374,152
Cash payments to suppliers and employees for goods and services	(270,534)
	<hr/>
Net cash provided by operating activities	103,618
	<hr/>
Cash flows from capital and related financing activities	
Interest and fiscal charges paid on bonds payable	(53,899)
Principal payments on bonds payable	(25,000)
	<hr/>
Net cash used by capital and related financing activities	(78,899)
	<hr/>
Cash flows from investing activities	
Interest earnings	39,379
	<hr/>
Net increase in cash and cash equivalents	64,098
	<hr/>
Cash and cash equivalents, beginning of year	852,857
	<hr/>
Cash and cash equivalents, end of year	\$ 916,955
	<hr/> <hr/>
Reconciliation to the statement of net assets:	
Cash and cash equivalents	\$ 611,506
Restricted cash and cash equivalents	305,449
	<hr/>
	\$ 916,955
	<hr/> <hr/>
Cash flows from operating activities	
Operating income	\$ 14,872
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	78,658
Increase (decrease) in:	
Accounts receivable	(7,956)
Accounts payable	18,044
	<hr/>
Net cash provided by operating activities	\$ 103,618
	<hr/> <hr/>

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

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Caledonia (the "Village") is a municipal corporation governed by an elected board.

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Village and any related entities for which the Village is considered to be financially accountable. The Village follows the criteria established by GASB 14 and 39, which includes financial accountability. There are currently no other entities for which the Village is financially accountable.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of 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.

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After October 1 of each year, the County pays the Village, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider 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, compensated absences and debt service expenditures are recorded only when payment is due.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Property taxes, intergovernmental revenue, charges for services 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 Village.

The Village reports the following major governmental funds:

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

The *Major Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as major streets in the Village.

The *Local Streets Fund* is used to account for the revenues received from the State of Michigan under Act 51 which are specifically earmarked for construction and maintenance of roads designated as local streets in the Village.

The Village reports the following major proprietary fund:

The *Sewer Enterprise Fund* is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

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 this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Budgets and Budgetary Accounting

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. Budgetary control is exercised at the department level. The Village manager is authorized to transfer budget amounts between line items within department, however, any supplemental appropriations that amend total expenditures of any department require Village Council resolution. Unexpended appropriations lapse at year-end.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Village considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash and Cash Equivalents

Certain resources set aside for repayment of bonds and to meet bond covenants are classified as restricted cash and cash equivalents on the statement of net assets because their use is limited by applicable bond covenants.

Receivables

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial at year end.

Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditures or legally separated for a specific future use.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in the proprietary fund.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Vehicles	12
Equipment	3-10
Sewer System	15-50

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

Compensated Absences

There is no accumulated vacation or sick leave to be recognized.

Property Taxes

The Village property tax is levied each July 1 on the assessed valuation of property located in the Village as of the preceding July 31, the lien date. Collections are made July 1 through September 14. Assessed values are established annually by the County and are equalized by the State at an estimated 50% of current market value.

Property taxes levied in July of each year are recognized as revenue in that year.

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2007, the Village carried commercial insurance to cover most risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

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

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted on the activity level in the General Fund and the function level in other funds.

During the year ended June 30, 2007, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditure	Budget Variance
General Fund			
Clerk	\$ 20,890	\$ 21,540	\$ 650
Public Works	155,650	191,681	36,031
Major Streets Fund			
Capital outlay	-	3,242	3,242
Local Streets Fund			
Routine maintenance	4,900	5,294	394

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The captions on the statement of net assets relating to cash and cash equivalents and the amounts in the Total column are as follows:

	Governmental Activities	Business-type Activities	Total
Cash and cash equivalents	\$ 1,366,369	\$ 611,506	\$ 1,977,875
Restricted cash and cash equivalents	-	305,449	305,449
	\$ 1,366,369	\$ 916,955	\$ 2,283,324

Cash and cash equivalents and investments are comprised of the following at year-end:

Checking and saving accounts	\$ 1,640,334
Investments	642,940
Petty cash	50
	\$ 2,283,324

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$1,345,812 of the Village's bank balance of \$1,645,812 was exposed to custodial credit risk because it was uninsured and uncollateralized.

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the Village and a specific fund or common account. They are recorded in Village records at cost. Interest is recorded when earned.

