

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 Cass City	County Tuscola
Fiscal Year End 12/31/2007	Opinion Date 05/02/2008	Date Audit Report Submitted to State 05/07/2008	

We affirm that:

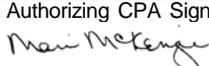
We are certified public accountants licensed to practice in Michigan.

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

- | | | |
|----------|--|---|
| YES
Y | NO
N | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input type="checkbox"/> <input checked="" type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> <input type="checkbox"/> | 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. | <input checked="" type="checkbox"/> <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input type="checkbox"/> <input checked="" type="checkbox"/> | 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"/>	
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.	Telephone Number 989-635-7518	
Street Address 3149 Main Street	City Marlette	State MI
		Zip 48453
Authorizing CPA Signature 	Printed Name Mari McKenzie	License Number 1101010725

Village of Cass City

Cass City, Michigan

**Annual Financial Statements
and
Auditors' Report**

December 31, 2007

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Village of Cass City
List of Elected and Appointed Officials
December 31, 2007

Village Council

Carl Palmateer	President
Donald B. Richards	President Pro-Tem
James Heiser	Trustee
Marilyn Biefer	Trustee
Dwight D. Thabet	Trustee
Jenny Zawilinski	Trustee
Michael Kirn	Trustee

Administration

Peter Cristiano	Village Manager
Nanette Walsh	Village Clerk/Treasurer



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Phone (989) 635-7518
Fax (989) 635-3226

Independent Auditors' Report

Village Council
Village of Cass City
Cass City, Michigan

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 Village of Cass City as of and for the year ended December 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Village of Cass City as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2008 on our consideration of the Village of Cass City internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Cass City's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

May 2, 2008

Marlette, Michigan

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007

Our discussion and analysis of the Village of Cass City's financial performance provides an overview of the Village's financial activities for the fiscal year ended December 31, 2007. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2007.

Total net assets related to the Village's governmental activities is \$ 2,901,222 (see Table 1). The unrestricted portion of net assets is \$ 698,457.

Tax revenues, the Village's largest revenue source, increased by \$ 47,187 from 2006. This is representative of the increase in property values, with respect to Proposal A. Without new development, the Village will be faced with declining tax revenue, a direct result of Proposal A, which is a major concern to the Village.

State shared revenues, our second largest revenue source, was again reduced by the State of Michigan by about \$ 3,162 this year. In light of continuing State Budget Problems, and constant threat to take away all statutory revenue sharing, the Village has reacted by invoking tighter controls over all expenditures. As the State of Michigan struggles with its budget challenges for 2008 and beyond, state shared revenues continue to be a concern for the Village.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village of Cass City as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the

taxpayers have funded the full cost of providing governmental services. The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

**Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007**

The Village of Cass City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

Table 1

	Governmental Activities 2007	Governmental Activities 2006	Business-type Activities 2007	Business-type Activities 2006	Total 2007	Total 2006
Assets						
Other	\$ 1,342,735	\$ 1,578,718	\$ 611,853	\$ 343,130	\$ 1,954,588	\$ 1,921,848
Capital	<u>1,834,084</u>	<u>1,749,628</u>	<u>4,620,555</u>	<u>3,771,052</u>	<u>6,454,639</u>	<u>5,520,680</u>
Total Current Assets	<u>3,176,819</u>	<u>3,328,346</u>	<u>5,232,408</u>	<u>4,114,182</u>	<u>8,409,227</u>	<u>7,442,528</u>
Liabilities						
Other	65,233	65,452	42,443	52,188	107,676	117,640
Long-term	<u>210,364</u>	<u>229,832</u>	<u>1,843,000</u>	<u>924,000</u>	<u>2,053,364</u>	<u>1,153,832</u>
Total Liabilities	<u>275,597</u>	<u>295,284</u>	<u>1,885,443</u>	<u>976,188</u>	<u>2,161,040</u>	<u>1,271,472</u>
Net Assets						
Invested in capital assets, net of related debt	1,623,720	1,519,796	2,923,100	2,847,052	4,546,820	4,366,848
Restricted for debt service	-	-	19,120	9,560	19,120	9,560
Restricted streets and highways	546,418	634,792	-	-	546,418	634,792
Restricted for special levied taxes	32,627	30,304	-	-	32,627	30,304
Restricted for repair replacement and improvement	-	-	6,000	3,000	6,000	3,000
Unrestricted	<u>698,457</u>	<u>848,170</u>	<u>398,745</u>	<u>278,382</u>	<u>1,097,202</u>	<u>1,126,552</u>
Total net assets	<u>\$ 2,901,222</u>	<u>\$ 3,033,062</u>	<u>\$ 3,346,965</u>	<u>\$ 3,137,994</u>	<u>\$ 6,248,187</u>	<u>\$ 6,171,056</u>

**Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007**

Village of Cass City net assets of governmental activities are \$ 2,901,222 and \$ 3,346,965 for business type activities; of these amounts \$ 698,457 (governmental) and \$ 398,745 (business -type) are unrestricted assets.

