

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 PENTWATER	County Oceana
Fiscal Year End March 31, 2007	Opinion Date August 29, 2007	Date Audit Report Submitted to State September 6, 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"/>	NO ADDITIONAL ITEMS REQUIRED		
Certified Public Accountant (Firm Name) Brickley DeLong, PLC		Telephone Number (231) 726-5800		
Street Address 316 Morris Avenue, Suite 500		City Muskegon	State MI	Zip 49443
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> for Brickley DeLong, PLC		Printed Name TIMOTHY D. ARTER		License Number 10253

Village of Pentwater
Oceana County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended March 31, 2007

Village of Pentwater
LIST OF ELECTED AND APPOINTED OFFICIALS
March 31, 2007

ELECTED OFFICIALS

Village Council President Juanita Pierman
Village Council..... Alvin Docter
Marilyn Sullivan
Jared Griffis
James Alfredson
Don Palmer
Jay Bryan

APPOINTED OFFICIALS

Village Manager Tim Taylor
Village Clerk/Treasurer Frances A. Tomczak
Deputy Village Clerk/Treasurer Cynthia Maguire
Village Accountant Dan McDonald

Village of Pentwater

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Village of Pentwater

Management's Discussion and Analysis

As management of the Village of Pentwater, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village's for the fiscal year ended March 31, 2007. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$5,890,596 and total liabilities of \$1,508,710 leaving net assets of \$4,381,886, an increase of 2.4% in the Village's overall net assets.
- Of the total \$4,381,886 in net assets, the Village may use \$1,353,100 (unrestricted net assets) to meet the ongoing obligations to citizens and creditors.
- Total revenues, including all program and general revenues, were \$1,905,223, made up of governmental revenues of \$1,372,579 and business-type revenues of \$532,644.
- Total expenses for all of the Village's programs were \$1,799,951. Of that total, the governmental expenses were \$1,275,320, and the business-type expenses were \$524,631.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements are comprised of 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.

The Statement of Net Assets presents information of all 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 Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the Village include the water, sewer and marina services.

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, 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 three categories; governmental funds, proprietary funds, and fiduciary 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 current sources and uses of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-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 short-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 the two.

The Village maintains several 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 Fund and Fire Fund, which are considered to be major funds.

Proprietary Funds. The Village has three enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer and marina operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water, Sewer and Marina funds, all of which are major funds.

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

Notes to 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 reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund and Fire Fund.

Government-wide Financial Analysis

The first table presented on the next page is a summary of the government-wide Statement of Net Assets for the Village of Pentwater. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2007, the Village's net assets from governmental activities totaled \$1,591,450 (36%) and \$2,790,436 (64%) from business-type activities, creating a total government-wide net assets total of \$4,381,886.

Village of Pentwater

Management's Discussion and Analysis

In examining composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, furniture, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$695,129. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

The business-type activities show a total of \$2,790,436 in net assets and \$657,971 (24%) in unrestricted net assets. The Sewer Fund, Water Fund and Marina Fund unrestricted net assets (deficits) are \$656,812, \$55,110 and (\$53,951), respectively.

Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Current assets and other assets	\$ 1,255,750	\$ 1,491,243	\$ 933,130	\$ 970,017	\$ 2,188,880	\$ 2,461,260
Capital assets	1,306,406	1,006,008	2,395,310	2,343,248	3,701,716	3,349,256
Total assets	2,562,156	2,497,251	3,328,440	3,313,265	5,890,596	5,810,516
Current liabilities	255,709	242,098	133,004	122,882	388,713	364,980
Noncurrent liabilities	714,997	760,962	405,000	407,960	1,119,997	1,168,922
Total liabilities	970,706	1,003,060	538,004	530,842	1,508,710	1,533,902
Net assets						
Invested in capital assets, net of related debt	561,406	221,008	1,965,310	1,913,248	2,526,716	2,134,256
Restricted	334,915	335,615	167,155	162,867	502,070	498,482
Unrestricted	695,129	937,568	657,971	706,308	1,353,100	1,643,876
Total net assets	\$ 1,591,450	\$ 1,494,191	\$ 2,790,436	\$ 2,782,423	\$ 4,381,886	\$ 4,276,614

Capital assets increased for governmental activities primarily because the Village had capital additions of \$382,975 and depreciation of \$82,577. This resulted in an increase in invested in capital assets, net of related debt category of net assets. Capital assets increased for business-type activities because the Village had capital additions of \$23,119, depreciation of \$117,561 and increase of construction in progress of \$146,504. This resulted in an increase in invested in capital assets, net of related debt category of net assets. The business-type activities capital asset additions were paid with current resources and therefore reduced the current assets of the business-type activities.

Village of Pentwater

Management's Discussion and Analysis

Governmental activities

Governmental activities increased by \$97,259 (6.5%) during the 2007 fiscal year. The following table depicts this occurrence which will be discussed in more detail later in this analysis.

Revenues and expenditures of governmental activities were fairly consistent for most categories. Property tax revenue is up to do growth in taxable values. Unrestricted investment earnings are up because interest rates have increased. Public safety expenses are up because the police department's wages for full-time officers increased. Public works expenses increased due to tree clean up from a severe storm and the purchase of public works safety supplies and equipment.

Business-type activities

At the end of the fiscal year, the net assets for business-type activities decreased by \$6,672 or .2%. Three funds comprise the business-type activities. The Sewer Fund experienced an increase in net assets for the year totaling \$35,077. The Water Fund experienced a decrease in net assets for the year totaling \$19,610 and the Marina Fund had a decrease in net assets of \$22,139.

Charges for services for business-type activities declined slightly due to a small decrease in usage. Sewer expense decreased due to less professional services.