The Village chooses to disclose its investments by specifically identifying each. As of year-end, the Village had the following investments:

Investments

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Kent County Investment Pool	N/A	\$ 642,940	Unrated

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified under "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the Village's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in "statutory authority" below. The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

Custodial Credit Risk-Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Village does not have a policy for the investment custodial risk. At year-end, the Village was not exposed to custodial credit risk, as all investments are held in the name of the Village.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Statutory Authority

Act 217, PA 1982, authorizes the Village to deposit and invest in:

- a. Bonds and other direct obligations of the United States or its agencies.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools are authorized by Public Act 20 as amended through December 31, 1997.

The Village's investment policy does not exceed the state's limited authorized investment types.

4. CAPITAL ASSETS

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

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>June 30, 2007</u>
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 3,487,649	\$ -	\$ -	\$ 3,487,649
Construction in progress	<u>-</u>	<u>33,276</u>	<u>-</u>	<u>33,276</u>
Total capital assets, not being depreciated	<u>3,487,649</u>	<u>33,276</u>	<u>-</u>	<u>3,520,925</u>
Capital assets, being depreciated:				
Buildings	316,112	-	-	316,112
Equipment	37,760	-	-	37,760
Office equipment	14,849	-	-	14,849
Vehicles	121,497	-	-	121,497
Infrastructure	<u>516,942</u>	<u>-</u>	<u>-</u>	<u>516,942</u>
Total capital assets, being depreciated	<u>1,007,160</u>	<u>-</u>	<u>-</u>	<u>1,007,160</u>

VILLAGE OF CALEDONIA

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

	Balance June 30, 2006	Additions	Dispositions	Balance June 30, 2007
Less accumulated depreciation for:				
Buildings	\$ 51,778	\$ 7,653	\$ -	\$ 59,431
Equipment	26,233	3,319	-	29,552
Office equipment	14,849	-	-	14,849
Vehicles	79,280	8,433	-	87,713
Infrastructure	17,692	10,339	-	28,031
Total accumulated depreciation	189,832	29,744	-	219,576
Net capital assets, being depreciated	817,328	29,744	-	787,584
Net governmental activities capital assets	\$ 4,304,977	\$ 3,532	\$ -	\$ 4,308,509
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 108,268	\$ -	\$ -	\$ 108,268
Capital assets, being depreciated:				
Equipment	116,455	-	-	116,455
Sewer system	3,240,352	-	-	3,240,352
Total capital assets, being depreciated	3,356,807	-	-	3,356,807
Less accumulated depreciation for:				
Equipment	93,977	5,248	-	99,225
Sewer system	1,070,753	73,410	-	1,144,163
Total accumulated depreciation	1,164,730	78,658	-	1,243,388
Net capital assets, being depreciated	2,192,077	78,658	-	2,113,419
Net business-type activities capital assets	\$ 2,300,345	\$ 78,658	\$ -	\$ 2,221,687

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

Governmental activities:	
General government	\$ 10,410
Public works	19,334
Total depreciation expense – governmental activities	\$ 29,744
Business-type activities:	
Sewer	\$ 78,658

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

5. LONG-TERM DEBT

The following is a summary of debt transactions of the Village for the year ended June 30, 2007:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental activities					
\$600,000 Capital Improvement, General Obligation Limited Tax, Series 2007; due in annual installments ranging from \$15,000 to \$45,000 from July 1, 2009 through July 1, 2027; interest at 4.45%	\$ -	\$ 600,000	\$ -	\$ 600,000	\$ -
Business-type activities					
\$995,000 Sanitary Sewage System Revenue Bonds, Series 2001; due in annual installments ranging from \$25,000 to \$80,000 from September 1, 2003 through September 1, 2021; interest at 4.8% to 5.5%	\$ 920,000	\$ -	\$ 25,000	\$ 895,000	\$ 25,000
Net discount	(9,328)	622	-	(8,706)	-
Total business-type activities	<u>\$ 910,672</u>	<u>\$ 622</u>	<u>\$ 25,000</u>	<u>\$ 886,294</u>	<u>\$ 25,000</u>

The annual requirements, excluding unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2007 are as follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ 13,795	\$ 25,000	\$ 45,622
2009	15,000	26,366	50,000	43,822
2010	15,000	25,699	50,000	41,422
2011	15,000	25,031	50,000	39,022
2012	20,000	24,253	50,000	36,622
2013-2017	115,000	106,911	290,000	143,991
2018-2022	165,000	75,761	380,000	49,614
2023-2027	210,000	34,043	-	-
2028	45,000	1,001	-	-
Total	<u>\$ 600,000</u>	<u>\$ 332,860</u>	<u>\$ 895,000</u>	<u>\$ 400,115</u>

6. RETIREMENT PLAN

The Village sponsors a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all regular employees who have completed one year of service. The plan is administered by third-party trustees. Plan provisions and contribution requirements are established and may be amended by the Village Board. The contribution by the Village is determined annually by the Village Board and may be any amount up to 5% of individuals' compensation. For the year ended June 30, 2007, the Village contributed \$7,813.