Table 2

	Governmental Activities 2007	Governmental Activities 2006	Business-type Activities 2007	Business-type Activities 2006	Total 2007	Total 2006
Revenue						
Program revenue						
Charges for services	\$ 173,116	\$ 169,481	\$ 999,731	\$ 954,330	\$ 1,172,847	\$ 1,123,811
Operating grants and contributions	337,369	311,282	-	-	337,369	311,282
Capital grants and contributions	4,500	40,500	-	-	4,500	40,500
General revenue:						
Property taxes	1,098,601	1,051,414	-	-	1,098,601	1,051,414
State-shared revenue	272,122	275,284	-	-	272,122	275,284
Interest	45,546	39,913	12,384	10,133	57,930	50,046
Transfers	(200,000)		200,000		-	
Franchise fees and other revenue	132,244	114,897	31,056	9,257	163,300	124,154
Total revenue	<u>1,863,498</u>	<u>2,002,771</u>	<u>1,243,171</u>	<u>973,720</u>	<u>3,106,669</u>	<u>2,976,491</u>
Program expenses						
General government/legislative	530,940	458,592	-	-	530,940	458,592
Public safety	443,183	447,514	-	-	443,183	447,514
Public works	739,842	635,734	-	-	739,842	635,734
Recreation and culture	223,382	293,876	-	-	223,382	293,876
Interest on long-term debt	5,563	6,956	-	-	5,563	6,956
Water and sewer	-	-	1,034,200	833,359	1,034,200	833,359
Other	52,428	44,682	-	-	52,428	44,682
Total program expenses	<u>1,995,338</u>	<u>1,887,354</u>	<u>1,034,200</u>	<u>833,359</u>	<u>3,029,538</u>	<u>2,720,713</u>
Change in net assets	<u>(131,840)</u>	<u>115,417</u>	<u>208,971</u>	<u>140,361</u>	<u>77,131</u>	<u>255,778</u>
Net assets - beginning of year	<u>3,033,062</u>	<u>2,917,645</u>	<u>3,137,994</u>	<u>2,997,633</u>	<u>6,171,056</u>	<u>5,915,278</u>
Net assets - end of year	<u>\$ 2,901,222</u>	<u>\$ 3,033,062</u>	<u>\$ 3,346,965</u>	<u>\$ 3,137,994</u>	<u>\$ 6,248,187</u>	<u>\$ 6,171,056</u>

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007

Governmental Activities

The Village of Cass City's total governmental activity revenues were \$ 1,863,498. There was a slight decrease in State-shared revenue, which has been offset with a slight increase in property taxes. Service fees and charges for services were lower than anticipated.

Governmental activity expenditures of \$ 1,995,338 were recorded for the year. This included increases in health care costs and the costs related to inflation. The Village Manager and Department Head Staff closely monitored its operational costs and spending in all areas, and the Village Council approved two budget amendments in 2007.

Business-Type Activities

The Village of Cass City business-type activities consist of the Water Fund and the Sewer Fund.

The Village provides treated water to the Village residents. Raw water is pumped from three Village-owned wells. The Village also provides water to four Elkland Township customers.

The Village also provides municipal sanitary sewer to its residents.

Through the efforts of the Village Manager and staff, a \$ 1.9 million loan was secured from the United States Department of Agriculture, Rural Development Agency (USDA/RD) for the construction of an Arsenic Removal Facility. The loan is at the rate of 4.18% to be repaid over a 40-year period, with installments of \$ 96,000 per year, from revenues collected from water users. The Village increased water rates in fiscal year 2007 to allow these payments to be made, plus secure a reserve account.

The Arsenic Removal Facility was completed in June 2007 and put into operation. This facility satisfied the requirements of the Michigan Department of Environmental Quality regarding new arsenic removal

rules.

Village of Cass City Funds

The fund financial statements provide detailed information about the most significant funds. The Village Council creates funds to help manage money for specific purposes as well as show accountability for certain activities, such as State of Michigan Act 51, Major and Local Street funds for 2007. The Cass City Village governmental major funds include General Fund, Major Street Fund and Local Street Fund. The business-type activities include the Water Fund and Sewer Fund.

a) **General Fund**

Functions relating to the general governmental activities of the Village, which are financed by property tax levies, by distribution of State revenues, and from fees charged for various municipal activities and services are recorded in the General Fund. In 2007, the Village of Cass City opted to utilize its Fund Balance to meet a \$ 200,000 contribution toward the construction of the newly constructed DPW/Water Building. Even with this fund transfer, the fund balance decreased by only \$ 59,658 over 2006.

b) **Major and Local Street Funds**

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the Village's street system. The State requires that these expenditures be segregated into a Major Street component and a Local Street component. The Village uses these funds for improvements to the Village street system, along with contributions from the General Fund.

A state grant funded by the Michigan Strategic Fund/Michigan State Housing Development Authority (MSHDA) was approved for \$ 45,000, leveraged by a \$ 45,000 local cash match, to replace poor sidewalks along Seeger and Main Streets. The project was completed in 2007, drawing down the the remaining

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007

\$ 4,500 balance from MSHDA.