Change in Net Assets

	Governmental		Business-type		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 251,636	\$ 245,317	\$ 499,842	\$ 524,409	\$ 751,478	\$ 769,726
Operating grants	168,411	118,779	-	-	168,411	118,779
General revenues						
Property taxes	775,455	723,162	-	-	775,455	723,162
Grants and contributions not restricted	78,006	79,351	-	-	78,006	79,351
Unrestricted investment earnings	47,417	40,121	32,802	25,245	80,219	65,366
Miscellaneous	51,654	23,903	-	-	23,903	23,903
Total revenues	1,372,579	1,230,633	532,644	549,654	1,877,472	1,780,287

Village of Pentwater

Management's Discussion and Analysis

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Expenses:						
General government	\$ 233,385	\$ 250,873	\$ -	\$ -	\$ 233,385	\$ 250,873
Public safety	408,616	356,286	-	-	408,616	356,286
Public works	480,012	355,363	-	-	480,012	355,363
Community and economic development	18,958	19,011	-	-	18,958	19,011
Culture and recreation	88,922	76,471	-	-	88,922	76,471
Interest on long-term debt	45,427	4,717	-	-	45,427	4,717
Sewer Fund	-	-	231,034	282,861	231,034	282,861
Water Fund	-	-	177,188	196,788	177,188	196,788
Marina Fund	-	-	116,409	127,305	116,409	127,305
Total expenses	<u>1,275,320</u>	<u>1,062,721</u>	<u>524,631</u>	<u>606,954</u>	<u>1,799,951</u>	<u>1,669,675</u>
Change in net assets	97,259	124,912	8,013	(57,300)	105,272	67,612
Net assets - Beginning	<u>1,494,191</u>	<u>1,369,279</u>	<u>2,782,423</u>	<u>2,839,723</u>	<u>4,276,614</u>	<u>4,209,002</u>
Net assets - Ending	<u>\$ 1,591,450</u>	<u>\$ 1,494,191</u>	<u>\$ 2,790,436</u>	<u>\$ 2,782,423</u>	<u>\$ 4,381,886</u>	<u>\$ 4,276,614</u>

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, 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 in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$900,675. This number represents the unreserved fund balance of \$558,405 in the General Fund, \$27,955 in the Fire Fund and \$314,315 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance of \$120,179 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of \$4,036, advances of \$47,023, and debt service of \$69,120. When the fund balance has been adjusted to account for these reserves, the result is a final fund balance of \$1,020,854, which consists of a fund balance of \$608,859 in the General Fund, \$27,955 in the Fire Fund and \$384,040 in other governmental funds.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year 2007, the unreserved General Fund fund balance was \$558,405 and the total General Fund fund balance was \$608,859. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 58% of the General Fund expenditures.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Unrestricted net assets in the Sewer, Water and Marina Funds increased (decreased) by \$35,077, (\$4,925) and (\$22,139), respectively. The result was an overall net increase in the proprietary funds of \$8,013.

General Fund Budget

During the current fiscal year, the Village made several amendments to its original budget. The most significant of those is listed below:

- Property taxes were increased \$23,000, reflecting a change in the assessor's estimate of taxable value.
- The clerks' budget was decreased by \$4,500 reflecting a decrease in supplies.
- The original DPW budget was increased by \$124,000 reflecting additional safety equipment required by the State of Michigan, additional labor for repairs and professional services designing the new public restrooms.
- The original street lighting budget was increased by \$5,000 to cover an increase in utility rates.
- The original sanitation budget was increased by \$6,000.
- The original parks budget was increased by \$15,000 because of additional costs surrounding the restroom facilities.
- Capital outlay budgets were increased \$41,700 to reflect the necessity of purchasing the restroom facility and other equipment purchases.

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

- Investment earnings revenue was \$7,329 above the budgeted amount because interest rates were higher than anticipated.
- Council expenditures were \$9,431 less than budgeted because legal expenses, lake board assessment, property, liability and workers' compensation insurance premiums were all lower than anticipated.
- Clerk expenditures were \$8,621 less than budgeted because retirement, utilities, phone lease/maintenance, equipment repairs and postage were all lower than anticipated.
- Police department expenditures were \$34,690 less than budgeted because part time payroll costs were less than anticipated.
- DPW expenditures were \$34,613 less than budgeted because payroll expenses, retirement, operating supplies (except for safety equipment), repairs and maintenance and equipment rental were all lower than anticipated.
- Sanitation expenditures were \$3,278 less than budgeted because a surcharge was added by Allied Waste in order to cover increased fuel costs was not as high as anticipated.
- The Planning Commission was \$5,866 under budget of fewer issues and less legal fees.
- Capital Outlay expenditures were \$34,852 less than budgeted as not all expected equipment was purchased in the current year.

Capital Asset Administration

The Village's investment in capital assets for its governmental and business-type activities as of March 31, 2007 totaled \$3,639,766 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, infrastructure (including utility systems), furniture, vehicles and equipment.

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

- The Village started remodeling the kitchen at the Friendship Center for \$3,750.
- The Village made a down payment of \$61,950 on a fire trainer.
- The Village spent \$4,980 to improve the gazebo on the Village Green.
- The Village made improvements to the tennis courts totaling \$7,318.
- The Village purchased a new phone system for Village hall at a cost of \$4,400 and a specialized camera at a cost of \$3,340.
- The Village purchased a building to provide restroom facilities in downtown at a cost of \$49,000.
- The Village DPW acquired additional safety equipment at a cost of \$30,041.
- The Fire Department acquired a new grass fire rig at a total cost of \$139,941 and replaced doors on the fire barn at a cost of \$6,700.
- The Equipment Fund purchased a new police car at a cost of \$24,936, a new pickup truck costing \$27,299, and other equipment costing \$8,988.
- The Village incurred engineering costs in preparation for a major water system upgrade of \$136,594.
- The Sewer Fund purchased equipment related to lift stations and pump totaling \$37,696.

Capital Assets

(Net of Accumulated Depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Land	\$ 34,699	\$ 34,699	\$ 254,190	\$ 254,190	\$ 288,889	\$ 288,889
Construction in progress	65,700	-	157,905	11,401	223,605	11,401
Land improvements	40,631	35,066	-	-	40,631	35,066
Buildings and improvements	407,637	363,911	-	-	407,637	363,911
Equipment	735,934	557,016	-	-	735,934	557,016
Infrastructure	21,805	15,316	-	-	21,805	15,316
Sewer system	-	-	1,529,831	1,585,499	1,529,831	1,585,499
Water system	-	-	331,730	354,254	331,730	354,254
Marina	-	-	121,654	137,904	121,654	137,904
Total	\$ 1,306,406	\$ 1,006,008	\$ 2,395,310	\$ 2,343,248	\$ 3,701,716	\$ 3,349,256

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Village of Pentwater

Management's Discussion and Analysis

Long-Term Debt

At the end of the 2007 fiscal year, the Village had total outstanding debt of \$1,189,998 consisting of general obligation bonds, revenue bonds and compensated absences. The general obligation debt of \$745,000 is backed by the full-faith and credit of the Village. The revenue bonds of \$430,000 are anticipated to be repaid through the revenues generated from the Sewer Fund.