VILLAGE OF CALEDONIA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

7. COMMITMENT

At June 30, 2007, the Village had an outstanding contract totaling \$1,044,272 for the reconstruction and streetscape of Main Street.

8. PRIOR PERIOD ADJUSTMENT

Beginning net assets of the general fund, major streets fund, and local streets fund were adjusted by \$15,246, \$(1,768) and \$(720), respectively. These restatements were made to properly account for state revenue that was recorded incorrectly in the prior year. This resulted in a net increase to beginning net assets of governmental activities of \$12,758.

INDIVIDUAL FUND SCHEDULE

GENERAL FUND

VILLAGE OF CALEDONIA

General Fund Detailed Schedule of Expenditures - Budget and Actual

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
General government				
Village Council - general:				
Salaries and wages	\$ 38,320	\$ 38,320	\$ 43,254	\$ 4,934
Audit	6,500	6,500	6,550	50
Insurance	18,295	18,295	16,673	(1,622)
Legal	30,000	71,000	75,831	4,831
Engineering	10,000	10,000	3,153	(6,847)
Utilities	17,200	17,200	8,720	(8,480)
Office supplies	4,850	4,850	6,473	1,623
Memberships and dues	1,200	-	980	980
Printing and publishing	1,800	1,800	1,847	47
Education and mileage	800	800	278	(522)
Capital outlay	4,000	4,000	3,638	(362)
Miscellaneous	14,309	15,029	3,657	(11,372)
Total Village Council - general	<u>147,274</u>	<u>187,794</u>	<u>171,054</u>	<u>(16,740)</u>
President:				
Salaries and wages	<u>5,441</u>	<u>5,441</u>	<u>3,999</u>	<u>(1,442)</u>
Elections	<u>500</u>	<u>500</u>	<u>40</u>	<u>(460)</u>
Trustee:				
Salaries and wages	<u>8,866</u>	<u>8,866</u>	<u>6,259</u>	<u>(2,607)</u>
Clerk:				
Salaries and wages	18,040	18,040	20,318	2,278
Office supplies	<u>2,850</u>	<u>2,850</u>	<u>1,222</u>	<u>(1,628)</u>
Total clerk	<u>20,890</u>	<u>20,890</u>	<u>21,540</u>	<u>650</u>
Treasurer:				
Salaries and wages	2,740	2,740	2,718	(22)
Office supplies	50	50	-	(50)
Miscellaneous	<u>1,500</u>	<u>1,500</u>	<u>513</u>	<u>(987)</u>
Total treasurer	<u>4,290</u>	<u>4,290</u>	<u>3,231</u>	<u>(1,059)</u>
Planning and zoning:				
Salaries and wages	4,285	4,285	1,215	(3,070)
Engineering	<u>16,350</u>	<u>16,350</u>	<u>18,124</u>	<u>1,774</u>
Total planning and zoning	<u>20,635</u>	<u>20,635</u>	<u>19,339</u>	<u>(1,296)</u>
Total general government	<u>207,896</u>	<u>248,416</u>	<u>225,462</u>	<u>(22,954)</u>

VILLAGE OF CALEDONIA

General Fund Schedule of Expenditures - Budget and Actual (Continued)

For the Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - With Final Budget</u>
Public works				
Salaries and wages	\$ 33,500	\$ 33,500	\$ 40,202	\$ 6,702
Insurance	8,650	9,650	9,207	(443)
Operating supplies	5,000	5,000	5,298	298
Telephone and pagers	500	500	429	(71)
Truck expense	41,501	7,300	5,711	(1,589)
Tree program	9,200	9,200	10,077	877
Street lights	25,200	25,200	24,287	(913)
Christmas lights	2,000	2,000	1,315	(685)
Contracted services	8,000	8,000	10,910	2,910
Capital outlay	40,000	50,000	81,155	31,155
Miscellaneous	5,300	5,300	3,090	(2,210)
Total public works	<u>178,851</u>	<u>155,650</u>	<u>191,681</u>	<u>36,031</u>
Total expenditures	<u>\$ 386,747</u>	<u>\$ 404,066</u>	<u>\$ 417,143</u>	<u>\$ 13,077</u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