Early in the year, the Michigan Department of Transportation re-surfaced M-81 within the Village, providing management an unexpected opportunity to "piggy-back" local projects. Sidewalks at the four corners of Seeger and Main were reconstructed to allow for reinforced, handicap-accessible access and easier turns for large trucks. The blocks of Seeger Street, north and south of Main Street, were resurfaced by the MDOT contractor, at the State price plus a small markup, still lower than an individual project. The Village Council authorized \$ 133,000 from the fund balance to cover these projects. Even after the significant investment in Village sidewalks and streets, the fund balances in Major and Local Streets decreased \$ 77,824 in 2007.

c) Other Governmental Funds

Downtown Development Authority (DDA) and Economic Development Corporation (EDC) are two additional funds maintained by the Village of Cass City for the growth and enhancement of programs in the Village.

d) Water Fund

The Village of Cass City maintains a municipal water system which was currently updated in 2007 with the Arsenic Removal Treatment System. This project is financed with a loan from USDA Rural Development. To support the project and other rising costs of this fund, annual rate increases began in January, 2006. The year finished with an increase in net assets of \$ 251,252. This was an anticipated increase which will provide funds for principal and interest payments on the USDA loan and to pay back \$ 141,606 due to other funds.

e) Sewer Fund

The Wastewater Treatment Fund (Sanitary Sewer) accounts for activities of the sewage collection system. This fund had a

decrease in net assets of \$ 46,220. High costs in repairs and maintenance, as well as, anticipated increases in general operations resulted in \$ 80,525 higher expenses over 2006. An increase in sewer rates was established to cover rising costs within the fund and to develop an improvement and maintenance plan for the 27-year old plant.

General Fund Budgetary Highlights

Over the course of the year, the Village Council and Village administration monitor and amend the budget to account for unanticipated events during the year. The most significant change was a slow growth in State Equalized Values (SEV) of property in the Village, a decrease in State Shared Revenue and increased benefit costs. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these issues.

Capital Asset and Debt Administration

At the end of 2007, the Village of Cass City has \$ 19,147,728 invested in a wide range of capital assets, including land, buildings, equipment, computer equipment, and water and sewer lines. A majority of the increase in capital assets was due to construction of the arsenic treatment plant. The value of the capital assets, net of depreciation contained in this report, is \$ 6,454,639 at the end of 2007.

Debt reported in these financial statements includes a loan from USDA Rural Development for the construction of the new arsenic treatment plant and refinancing of an installment loan for a well constructed in 1998. Also, during 2006 a downtown building was purchased on a land contract. The Village also has debt related to street construction that is paid by a Special Assessment on Northwood Meadows Assisted Living Facility. Finally there is debt reported from the lease of police vehicles. The Village has leased police vehicles since 1998 in an effort to save money. All debt is reported as a liability on the statement of net assets in this document.

Village of Cass City
Management's Discussion and Analysis
Year Ended December 31, 2007

Economic Factors and Next Year's Budgets and Rates

The Village of Cass City's budget for next year is slightly decreased due to the Headlee Amendment. Because of the impact of Proposal A, and the minimal increase in taxable value, this increase will be minimal. However, the Village needs to continue to monitor its budget very closely. The state-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or five (5) percent. Because some properties increased by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than inflation, before considering new property additions. State revenue-sharing payments were decreased again this past year with the potential for further decreases again due to State cutbacks.

The Village will need to address reductions in revenues to sustain a healthy budget. Commercial and residential development would help the Village maintain a healthy budget. The Village has encouraged economic development, as well as, residential development and will continue to in the future.

Contacting the Village of Cass City's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village of Cass City's finances and to show the Village's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Village Manager, 6506 Main St., Cass City, MI 48726, (989) 872-2911 or via email at villagemanager@cass-city.net.

**Village of Cass City
Statement of Net Assets
December 31, 2007**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 984,594	\$ 509,291	\$ 1,493,885
Receivables			
Taxes	8,404	-	8,404
Customers	59,329	168,525	227,854
Special assessments	100,000	-	100,000
Due from other units of government	88,358	-	88,358
Internal balances	91,083	(91,083)	-
Inventories	86	-	86
Prepaid items	10,881	-	10,881
Restricted assets			
Cash and cash equivalents	-	25,120	25,120
Capital assets, net			
Non-depreciated	655,205	-	655,205
Depreciated	1,178,879	4,620,555	5,799,434
Total assets	<u>3,176,819</u>	<u>5,232,408</u>	<u>8,409,227</u>
Liabilities			
Accounts payable	29,888	15,290	45,178
Accrued and other liabilities	35,345	27,153	62,498
Noncurrent liabilities			
Due within one year	118,315	20,000	138,315
Due in more than one year	92,049	1,823,000	1,915,049
Total liabilities	<u>275,597</u>	<u>1,885,443</u>	<u>2,161,040</u>
Net Assets			
Invested in capital assets, net of related debt	1,623,720	2,777,555	4,401,275
Restricted for:			
Debt service	-	19,120	19,120
Streets and highways	546,418	-	546,418
Special levied taxes	32,627	-	32,627
Repair replacement and improvement	-	6,000	6,000
Unrestricted	<u>698,457</u>	<u>544,290</u>	<u>1,242,747</u>
Total net assets	<u>\$ 2,901,222</u>	<u>\$ 3,346,965</u>	<u>\$ 6,248,187</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Statement of Activities
For the Year Ended December 31, 2007**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
				Governmental Activities	Business-type Activities	Total
Functions/Programs						
Primary government						
Governmental activities						
General government	\$ 530,940	\$ 173,116	\$ 25,300	\$ -	\$ -	\$ (332,524)
Public safety	443,183	-	1,148	-	-	(442,035)
Public works	739,842	-	310,921	4,500	-	(424,421)
Community and economic development	52,428	-	-	-	-	(52,428)
Recreation and culture	223,382	-	-	-	-	(223,382)
Interest on long-term debt	5,563	-	-	-	-	(5,563)
Total governmental activities	<u>1,995,338</u>	<u>173,116</u>	<u>337,369</u>	<u>4,500</u>	<u>-</u>	<u>(1,480,353)</u>
Business-type activities						
Sewer	664,129	608,898	-	-	(55,231)	(55,231)
Water	370,071	390,833	-	-	20,762	20,762
Total business-type activities	<u>1,034,200</u>	<u>999,731</u>	<u>-</u>	<u>-</u>	<u>(34,469)</u>	<u>(34,469)</u>
Total primary government	<u>\$ 3,029,538</u>	<u>\$ 1,172,847</u>	<u>\$ 337,369</u>	<u>\$ 4,500</u>	<u>(34,469)</u>	<u>(1,514,822)</u>
General revenues						
Property taxes				1,098,601	-	1,098,601
State shared revenue				272,122	-	272,122
Unrestricted investment earnings				45,546	12,384	57,930
Miscellaneous				132,244	31,056	163,300
Transfers				(200,000)	200,000	-
Total general revenues and transfers				<u>1,348,513</u>	<u>243,440</u>	<u>1,591,953</u>
Change in net assets				(131,840)	208,971	77,131
Net assets - beginning of year				<u>3,033,062</u>	<u>3,137,994</u>	<u>6,171,056</u>
Net assets - end of year				<u>\$ 2,901,222</u>	<u>\$ 3,346,965</u>	<u>\$ 6,248,187</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Balance Sheet
December 31, 2007**