Outstanding Debt

	Governmental		Business-type		Total	
	2007	2006	2007	2006	2007	2006
Revenue bonds	\$ -	\$ -	\$ 430,000	\$ 455,000	\$ 430,000	\$ 455,000
General obligation bonds	745,000	785,000	-	-	745,000	785,000
Compensated absences	16,345	21,404	4,823	3,947	21,168	25,351
Total	<u>\$ 761,345</u>	<u>\$ 806,404</u>	<u>\$ 434,823</u>	<u>\$ 458,947</u>	<u>\$ 1,196,168</u>	<u>\$ 1,265,351</u>

The Village's total debt decreased by \$65,236 during the fiscal year. This decrease was due to the normal debt payoffs as provided for in the fiscal year 2007 budget.

Additional information on the Village's long-term debt can be found in Note G of the "Notes to Financial Statements" of this report.

General Economic Overview

The Village has set fiscal accountability and financial stability as its number one priority. This is also its greatest challenge.

The Village's General Fund has three major revenue sources – state revenue sharing, property tax revenue and garbage collection fees. These three sources comprised over 93% of the General Fund revenue sources. In fiscal 2008, state revenue sharing is expected to remain stagnant or possibly decrease. This is dependent on the financing situation at the State of Michigan. Property tax revenues are expected to increase as the new construction in the Village begins to be placed on the tax rolls. Garbage collection fees are expected to remain the same unless the garbage collection company imposes a fuel surcharge forcing the Village to raise rates to cover the additional expenses.

Expenditures are expected increase due to contract settlements with the DPW department and police department patrolmen. Insurance premiums are also expected to increase as well as repair and maintenance expenses because of the aging Village buildings and parks. In addition, the Village is anticipating the overall cost of living increases to affect all expenses.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Pentwater, 327 South Hancock Street, Pentwater, MI 49449, (231) 869-8301.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 29, 2007

Village Manager and Members
of the Village Council
Village of Pentwater
Pentwater, Michigan 49449

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater, Michigan, as of and for the year ended March 31, 2007 which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Pentwater's management. Our responsibility is to express an opinion 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, each major fund and the aggregate remaining fund information of the Village of Pentwater as of March 31, 2007 and the respective changes in financial position, and, where applicable, cash flows 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 29, 2007, on our consideration of the Village of Pentwater's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant and 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 the 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.

BRICKLEY DELONG

Village Manager and Members
of the Village Council
August 29, 2007
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - viii and 28 - 29 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 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 an opinion on the financial statements that collectively comprise the Village of Pentwater's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements 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.

Brickley DeLong, PLC

Village of Pentwater
STATEMENT OF NET ASSETS
 March 31, 2007

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 1,104,056	\$ 694,546	\$ 1,798,602
Receivables	23,588	90,675	114,263
Due from other governmental units	76,762	-	76,762
Internal balances	47,023	(47,023)	-
Inventories	-	25,740	25,740
Prepaid items	4,321	2,037	6,358
Total current assets	1,255,750	765,975	2,021,725
NONCURRENT ASSETS			
Restricted assets	-	167,155	167,155
Capital assets, net			
Nondepreciable	100,399	412,095	512,494
Depreciable	1,206,007	1,983,215	3,189,222
Total noncurrent assets	1,306,406	2,562,465	3,868,871
Total assets	2,562,156	3,328,440	5,890,596

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable and accrued liabilities	55,149	51,211	106,360
Deferred revenue	154,212	51,970	206,182
Bonds and other obligations, due within one year	46,348	29,823	76,171
Total current liabilities	255,709	133,004	388,713
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	714,997	405,000	1,119,997
Total liabilities	970,706	538,004	1,508,710
NET ASSETS			
Invested in capital assets, net of related debt	561,406	1,965,310	2,526,716
Restricted for:			
Streets and highways	265,795	-	265,795
Debt service	69,120	167,155	236,275
Unrestricted	695,129	657,971	1,353,100
Total net assets	\$ 1,591,450	\$ 2,790,436	\$ 4,381,886

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF ACTIVITIES
For the year ended March 31, 2007

<i>Functions/Programs</i>	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for services	Operating grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities						
General government	\$ 233,385	\$ 15,170	\$ 3,400	\$ (214,815)	\$ -	\$ (214,815)
Public safety	408,616	145,714	62,663	(200,239)	-	(200,239)
Public works	480,012	81,727	102,348	(295,937)	-	(295,937)
Community and economic development	18,958	-	-	(18,958)	-	(18,958)
Culture and recreation	88,922	9,025	-	(79,897)	-	(79,897)
Interest on long-term debt	45,427	-	-	(45,427)	-	(45,427)
Total governmental activities	1,275,320	251,636	168,411	(855,273)	-	(855,273)
Business-type activities						
Sewer	231,034	237,416	-	-	6,382	6,382
Water	177,188	169,154	-	-	(8,034)	(8,034)
Marina	116,409	93,272	-	-	(23,137)	(23,137)
Total business-type activities	524,631	499,842	-	-	(24,789)	(24,789)
Total government	\$ <u>1,799,951</u>	\$ <u>751,478</u>	\$ <u>168,411</u>	(855,273)	(24,789)	(880,062)
General revenues						
Property taxes, levied for:						
General purposes				688,684	-	688,684
Specific purposes				86,771	-	86,771
Grants and contributions not restricted to specific programs				78,006	-	78,006
Unrestricted investment earnings				47,417	32,802	80,219
Miscellaneous				51,654	-	51,654
Total general revenues				952,532	32,802	985,334
Change in net assets				97,259	8,013	105,272
Net assets at April 1, 2006				1,494,191	2,782,423	4,276,614
Net assets at March 31, 2007				\$ <u>1,591,450</u>	\$ <u>2,790,436</u>	\$ <u>4,381,886</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
BALANCE SHEET
 Governmental Funds
 March 31, 2007