December 13, 2007

Honorable President and
Members of the Village Council
Village of Caledonia, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Michigan (the "Village"), as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Finding 2007-1 – Preparation of Financial Statements in Accordance with GAAP

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of various year end accruals and other adjustments, as well as the drafting of the financial statements and footnotes as part of its external financial reporting process. During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Village's general ledger to the appropriate balances. These adjustments included reversing prior year accruals, properly accruing state revenue sharing payments, recording accrued interest on debt, and posting accrued salaries. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the Village's internal accounting records were initially misstated by amounts material to the financial statements. In addition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
View of Responsible Officials:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 – Segregation of Duties – Cash

Criteria:	Management is responsible for establishing effective internal controls to safeguard the Village's assets, and to prevent or detect misstatements to the financial statements.
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Finding 2007-2 – Segregation of Duties – Cash (Continued)

- Condition:** During our audit we noted several incompatible duties that were not properly segregated or independently reviewed. We noted –
- The physical receipting of cash/checks and preparing or making bank deposits is not segregated.
 - Bank reconciliations are not always reviewed and documented by an individual other than the preparer.
 - Petty cash access is not limited to a single custodian.
- Cause:** This condition was primarily caused by the lack of staff and timing constraints.
- Effect:** While we are not aware of any actual misstatements caused by this condition, the Village was nevertheless exposed to an increased risk that misstatements, whether caused by error or fraud, could occur and not be detected or prevented.
- Recommendation:** We recommend that the Village have a responsible person, who is independent of the cash receipting/disbursing process review, initial, and date all reconciliations. We also recommend that access to petty cash be limited to a single custodian.
- View of Responsible Officials:** Management will begin having a responsible independent person review, initial, and date all reconciliations. Due to the need for multiple access to the petty cash, management accepts the risk of not restricting cash to a single custodian.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Village in a separate letter dated December 13, 2007.

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





REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

December 13, 2007

To the Village Council of the
Village of Caledonia
Caledonia, Michigan

We have audited the financial statements of Village of Caledonia for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated June 7, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Caledonia. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Village of Caledonia's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Caledonia are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Village of Caledonia during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Village of Caledonia's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed several journal entries, all of which were recorded by management, which in our judgment, had a significant effect on Village of Caledonia's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Village of Caledonia's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

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

This letter and the accompanying memorandum are intended for the use of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive style with a large, prominent initial 'L'.

Village of Caledonia

Comments and Recommendations

For the Year Ended June 30, 2007

In planning and performing our audit of the financial statements of Village of Caledonia as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the first 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 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. The deficiencies we noted that we consider to be significant deficiencies are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. The deficiencies we noted that we consider to be material weaknesses are described in which are described in our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.

Other Matters

Credit Card Policy

The Village utilizes credit cards to make purchases. However, the Village had not adopted a credit card policy setting forth specified safeguards in accordance with the provisions of P.A. 266 of 1995 (MCL 129.241) as of June 30, 2007. We noted that the Village Council established a written policy at their August 13, 2007 meeting. We commend the Village for taking this action.

Personnel

During our review of the Village's policies and procedures, we noted that new employees are not required to have background checks prior to being hired for Village positions. We have noted that these reviews are standard practice at many governmental and nonprofit organizations. We suggest that the Village consider the benefits of performing these background investigations before hiring new employees.

Village of Caledonia

Comments and Recommendations

For the Year Ended June 30, 2007

Compliance with Debt Covenants

The Village's Series 2001 Sewer bonds contain debt covenants requiring that the Village reserve amounts in accordance with the bond ordinance. While the reserve accounts maintained in the sewer fund have sufficient cash to meet the specific requirements, the amount held in the separate depository account for the Bond and Interest Redemption Fund and Bond Reserve Fund differs from the amount required by the ordinance. We recommend that the Village calculate the required reserve account balances at least quarterly and transfer the appropriate amount of funds into the separate account as required by the debt agreement, with the remaining amounts into an unrestricted account for general use.

* * * * *

Village of Caledonia
 Schedule of Adjustments Passed (SOAP)
 For the June 30, 2007 Audit

In accordance with the provisions of SAS 89, *Audit Adjustments*, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. Also in accordance with SAS 89, we are providing this schedule to both management and the audit committee to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement			
Assets	Liabilities	Beginning Equity	Revenue	Expenses/ Expenditures
Sewer Enterprise Fund (Business-type Activities)				
Unposted prior accrual - Bond Interest	-	-	7,475	-
	-	-	7,475	-