	<u>Special Revenue Funds</u>			Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>		
Assets					
Cash and cash equivalents	\$ 285,892	\$ 366,680	\$ 158,610	\$ 56,310	\$ 867,492
Receivables					
Taxes	8,404	-	-	-	8,404
Customers	33,941	482	4,520	2,000	40,943
Special assessments	-	-	100,000	-	100,000
Due from other units of government	47,695	31,836	8,827	-	88,358
Due from other funds	102,133	-	-	-	102,133
Inventories	86	-	-	-	86
Prepaid items	10,881	-	-	-	10,881
Total assets	<u>\$ 489,032</u>	<u>\$ 398,998</u>	<u>\$ 271,957</u>	<u>\$ 58,310</u>	<u>\$ 1,218,297</u>
Liabilities					
Accounts payable	\$ 12,274	\$ 117	\$ 4,902	\$ 500	\$ 17,793
Accrued and other liabilities	21,776	6,622	2,346	-	30,744
Deferred revenue	-	-	100,000	-	100,000
Total liabilities	<u>34,050</u>	<u>6,739</u>	<u>107,248</u>	<u>500</u>	<u>148,537</u>
Fund Balances					
Reserved for:					
Streets and highways	-	389,609	156,809	-	546,418
Special levied taxes	32,627	-	-	-	32,627
Unreserved					
Designated for:					
Police department	8,000	-	-	-	8,000
Unreserved, reported in:					
General fund	414,355	-	-	-	414,355
Special revenue funds	-	2,650	7,900	57,810	68,360
Total fund balances	<u>454,982</u>	<u>392,259</u>	<u>164,709</u>	<u>57,810</u>	<u>1,069,760</u>
Total liabilities and fund balances	<u>\$ 489,032</u>	<u>\$ 398,998</u>	<u>\$ 271,957</u>	<u>\$ 58,310</u>	<u>\$ 1,218,297</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
December 31, 2007**

Total fund balances for governmental funds	\$ 1,069,760
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	1,663,517
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	100,000
Certain liabilities are not due and payable in the current period and are not reported in the funds. Accrued interest	(2,289)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(189,900)
Internal service funds are included as part of governmental activities.	<u>260,134</u>
Net assets of governmental activities	<u>\$ 2,901,222</u>

Village of Cass City
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2007

	Special Revenue Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street		
Revenues					
Taxes	\$ 765,517	\$ 9,679	\$ 269,466	\$ 53,939	\$ 1,098,601
Federal grants	-	4,500	-	-	4,500
State shared revenue	272,122	-	-	-	272,122
Other state grants	1,148	197,927	112,994	-	312,069
Local contributions	25,300	-	-	-	25,300
Charges for services	159,872	-	25,388	-	185,260
Fines and forfeitures	5,218	-	-	-	5,218
Interest income	13,054	15,575	6,931	1,659	37,219
Other revenue	115,413	1,325	12,003	6,141	134,882
Total revenues	<u>1,357,644</u>	<u>229,006</u>	<u>426,782</u>	<u>61,739</u>	<u>2,075,171</u>
Expenditures					
Current					
General government	502,097	-	-	-	502,097
Public safety	419,235	-	-	-	419,235
Public works	167,263	179,690	529,309	-	876,262
Community and economic development	4,928	-	-	44,912	49,840
Recreation and culture	222,579	-	-	-	222,579
Debt service					
Principal retirement	-	-	20,000	-	20,000
Interest and fiscal charges	-	-	4,613	-	4,613
Total expenditures	<u>1,316,102</u>	<u>179,690</u>	<u>553,922</u>	<u>44,912</u>	<u>2,094,626</u>
Excess (deficiency) of revenues over expenditures	<u>41,542</u>	<u>49,316</u>	<u>(127,140)</u>	<u>16,827</u>	<u>(19,455)</u>
Other financing sources (uses)					
Transfers in	100,000	-	46,000	2,400	148,400
Transfers out	<u>(201,200)</u>	<u>(46,000)</u>	<u>-</u>	<u>(1,200)</u>	<u>(248,400)</u>
Total other financing sources and uses	<u>(101,200)</u>	<u>(46,000)</u>	<u>46,000</u>	<u>1,200</u>	<u>(100,000)</u>
Net change in fund balance	<u>(59,658)</u>	<u>3,316</u>	<u>(81,140)</u>	<u>18,027</u>	<u>(119,455)</u>
Fund balance - beginning of year	<u>514,640</u>	<u>388,943</u>	<u>245,849</u>	<u>39,783</u>	<u>1,189,215</u>
Fund balance - end of year	<u>\$ 454,982</u>	<u>\$ 392,259</u>	<u>\$ 164,709</u>	<u>\$ 57,810</u>	<u>\$ 1,069,760</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2007**