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 522,487	\$ 171,858	\$ 361,670	\$ 1,056,015
Accounts receivable	23,246	-	128	23,374
Due from other governmental units	38,029	14,157	24,576	76,762
Prepaid items	3,431	-	605	4,036
Advances to other funds	47,023	-	-	47,023
Total assets	\$ 634,216	\$ 186,015	\$ 386,979	\$ 1,207,210
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 18,310	\$ 5,519	\$ 2,046	\$ 25,875
Accrued liabilities	5,571	-	423	5,994
Customer deposits	-	-	275	275
Deferred revenue	1,476	152,541	195	154,212
Total liabilities	25,357	158,060	2,939	186,356
 Fund balances				
Reserved for:				
Prepaid items	3,431	-	605	4,036
Advances	47,023	-	-	47,023
Debt service	-	-	69,120	69,120
Unreserved				
Designated for improvements	-	-	2,538	2,538
Undesignated, reported in				
General Fund	558,405	-	-	558,405
Special revenue funds	-	27,955	311,777	339,732
Total fund balances	608,859	27,955	384,040	1,020,854
Total liabilities and fund balances	\$ 634,216	\$ 186,015	\$ 386,979	\$ 1,207,210

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 March 31, 2007

Total fund balance—governmental funds		\$ 1,020,854
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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 are not reported in the governmental funds.

Cost of capital assets	\$ 1,858,558	
Accumulated depreciation	<u>(743,682)</u>	1,114,876

Accrued interest in governmental activities is not reported in the governmental funds.		(22,400)
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Long-term liabilities in governmental activities are not due and payable in the current period and are not reported in the governmental funds.

Bonds payable	(745,000)	
Compensated absences	<u>(14,998)</u>	(759,998)

Internal service funds are used by management to charge the costs of equipment used to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

		<u>238,118</u>
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Net assets of governmental activities in the Statement of Net Assets		\$ <u><u>1,591,450</u></u>
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The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended March 31, 2007

	General Fund	Fire Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 601,558	\$ -	\$ 173,899	\$ 775,457
Licenses and permits	10,204	-	-	10,204
Intergovernmental revenues				
Federal	-	61,950	-	61,950
State	78,719	-	102,349	181,068
Charges for services	85,832	145,656	6,119	237,607
Fines and forfeitures	3,877	-	-	3,877
Investment earnings	24,329	6,201	15,044	45,574
Other	31,272	20,427	3,305	55,004
Total revenues	835,791	234,234	300,716	1,370,741
EXPENDITURES				
Current				
General government	194,951	-	-	194,951
Public safety	258,696	108,671	-	367,367
Public works	336,168	-	145,193	481,361
Community and economic development	18,818	-	-	18,818
Culture and recreation	88,427	-	-	88,427
Other governmental functions	-	-	30,216	30,216
Debt service				
Principal	-	-	40,000	40,000
Interest and fees	-	-	46,471	46,471
Capital outlay	72,848	208,093	15,659	296,600
Total expenditures	969,908	316,764	277,539	1,564,211
Excess of revenues over (under) expenditures	(134,117)	(82,530)	23,177	(193,470)
OTHER FINANCING SOURCES (USES)				
Transfers in	49,000	-	-	49,000
Transfers out	-	-	(49,000)	(49,000)
Total other financing sources (uses)	49,000	-	(49,000)	-
Net change in fund balances	(85,117)	(82,530)	(25,823)	(193,470)
Fund balances at April 1, 2006	693,976	110,485	409,863	1,214,324
Fund balances at March 31, 2007	\$ 608,859	\$ 27,955	\$ 384,040	\$ 1,020,854

The accompanying notes are an integral part of this statement.

Village of Pentwater
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended March 31, 2007

Net change in fund balances—total governmental funds \$ (193,470)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (60,875)	
Capital outlay	<u>321,702</u>	260,827

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	40,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,200
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	5,264
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The internal service fund is used by management to charge the costs of certain activities to individual funds. The net change of the internal service funds is reported with governmental activities.	<u>(16,562)</u>
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Change in net assets of governmental activities	<u><u>\$ 97,259</u></u>
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The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF NET ASSETS
Proprietary Funds
March 31, 2007

ASSETS

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
CURRENT ASSETS					
Cash and investments	\$ 616,004	\$ 33,724	\$ 44,818	\$ 694,546	\$ 48,042
Accounts receivable	58,068	32,607	-	90,675	211
Inventories	-	25,740	-	25,740	-
Prepaid items	779	854	404	2,037	285
Total current assets	674,851	92,925	45,222	812,998	48,538
NONCURRENT ASSETS					
Restricted assets	167,155	-	-	167,155	-
Capital assets					
Land	2,196	-	251,994	254,190	-
Plants and systems	2,631,895	777,771	-	3,409,666	-
Building and improvements	253,360	224,566	147,143	625,069	-
Equipment	54,870	35,497	160,805	251,172	451,471
Docks	-	-	181,004	181,004	-
Construction in progress	16,265	141,640	-	157,905	-
Less accumulated depreciation	(1,410,294)	(706,104)	(367,298)	(2,483,696)	(259,939)
Net capital assets	1,548,292	473,370	373,648	2,395,310	191,532
Total noncurrent assets	1,715,447	473,370	373,648	2,562,465	191,532
Total assets	2,390,298	566,295	418,870	3,375,463	240,070
LIABILITIES AND NET ASSETS (DEFICITS)					
CURRENT LIABILITIES					
Accounts payable	1,937	34,863	54	36,854	493
Accrued liabilities	13,913	409	35	14,357	111
Deferred revenue	-	-	51,970	51,970	-
Bonds and other obligations, due within one year	27,189	2,543	91	29,823	1,348
Total current liabilities	43,039	37,815	52,150	133,004	1,952
NONCURRENT LIABILITIES					
Advances from other funds	-	-	47,023	47,023	-
Bonds and other obligations, less amounts due within one year	405,000	-	-	405,000	-
Total noncurrent liabilities	405,000	-	47,023	452,023	-
Total liabilities	448,039	37,815	99,173	585,027	1,952
NET ASSETS (DEFICITS)					
Invested in capital assets, net of related debt	1,118,292	473,370	373,648	1,965,310	191,532
Restricted for debt service	167,155	-	-	167,155	-
Unrestricted	656,812	55,110	(53,951)	657,971	46,586
Total net assets	\$ 1,942,259	\$ 528,480	\$ 319,697	\$ 2,790,436	\$ 238,118