Net change in fund balances - Total governmental funds	\$ (119,455)
<p>Total change in net assets reported for governmental activities in the statement of activities is different because: Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation expense	(146,451)
Capital outlay	195,457
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.</p>	
Special assessments	(20,000)
<p>Expenses are recorded when incurred in the statement of activities</p>	
Accrued interest	(950)
<p>Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.</p>	
Repayments of long-term debt	20,000
Internal service funds are also included as governmental activities	(60,441)
Change in net assets of governmental activities	\$ (131,840)

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Net Assets
December 31, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Assets				
Current assets				
Cash and cash equivalents	\$ 290,603	\$ 218,688	\$ 509,291	\$ 117,102
Receivables				
Customers	101,572	66,953	168,525	18,386
Due from other funds	<u>39,473</u>	<u>-</u>	<u>39,473</u>	<u>-</u>
Total current assets	<u>431,648</u>	<u>285,641</u>	<u>717,289</u>	<u>135,488</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	25,120	25,120	-
Capital assets, net	<u>2,300,999</u>	<u>2,319,556</u>	<u>4,620,555</u>	<u>170,567</u>
Total noncurrent assets	<u>2,300,999</u>	<u>2,344,676</u>	<u>4,645,675</u>	<u>170,567</u>
Total assets	<u>2,732,647</u>	<u>2,630,317</u>	<u>5,362,964</u>	<u>306,055</u>
Liabilities				
Current liabilities				
Accounts payable	10,277	5,013	15,290	12,095
Accrued and other liabilities	7,739	19,414	27,153	2,312
Due to other funds	-	141,606	141,606	-
Current portion of noncurrent liabilities	<u>-</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Total current liabilities	<u>18,016</u>	<u>186,033</u>	<u>204,049</u>	<u>14,407</u>
Noncurrent liabilities				
Long-term debt net of current portion	<u>-</u>	<u>1,823,000</u>	<u>1,823,000</u>	<u>20,464</u>
Total liabilities	<u>18,016</u>	<u>2,009,033</u>	<u>2,027,049</u>	<u>34,871</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Proprietary Funds
Statement of Net Assets
December 31, 2007**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Net Assets				
Invested in capital assets, net of related debt	2,300,999	476,556	2,777,555	150,103
Restricted for:				
Bond and interest redemption	-	19,120	19,120	-
Repair replacement and improvement	-	6,000	6,000	-
Unrestricted (deficit)	413,632	119,608	533,240	121,081
 Total net assets	\$ 2,714,631	\$ 621,284	3,335,915	\$ 271,184
 Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			11,050	
 Net assets of business-type activities			\$ 3,346,965	

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Operating revenue				
Customer fees	\$ 607,471	\$ 390,508	\$ 997,979	\$ -
Billings to other funds	-	-	-	239,132
Connection fees	-	325	325	-
Other revenue	1,427	31,056	32,483	37
Total operating revenue	<u>608,898</u>	<u>421,889</u>	<u>1,030,787</u>	<u>239,169</u>
Operating expenses				
Personnel services	255,593	93,917	349,510	40,286
Supplies	46,398	15,543	61,941	46,593
Contractual services	45,903	37,645	83,548	-
Utilities	72,939	34,582	107,521	-
Repairs and maintenance	63,713	9,088	72,801	27,435
Other expenses	23,619	98,537	122,156	57,955
Depreciation	157,406	83,256	240,662	40,953
Total operating expenses	<u>665,571</u>	<u>372,568</u>	<u>1,038,139</u>	<u>213,222</u>
Operating income (loss)	<u>(56,673)</u>	<u>49,321</u>	<u>(7,352)</u>	<u>25,947</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended December 31, 2007

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Nonoperating revenue (expenses)				
Interest income	10,453	1,931	12,384	8,327
Gain on sale of assets	-	-	-	9,224
	<u>10,453</u>	<u>1,931</u>	<u>12,384</u>	<u>17,551</u>
Income (loss) before contributions and transfers out	(46,220)	51,252	5,032	43,498
Transfers in	-	200,000	200,000	-
Transfers out	-	-	-	(100,000)
	<u>(46,220)</u>	<u>251,252</u>	<u>205,032</u>	<u>(56,502)</u>
Change in net assets				
Net assets - beginning of year	<u>2,760,851</u>	<u>370,032</u>		<u>327,686</u>
Net assets - end of year	<u>\$ 2,714,631</u>	<u>\$ 621,284</u>		<u>\$ 271,184</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>3,939</u>	
Change in net assets of business-type activities			<u>\$ 208,971</u>	

See Accompanying Notes to Financial Statements

**Village of Cass City
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2007**

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	Equipment
Cash flows from operating activities				
Receipts from customers	\$ 590,578	\$ 407,723	\$ 998,301	\$ (18,349)
Receipts from interfund users	-	-	-	239,132
Receipts from other funds	(11,332)	-	(11,332)	-
Payments to other funds	-	11,332	11,332	-
Payments to suppliers	(247,359)	(183,545)	(430,904)	(123,164)
Payments to employees	(255,593)	(93,917)	(349,510)	(40,286)
Payments for interfund services used	(9,783)	(17,025)	(26,808)	-
Net cash provided by operating activities	<u>66,511</u>	<u>124,568</u>	<u>191,079</u>	<u>57,333</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	200,000	200,000	-
Transfers to other funds	-	-	-	(100,000)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>200,000</u>	<u>200,000</u>	<u>(100,000)</u>
Cash flows from capital and related financing activities				
Proceeds from capital debt	-	934,000	934,000	21,175
Purchases/construction of capital assets	(11,860)	(1,078,304)	(1,090,164)	(86,073)
Principal and interest paid on long-term debt	-	(15,000)	(15,000)	(20,643)
Proceeds from sale of capital assets	-	-	-	18,893
Net cash used by capital and related financing activities	<u>(11,860)</u>	<u>(159,304)</u>	<u>(171,164)</u>	<u>(66,648)</u>
Cash flows from investing activities				
Interest received	<u>10,453</u>	<u>1,931</u>	<u>12,384</u>	<u>8,327</u>
Net change in cash and cash equivalents	65,104	167,195	232,299	(100,988)
Cash and cash equivalents - beginning of year	<u>225,499</u>	<u>76,613</u>	<u>302,112</u>	<u>218,090</u>
Cash and cash equivalents - end of year	<u>\$ 290,603</u>	<u>\$ 243,808</u>	<u>\$ 534,411</u>	<u>\$ 117,102</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Proprietary Funds
Statement of Cash Flows
For the Year Ended December 31, 2007**

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	Equipment
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (56,673)	\$ 49,321	\$ (7,352)	\$ 25,947
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	157,406	83,256	240,662	40,953
Changes in assets and liabilities				
Receivables (net)	(18,320)	(14,166)	(32,486)	(18,386)
Due from other funds	(11,332)	-	(11,332)	-
Accounts payable	(5,127)	(23,999)	(29,126)	8,041
Accrued and other liabilities	557	18,824	19,381	778
Due to other funds	-	11,332	11,332	-
Net cash provided by operating activities	<u>\$ 66,511</u>	<u>\$ 124,568</u>	<u>\$ 191,079</u>	<u>\$ 57,333</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Notes to Financial Statements
December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Cass City is governed by an elected seven-member Council. The accompanying financial statements present the government entities for which the government is considered to be financially accountable.

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. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and proprietary funds, 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.

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, sales 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.

Village of Cass City
Notes to Financial Statements
December 31, 2007

The government reports the following major governmental funds:

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

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The government reports the following major proprietary funds:

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

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

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

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

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government'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 of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal

Village of Cass City
Notes to Financial Statements
December 31, 2007

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

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

The 2007 taxable valuation of the government totaled \$ 60,545,010 , on which ad valorem taxes consisted of 12.4625 mills for operating purposes. This resulted in \$ 709,006 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

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

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

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

Buildings	10 to 40 years
Building improvements	10 to 40 years
Water and sewer lines	10 to 40 years
Vehicles	5 to 10 years
Office equipment computer equipment	5 to 10 years
Computer equipment	5 to 10 years

Village of Cass City
Notes to Financial Statements
December 31, 2007

Compensated absences – Exchange time is defined as those hours that the employee can take as paid time off in lieu of overtime pay. The maximum number of hours that can be held in a bank at any one time during a fiscal year is forty. Exchange time can be carried over into the next fiscal year and must be used during the first three months of the new fiscal year. Any unused hours as of March 31st of the new fiscal year will be paid to the employee at the rate of pay in effect the prior fiscal year.

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 purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to December 1, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following January 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an resolution prior to January 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Village of Cass City
Notes to Financial Statements
December 31, 2007

Excess of expenditures over appropriations

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Public works	\$ 162,666	\$ 167,263	\$ 4,597
Transfers out	1,200	201,200	200,000
Major Street Fund			
Transfers out	-	46,000	46,000
Local Street Fund			
Public works	522,802	529,309	6,507

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 984,594	\$ 509,291	\$ 1,493,885
Restricted cash and cash equivalents	-	25,120	25,120
 Total primary government	 <u>\$ 984,594</u>	 <u>\$ 534,411</u>	 <u>\$ 1,519,005</u>

The breakdown between deposits and investments is as follows:

	<u>Primary</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,518,300
Petty cash and cash on hand	<u>705</u>
	<u>\$ 1,519,005</u>

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates

Credit risk – State statutes and the government's investment policy

authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 1,384,280 was exposed to custodial credit risk because it was uninsured and uncollateralized .