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended March 31, 2007

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
OPERATING REVENUES					
Charges for services	\$ 237,416	\$ 169,154	\$ 93,272	\$ 499,842	\$ 70,112
OPERATING EXPENSES					
Administration	53,790	88,594	-	142,384	-
Operations	80,683	56,430	98,358	235,471	72,097
Depreciation	69,148	32,164	16,249	117,561	21,701
Total operating expenses	<u>203,621</u>	<u>177,188</u>	<u>114,607</u>	<u>495,416</u>	<u>93,798</u>
Operating income (loss)	33,795	(8,034)	(21,335)	4,426	(23,686)
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	28,695	3,109	998	32,802	1,844
Gain on sale of capital assets	-	-	-	-	5,280
Interest expense	<u>(27,413)</u>	<u>-</u>	<u>(1,802)</u>	<u>(29,215)</u>	<u>-</u>
Total nonoperating revenue (expenses)	<u>1,282</u>	<u>3,109</u>	<u>(804)</u>	<u>3,587</u>	<u>7,124</u>
Change in net assets	35,077	(4,925)	(22,139)	8,013	(16,562)
Net assets at April 1, 2006	<u>1,907,182</u>	<u>533,405</u>	<u>341,836</u>	<u>2,782,423</u>	<u>254,680</u>
Net assets at March 31, 2007	<u>\$ 1,942,259</u>	<u>\$ 528,480</u>	<u>\$ 319,697</u>	<u>\$ 2,790,436</u>	<u>\$ 238,118</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended March 31, 2007

	Business-type Activities - Enterprise funds				Governmental Activities - Internal service fund
	Sewer	Water	Marina	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 237,022	\$ 169,640	\$ 103,467	\$ 510,129	\$ -
Receipts from interfund services provided	-	-	-	-	76,944
Payments to suppliers	(82,908)	(50,720)	(47,424)	(181,052)	(40,661)
Payments to employees	(53,178)	(64,619)	(47,568)	(165,365)	(23,350)
Payment for interfund services used	(852)	(1,073)	(58)	(1,983)	-
Net cash provided by operating activities	<u>100,084</u>	<u>53,228</u>	<u>8,417</u>	<u>161,729</u>	<u>12,933</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from other funds (net)	-	-	(2,766)	(2,766)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of capital assets	(29,745)	(139,879)	-	(169,624)	(61,273)
Principal paid on capital debt	(25,000)	-	-	(25,000)	-
Interest paid on capital debt	(28,210)	-	(1,802)	(30,012)	-
Proceeds from sale of capital assets	-	-	-	-	5,280
Net cash used for capital and related financing activities	<u>(82,955)</u>	<u>(139,879)</u>	<u>(1,802)</u>	<u>(224,636)</u>	<u>(55,993)</u>
CASH FLOW FROM INVESTING ACTIVITIES					
Investment earnings	28,695	3,109	998	32,802	1,844
Net increase (decrease) in cash and investments	<u>45,824</u>	<u>(83,542)</u>	<u>4,847</u>	<u>(32,871)</u>	<u>(41,216)</u>
Cash and investments at April 1, 2006	<u>737,335</u>	<u>117,266</u>	<u>39,971</u>	<u>894,572</u>	<u>89,258</u>
Cash and investments at March 31, 2007	<u>\$ 783,159</u>	<u>\$ 33,724</u>	<u>\$ 44,818</u>	<u>\$ 861,701</u>	<u>\$ 48,042</u>
Reconciliation of cash and investments to the statement of net assets					
Cash and investments	\$ 616,004	\$ 33,724	\$ 44,818	\$ 694,546	\$ 48,042
Restricted assets	<u>167,155</u>	<u>-</u>	<u>-</u>	<u>167,155</u>	<u>-</u>
	<u>\$ 783,159</u>	<u>\$ 33,724</u>	<u>\$ 44,818</u>	<u>\$ 861,701</u>	<u>\$ 48,042</u>
Reconciliation of operating income (loss) to net cash provided by operating activities					
Operating income (loss)	\$ 33,795	\$ (8,034)	\$ (21,335)	\$ 4,426	\$ (23,686)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities					
Depreciation expense	69,148	32,164	16,249	117,561	21,701
Change in assets and liabilities					
Receivables, net	(394)	486	-	92	(211)
Internal balances	(852)	(1,073)	(58)	(1,983)	7,044
Inventories	-	(1,477)	-	(1,477)	-
Prepaid items	2,198	2,725	5,226	10,149	7,741
Accounts payable	(3,720)	27,932	(1,489)	22,723	147
Accrued liabilities	(91)	505	(371)	43	197
Deferred revenue	-	-	10,195	10,195	-
Net cash provided by operating activities	<u>\$ 100,084</u>	<u>\$ 53,228</u>	<u>\$ 8,417</u>	<u>\$ 161,729</u>	<u>\$ 12,933</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
March 31, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and investments	\$ <u>98</u>
LIABILITIES	
Due to other governmental units	\$ <u>98</u>

The accompanying notes are an integral part of this statement.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Pentwater (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Reporting Entity

The Village is a municipal corporation governed by an elected seven-member Village Council and is administered by a Village manager appointed by the Village Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Units

Downtown Development Authority. The Village appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt (if any) remains with the Village. The Authority is reported as a special revenue fund.

Pentwater Fire Department. The Village approves all board members and annual budgets for the Fire Department, and the legal liability for the general obligation portion of their debt (if any) remains with the Village. The Fire Department is reported as a special revenue fund.

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. 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 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 requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

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

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. 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 as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 and claims and judgments, are recorded only when 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

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

The Fire Fund provides fire protection services for the Village.

The Village reports the following three major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station and collection systems.

The Water Fund operates the Village's water distribution system.

The Marina Fund operates the Village marina.

Additionally, the Village reports the following fund types:

Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

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 Government 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 Village has elected not to follow subsequent private-sector guidance.