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. There were no investments held at year end.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	<u>Due After One Year</u>	<u>Fund</u>
Primary government		
Special assessments	\$ 80,000	Local Street

Village of Cass City
Notes to Financial Statements
December 31, 2007

Governmental funds report deferred revenue in connection with receivables for revenue 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 are as follows:

Primary government	<u>Unavailable</u>
Special assessments	<u>\$ 100,000</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 655,205	\$ -	\$ -	\$ 655,205
Capital assets being depreciated				
Land improvements	310,246	11,500	-	321,746
Infrastructure	6,324,579	178,783	67,500	6,435,862
Buildings, additions and improvements	814,718	-	-	814,718
Machinery and equipment	<u>787,632</u>	<u>91,246</u>	<u>40,820</u>	<u>838,058</u>
Total capital assets being depreciated	<u>8,237,175</u>	<u>281,529</u>	<u>108,320</u>	<u>8,410,384</u>
Less accumulated depreciation for				
Land improvements	235,250	-	-	235,250
Infrastructure	5,710,955	121,825	-	5,832,780
Buildings, additions and improvements	544,032	23,590	67,500	500,122
Machinery and equipment	<u>652,515</u>	<u>41,989</u>	<u>31,151</u>	<u>663,353</u>
Total accumulated depreciation	<u>7,142,752</u>	<u>187,404</u>	<u>98,651</u>	<u>7,231,505</u>
Net capital assets being depreciated	<u>1,094,423</u>	<u>94,125</u>	<u>9,669</u>	<u>1,178,879</u>
Governmental activities capital assets, net	<u>\$ 1,749,628</u>	<u>\$ 94,125</u>	<u>\$ 9,669</u>	<u>\$ 1,834,084</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Construction in progress	\$ 751,840	\$ 881,979	\$ 1,633,819	\$ -
Capital assets being depreciated				
Buildings, additions and improvements	3,101,621	11,860	-	3,113,481
Machinery and equipment	150,023	-	-	150,023
Water system	1,083,183	1,830,145	-	2,913,328
Sewer system	<u>3,905,307</u>	<u>-</u>	<u>-</u>	<u>3,905,307</u>
Total capital assets being depreciated	<u>8,240,134</u>	<u>1,842,005</u>	<u>-</u>	<u>10,082,139</u>
Less accumulated depreciation for				
Buildings, additions and improvements	1,685,928	69,414	-	1,755,342
Machinery and equipment	145,569	3,054	-	148,623
Water system	516,749	81,830	-	598,579
Sewer system	<u>2,872,676</u>	<u>86,364</u>	<u>-</u>	<u>2,959,040</u>
Total accumulated depreciation	<u>5,220,922</u>	<u>240,662</u>	<u>-</u>	<u>5,461,584</u>
Net capital assets being depreciated	<u>3,019,212</u>	<u>1,601,343</u>	<u>-</u>	<u>4,620,555</u>
Business-type capital assets, net	<u>\$ 3,771,052</u>	<u>\$ 2,483,322</u>	<u>\$ 1,633,819</u>	<u>\$ 4,620,555</u>

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

Governmental activities	
General government	\$ 34,579
Public safety	28,872
Public works	64,240
Community and economic development	3,432
Recreation and culture	15,328
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>40,953</u>
Total governmental activities	<u>187,404</u>
Business-type activities	
Sewer	157,406
Water	<u>83,256</u>
Total business-type activities	<u>240,662</u>
Total primary government	<u>\$428,066</u>

Village of Cass City
Notes to Financial Statements
December 31, 2007

Impairment of Asset

Two of the Village's police vehicles were involved in an incident resulting in the total destruction of one vehicle and damages to another. The Village's insurance company has indicated that 100% of the loss is covered by insurance. As a result the Village has recognized \$ 18,386 in insurance recoveries resulting from that incident.

Vehicle #1		
Cost	\$	20,475
Less accumulated depreciation		<u>10,806</u>
Net book value		9,669
Insurance proceeds		<u>13,560</u>
Gain	\$	<u><u>3,891</u></u>

The \$ 3,891 gain has been reported as part of nonoperating income in the financial statements.

Vehicle #2: Insurance proceeds of \$ 4,826 were received to cover 100% of the damages to this vehicle. Proceeds have been netted against the repair expense in the financial statements.

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General fund	Water fund	\$ 102,133
Sewer fund	Water fund	<u>39,473</u>
		<u><u>\$ 141,606</u></u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Economic Development Corporation	\$ 1,200
General Fund	Water Fund	200,000
Downtown Development Association	Economic Development Corporation	1,200
Major Street	Local Streets	46,000
Motor Vehicle Equipment	General Fund	<u>100,000</u>
		<u><u>\$ 348,400</u></u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Downtown Development Association made a transfer to the Economic Development Corporation in a joint effort to bring a new business to town and fill an existing building. An allowable transfer of Act 51 funds was made from Major Street to Local Street to help cover additional project costs.

Village of Cass City
Notes to Financial Statements
December 31, 2007

NOTE 7 - LEASES

Capital leases

The government has capital leases for police vehicles. The future minimum lease payments are as follows:

<u>Year ending December 31.</u>	
2007	\$ 7,527
2008	<u>14,782</u>
Total minimum lease payments	22,309
Less amount representing interest	<u>1,845</u>
Present value of minimum lease payments	<u>\$ 20,464</u>
Asset	
Machinery and equipment	\$ 42,320
Less accumulated depreciation	<u>23,230</u>
Total	<u>\$ 19,090</u>