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

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, including special assessments. 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 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 are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. 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.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, banker's acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Village's investment pool.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following September 15 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the Village totaled approximately \$75,100,000 of which approximately \$8,700,000 was captured by the Downtown Development Authority. The ad valorem taxes levied consisted of 8.0691, .5316, .3266, and 1.1445 mills for the Village's general operations, street improvements, friendship center, and improvement projects. These amounts are recognized in the respective General Fund, Local Street Fund, Friendship Center Fund, and Debt Service Fund with captured amounts shown in the DDA.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the Village chose to include only items acquired since April 1, 2004 as allowed by generally accepted accounting principles.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25-40
Infrastructure	20-30
Land improvements	10-20
Equipment	5-10
Docks	10
Water system	15-50
Sewage system	25-100

Compensated Absences

Village employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment. Unused sick leave is accumulated up to 120 days for police and 90 days for all other Village employees. One-half of all unused accumulated sick leave is paid to employees who resign or retire. All vacation and sick pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

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

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

Fund Equity

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds and debt service funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the fiscal year, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended March 31, 2007, actual expenditures exceeded appropriations for capital outlay by \$32,093 in the Fire Fund. These overexpenditures were funded with available fund balance.

Fund Deficits

As of March 31, 2007, the Marina Fund had an unrestricted fund deficit of \$53,951. The deficit will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

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 law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Village has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2007, \$1,745,704 of the Village's bank balance of \$1,965,704 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Village does not have a custodial credit risk policy for investments. This 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.

Foreign currency risk. The Village is not authorized to invest in investments which have this type of risk.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Restricted Assets

Restrictions are placed on assets by bond ordinance and Village Council action. At March 31, 2007, restricted cash and investments in the enterprise funds are restricted as follows:

Business-type activities

Sewer Fund

Bond and Interest Redemption Fund	\$ 39,820
Replacement Fund	62,839
Bonds reserve fund	<u>64,496</u>
	<u>\$ 167,155</u>

After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

NOTE D—CAPITAL ASSETS

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

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 34,699	\$ -	\$ -	\$ 34,699
Construction in progress	<u>-</u>	<u>65,700</u>	<u>-</u>	<u>65,700</u>
Total capital assets, not being depreciated	34,699	65,700	-	100,399
Capital assets, being depreciated:				
Land improvements	41,580	8,228	-	49,808
Buildings and improvements	605,636	60,180	-	665,816
Equipment	1,279,972	241,900	50,442	1,471,430
Infrastructure	<u>15,609</u>	<u>6,967</u>	<u>-</u>	<u>22,576</u>
Total capital assets, being depreciated	1,942,797	317,275	50,442	2,209,630

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:—Continued				
Less accumulated depreciation:				
Land improvements	\$ 6,514	\$ 2,663	\$ -	\$ 9,177
Buildings and improvements	241,725	16,454	-	258,179
Equipment	722,956	62,982	50,442	735,496
Infrastructure	293	478	-	771
	<u>971,488</u>	<u>82,577</u>	<u>50,442</u>	<u>1,003,623</u>
Total accumulated depreciation				
	<u>971,488</u>	<u>82,577</u>	<u>50,442</u>	<u>1,003,623</u>
Total capital assets, being depreciated, net	<u>971,309</u>	<u>234,698</u>	<u>-</u>	<u>1,206,007</u>
Capital assets, net	<u>\$ 1,006,008</u>	<u>\$ 300,398</u>	<u>\$ -</u>	<u>\$ 1,306,406</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 254,190	\$ -	\$ -	\$ 254,190
Construction in progress	11,401	146,504	-	157,905
	<u>265,591</u>	<u>146,504</u>	<u>-</u>	<u>412,095</u>
Total capital assets, not being depreciated				
	<u>265,591</u>	<u>146,504</u>	<u>-</u>	<u>412,095</u>
Capital assets, being depreciated:				
Plants and systems	3,397,420	12,246	-	3,409,666
Buildings and improvements	622,511	2,558	-	625,069
Equipment	242,857	8,315	-	251,172
Docks	181,004	-	-	181,004
	<u>4,443,792</u>	<u>23,119</u>	<u>-</u>	<u>4,466,911</u>
Total capital assets, being depreciated				
	<u>4,443,792</u>	<u>23,119</u>	<u>-</u>	<u>4,466,911</u>
Less accumulated depreciation:				
Plants and systems	1,734,525	79,709	-	1,814,234
Building and improvements	296,344	24,745	-	321,089
Equipment	230,595	3,795	-	234,390
Docks	104,671	9,312	-	113,983
	<u>2,366,135</u>	<u>117,561</u>	<u>-</u>	<u>2,483,696</u>
Total accumulated depreciation				
	<u>2,366,135</u>	<u>117,561</u>	<u>-</u>	<u>2,483,696</u>
Total capital assets, being depreciated, net	<u>2,077,657</u>	<u>(94,442)</u>	<u>-</u>	<u>1,983,215</u>
Capital assets, net	<u>\$ 2,343,248</u>	<u>\$ 52,062</u>	<u>\$ -</u>	<u>\$ 2,395,310</u>

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 9,010
Public safety	41,395
Public works	9,836
Community and economic development	140
Culture and recreation	495
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	21,701
	<u>\$ 82,577</u>

Business-type activities:

Sewer	\$ 69,148
Water	32,164
Marina	16,249
	<u>\$ 117,561</u>

NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of March 31, 2007, the General Fund has advanced \$47,023 to the Marina Fund to fund capital improvements.

The Downtown Development Authority transferred \$49,000 to the General Fund to assist in the purchase of new public bathrooms.

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	Unavailable	Unearned
Receivables	\$ -	\$ 1,671
Property taxes	9,427	143,114
Total deferred revenue for governmental funds	<u>\$ 9,427</u>	<u>\$ 144,785</u>

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE G—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Village for the year ended March 31, 2007.

	Balance April 1, 2006	Additions	Reductions	Balance March 31, 2007	Due within one year
Governmental activities:					
General obligation bonds	\$ 785,000	\$ -	\$ 40,000	\$ 745,000	\$ 40,000
Compensated absences	<u>21,404</u>	<u>2,076</u>	<u>7,135</u>	<u>16,345</u>	<u>6,348</u>
Governmental activity long-term liabilities	<u>\$ 806,404</u>	<u>\$ 2,076</u>	<u>\$ 47,135</u>	<u>\$ 761,345</u>	<u>\$ 46,348</u>
Business-type activities:					
Revenue bonds	\$ 455,000	\$ -	\$ 25,000	\$ 430,000	\$ 25,000
Compensated absences	<u>3,947</u>	<u>2,192</u>	<u>1,316</u>	<u>4,823</u>	<u>4,823</u>
Business-type activity long-term liabilities	<u>\$ 458,947</u>	<u>\$ 2,192</u>	<u>\$ 26,316</u>	<u>\$ 434,823</u>	<u>\$ 29,823</u>

Governmental activities:

General obligation bonds:

\$990,000 General Obligation bonds of 1996
 due in annual installments of \$40,000
 to \$100,000 through April 2017; plus
 interest at rates varying from 6% to
 6.05%

\$ 745,000

Compensated absences

16,345

\$ 761,345

Business-type activities:

Revenue bonds:

\$750,000 Sewage Disposal Junior Lien Revenue
 bonds of 1986 due in annual
 installments of \$25,000 through April
 2025; plus interest at 6.38%

\$ 430,000

Compensated absences

4,823

\$ 434,823

The general obligation bonds are backed by the full faith and credit of the Village.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE G—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

The Village was in compliance in all material respects with all the revenue bond ordinances at March 31, 2007.

Annual debt service requirements to maturity for debt outstanding as of March 31, 2007 follows:

Year ending March 31,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2008	\$ 40,000	\$ 43,633	\$ 25,000	\$ 27,413
2009	50,000	40,933	25,000	25,819
2010	50,000	37,933	25,000	24,225
2011	55,000	34,783	25,000	22,631
2012-2016	365,000	113,893	125,000	89,250
2017-2021	185,000	11,646	125,000	49,406
2022-2025	-	-	80,000	14,663
	<u>\$ 745,000</u>	<u>\$ 282,821</u>	<u>\$ 430,000</u>	<u>\$ 253,407</u>

NOTE H—OTHER INFORMATION

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. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
March 31, 2007

NOTE H—OTHER INFORMATION—Continued

Post-Retirement Health Care

The Village has agreed to provide post-retirement health care to certain employees after they retire.

As of year end, there were two retired employees receiving benefits. The Village finances the Plan on a pay-as-you-go basis. For the year ended March 31, 2007, the Village's post-retirement health care cost under the Plan was approximately \$9,627.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

Pension Plan

Plan Description. The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Pentwater
327 S. Hancock Street
Pentwater, MI 49449

Funding Policy. Village employees contribute 3 percent of their earnings to the Plan. The Village is required to contribute at an actuarially-determined rate depending upon position from 7.52 to 9.33 percent of covered payroll.

Village of Pentwater
NOTES TO FINANCIAL STATEMENTS—CONTINUED
 March 31, 2007

NOTE I—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued

Annual Pension Cost. For the year ended March 31, 2007, the Village's annual pension cost was approximately \$28,300 which the Village contributed. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 4.5 percent to 12.9 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a nine-year period.

Three-Year Trend Information

Year ended	Approximate Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
03/31/05	\$ 20,800	100 %	\$ -
03/31/06	20,200	100	-
03/31/07	28,300	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
12/31/03	\$ 905,151	\$ 958,795	\$ 53,644	94 %	\$ 341,371	16 %
12/31/04	951,218	1,045,535	94,317	91	348,741	27
12/31/05	986,674	1,049,877	63,203	94	285,803	22

NOTE J—COMMITMENTS

Subsequent to year end, the Village borrowed up to \$1,500,000 in General Obligation Bonds through the Clean Drinking Water Fund program. Bond proceeds will be used to make improvements to the Village Water Supply System.

The Downtown Development Authority has agreed to reimburse the Village approximately \$25,000 per year for the Village's construction of new bathroom facilities near the Village Green.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Pentwater
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 585,044	\$ 608,108	\$ 601,558	\$ (6,550)
Licenses and permits	9,900	9,900	10,204	304
Intergovernmental revenues - State	77,500	77,500	78,719	1,219
Charges for services	85,275	85,275	85,832	557
Fines and forfeitures	3,500	3,500	3,877	377
Investment earnings	17,000	17,000	24,329	7,329
Other	10,000	13,200	31,272	18,072
Total revenues	788,219	814,483	835,791	21,308
EXPENDITURES				
Current				
General government				
Council	64,306	64,306	54,875	9,431
President	6,450	6,450	5,268	1,182
Manager	32,498	32,498	29,092	3,406
Clerk	102,013	97,513	88,892	8,621
Treasurer	4,100	4,100	3,251	849
Hall	12,250	12,250	9,613	2,637
Community promotion	5,230	5,230	3,960	1,270
Public safety				
Police department	293,386	293,386	258,696	34,690
Public works				
DPW	130,920	254,920	220,307	34,613
Street lighting	28,150	33,150	28,139	5,011
Sanitation	85,000	91,000	87,722	3,278
Community and economic development				
Planning commission	11,245	11,245	5,379	5,866
Zoning	14,579	14,579	13,439	1,140
Culture and recreation				
Recreation program	9,730	9,730	9,409	321
Parks	69,550	84,550	79,018	5,532
Capital outlay	66,000	107,700	72,848	34,852
Total expenditures	935,407	1,122,607	969,908	152,699
Excess of revenues over (under) expenditures	(147,188)	(308,124)	(134,117)	174,007
OTHER FINANCING SOURCES (USES)				
Transfers in	-	49,000	49,000	-
Transfers out	-	(25,000)	-	25,000
Total other financing sources (uses)	-	24,000	49,000	25,000
Net change in fund balance	\$ (147,188)	\$ (284,124)	(85,117)	\$ 199,007
Fund balance at April 1, 2006			693,976	
Fund balance at March 31, 2007			\$ 608,859	

Village of Pentwater
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Fire Fund
 For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Intergovernmental revenues - Federal	\$ -	\$ 61,950	\$ 61,950	\$ -
Charges for services	143,891	143,891	145,656	1,765
Investment earnings	-	5,371	6,201	830
Other	1,400	16,550	20,427	3,877
Total revenues	145,291	227,762	234,234	6,472
EXPENDITURES				
Current				
Public safety	111,071	155,697	108,671	47,026
Capital outlay	134,000	176,000	208,093	(32,093)
Total expenditures	245,071	331,697	316,764	14,933
Net change in fund balance	\$ (99,780)	\$ (103,935)	(82,530)	\$ 21,405
Fund balance at April 1, 2006			110,485	
Fund balance at March 31, 2007			\$ 27,955	

OTHER SUPPLEMENTAL INFORMATION

Village of Pentwater
COMBINING BALANCE SHEET
 Other Governmental Funds
 March 31, 2007

	Total other governmental funds	Special Revenue				Memorial Fund	Debt Service
		Major Street	Local Street	Downtown Development Authority	Friendship Center		Debt Service
ASSETS							
Cash and investments	\$ 361,670	\$ 202,934	\$ 43,758	\$ 12,735	\$ 33,438	\$ 2,538	\$ 66,267
Accounts receivable	128	102	-	12	12	-	2
Due from other governmental units	24,576	10,442	8,425	1,245	991	-	3,473
Prepaid items	605	205	329	-	71	-	-
Total assets	<u>\$ 386,979</u>	<u>\$ 213,683</u>	<u>\$ 52,512</u>	<u>\$ 13,992</u>	<u>\$ 34,512</u>	<u>\$ 2,538</u>	<u>\$ 69,742</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Accounts payable	\$ 2,046	\$ 28	\$ 274	\$ 922	\$ 200	\$ -	\$ 622
Accrued liabilities	423	2	96	-	325	-	-
Customer deposits	275	-	-	-	275	-	-
Deferred revenue	195	-	-	-	195	-	-
Total liabilities	2,939	30	370	922	995	-	622
Fund balances							
Reserved for:							
Prepaid items	605	205	329	-	71	-	-
Debt service	69,120	-	-	-	-	-	69,120
Unreserved:							
Designated for improvements	2,538	-	-	-	-	2,538	-
Undesignated	311,777	213,448	51,813	13,070	33,446	-	-
Total fund balances	<u>384,040</u>	<u>213,653</u>	<u>52,142</u>	<u>13,070</u>	<u>33,517</u>	<u>2,538</u>	<u>69,120</u>
Total liabilities and fund balances	<u>\$ 386,979</u>	<u>\$ 213,683</u>	<u>\$ 52,512</u>	<u>\$ 13,992</u>	<u>\$ 34,512</u>	<u>\$ 2,538</u>	<u>\$ 69,742</u>

Village of Pentwater
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Other Governmental Funds
 For the year ended March 31, 2007

	Total other governmental funds	Special Revenue					Debt Service
		Major Street	Local Street	Downtown Development Authority	Friendship Center	Memorial Fund	
REVENUES							
Property taxes	\$ 173,899	\$ -	\$ 39,678	\$ 23,094	\$ 24,356	\$ -	\$ 86,771
Intergovernmental revenues - State	102,349	59,812	42,537	-	-	-	-
Charges for services	6,119	2,244	-	-	3,875	-	-
Investment earnings	15,044	8,311	1,610	1,658	1,413	85	1,967
Other	3,305	99	-	-	-	3,206	-
Total revenues	300,716	70,466	83,825	24,752	29,644	3,291	88,738
EXPENDITURES							
Current							
Public works	145,193	64,720	80,473	-	-	-	-
Other governmental functions	30,216	-	-	6,332	21,611	2,117	156
Debt service							
Principal	40,000	-	-	-	-	-	40,000
Interest and fees	46,471	-	-	-	-	-	46,471
Capital outlay	15,659	7,909	4,000	-	3,750	-	-
Total expenditures	277,539	72,629	84,473	6,332	25,361	2,117	86,627
Excess of revenues over (under) expenditures	23,177	(2,163)	(648)	18,420	4,283	1,174	2,111
OTHER FINANCING SOURCES (USES)							
Transfers out	(49,000)	-	-	(49,000)	-	-	-
Net change in fund balances	(25,823)	(2,163)	(648)	(30,580)	4,283	1,174	2,111
Fund balances at April 1, 2006	409,863	215,816	52,790	43,650	29,234	1,364	67,009
Fund balances at March 31, 2007	\$ 384,040	\$ 213,653	\$ 52,142	\$ 13,070	\$ 33,517	\$ 2,538	\$ 69,120

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2007

Village Council
Village of Pentwater
Pentwater, Michigan

In planning and performing our audit of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Pentwater as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Pentwater'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 of Pentwater's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater's internal control.

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.

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

Our consideration of internal control 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

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



SIGNIFICANT DEFICIENCIES

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**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***

August 29, 2007

Village Manager and
Members of the Village Council
Village of Pentwater
Pentwater, Michigan

We have audited the financial statements of Village of Pentwater as of and for the year ended March 31, 2007 and have issued our report thereon dated August 29, 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 Pentwater'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 of Pentwater's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Pentwater'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 a certain deficiency 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 deficiency described in the accompanying Schedule of Findings and Responses, as Finding 1, to be a significant deficiency in internal control over financial reporting.

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.

Village Manager and
Members of the Village Council
August 29, 2007
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Internal Control over Financial Reporting

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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Village of Pentwater'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*.

Village of Pentwater's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit Village of Pentwater's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and 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.

Brickley DeLong, PLLC

Village of Pentwater
SCHEDULE OF FINDINGS AND RESPONSES
Year ended March 31, 2007

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Procedures for Preparation of Formal Year End Financial Statements

Criteria: Organizations should have internal controls for the preparation and review of the formal year end financial statements.

Condition: There are limited internal controls for preparation and review of formal year end financial statements.

Cause: The Village is a small organization with limited resources and personnel necessary to establish and maintain effective internal accounting controls related to the preparation and review of formal year end financial statements.

Effect: The lack of internal controls over the preparation of formal year end financial statements creates the opportunity for errors to occur in such financials and not be detected.

Recommendation: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Organization Response: During the year ending March 31, 2008, the Village will review opportunities to strengthen internal controls surrounding the preparation of formal year end financial statements.