Village of Cass City
Notes to Financial Statements
December 31, 2007

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund, Sewer Fund and Water Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Bonds and notes payable									
Special assessment obligations									
Special assessment bonds	\$ 165,000	10/01/13	3.49%	\$15,000	\$ 125,000	\$ -	\$ 20,000	\$ 105,000	\$ 20,000
Installment purchase agreements									
Land contract - building	85,000	05/09/08	7.00%	\$0 - \$88,000	84,900	-	-	84,900	84,900
Capital leases									
Capitalized lease - vehicle	21,175	02/09/06	6.80%	\$6,000 - \$7,000	-	21,175	7,527	13,648	6,599
Capitalized lease - vehicle	20,155	03/15/07	5.00%	\$6,000 - \$7,000	6,713	-	6,713	-	-
Capitalized lease - vehicle	20,474	05/23/08	6.45%	\$6,400 - \$7,300	13,219	-	6,403	6,816	6,816
Total governmental activities					<u>\$ 229,832</u>	<u>\$ 21,175</u>	<u>\$ 40,643</u>	<u>\$ 210,364</u>	<u>\$ 118,315</u>
Business-type activities									
Bonds and notes payable									
General revenue bonds									
USDA Rural Development	\$ 1,858,000	2046	4.125%	\$15,000 - \$92,000	<u>\$ 924,000</u>	<u>\$ 934,000</u>	<u>\$ 15,000</u>	<u>\$ 1,843,000</u>	<u>\$ 20,000</u>

Village of Cass City
Notes to Financial Statements
December 31, 2007

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

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 118,315	\$ 7,529	\$ 20,000	76,024
2009	27,049	3,445	21,000	75,198
2010	20,000	2,268	21,000	74,332
2011	20,000	1,570	22,000	73,466
2012	25,000	872	23,000	72,558
2013-2017	-	-	130,000	347,736
2018-2022	-	-	162,000	318,410
2023-2027	-	-	197,000	282,274
2028-2032	-	-	241,000	238,054
2033-2037	-	-	297,000	184,058
2038-2042	-	-	361,000	117,602
2043-2046	-	-	348,000	36,590
	<u>\$ 210,364</u>	<u>\$ 15,684</u>	<u>\$ 1,843,000</u>	<u>\$1,896,302</u>

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

The government has established a money purchase retirement plan. The Village contributed \$ 73,737 to the plan for the year ended December 31, 2007, which was 10% of gross base wages of eligible employees. Additionally, the employees contributed \$ 29,497 to the plan, which is a mandatory 4% match.

NOTE 11 - DEFERRED COMPENSATION PLAN

The government Council offers all government employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. For the fiscal year ended December 31, 2007, employees had contributed \$ 26,217.

NOTE 12 - CONTINGENT LIABILITIES

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

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues				
Taxes				
Property taxes	\$ 746,772	\$ 752,112	\$ 752,662	\$ 550
Penalties and interest	600	600	1,963	1,363
Administration fee	10,740	10,740	10,892	152
State revenue sharing and other state revenue	278,983	270,983	272,122	1,139
State grants	51,100	1,100	1,148	48
Local contributions	15,500	19,250	25,300	6,050
Charges for services	164,400	153,300	159,872	6,572
Fines and forfeitures	5,200	5,400	5,218	(182)
Interest income	11,000	11,000	13,054	2,054
Other revenue	120,700	119,460	115,413	(4,047)
Transfer in	-	-	100,000	100,000
	<u>1,404,995</u>	<u>1,343,945</u>	<u>1,457,644</u>	<u>113,699</u>
Expenditures				
General government				
Village council	11,300	8,300	5,131	(3,169)
Manager	107,700	107,700	105,889	(1,811)
Clerk	180,000	180,000	176,961	(3,039)
Audit	14,500	20,000	19,916	(84)
Fiscal services	157,900	156,025	153,520	(2,505)
Elections	2,500	1,850	1,795	(55)
Buildings and grounds	39,800	43,300	38,885	(4,415)
	<u>513,700</u>	<u>517,175</u>	<u>502,097</u>	<u>(15,078)</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Actual Over (Under)
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Public safety				
Police	<u>425,221</u>	<u>425,221</u>	<u>419,235</u>	<u>(5,986)</u>
Public works				
Department of public works	<u>148,458</u>	<u>162,666</u>	<u>167,263</u>	<u>4,597</u>
Community and economic development				
Zoning	<u>2,320</u>	<u>4,970</u>	<u>4,928</u>	<u>(42)</u>
Recreation and culture				
Parks and recreation	<u>269,071</u>	<u>231,237</u>	<u>222,579</u>	<u>(8,658)</u>
Transfers out	<u>1,200</u>	<u>1,200</u>	<u>201,200</u>	<u>200,000</u>
Total expenditures	<u>1,359,970</u>	<u>1,342,469</u>	<u>1,517,302</u>	<u>174,833</u>
Excess (deficiency) of revenues over expenditures	<u>45,025</u>	<u>1,476</u>	<u>(59,658)</u>	<u>(61,134)</u>
Fund balance - beginning of year	<u>514,640</u>	<u>514,640</u>	<u>514,640</u>	<u>-</u>
Fund balance - end of year	<u>\$ 559,665</u>	<u>\$ 516,116</u>	<u>\$ 454,982</u>	<u>\$ (61,134)</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Major Street
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes	\$ 7,924	\$ 9,564	\$ 9,679	\$ 115
Federal grants	7,404	4,500	4,500	-
Other state grants	182,130	177,690	197,927	20,237
Interest income	13,500	13,500	15,575	2,075
Other revenue	6,300	3,300	1,325	(1,975)
Total revenues	<u>217,258</u>	<u>208,554</u>	<u>229,006</u>	<u>20,452</u>
Expenditures				
Current				
Public works	200,632	321,883	179,690	(142,193)
Transfers out	-	-	46,000	46,000
Total expenditures	<u>200,632</u>	<u>321,883</u>	<u>225,690</u>	<u>(96,193)</u>
Excess of revenues (deficiency) over expenditures	<u>16,626</u>	<u>(113,329)</u>	<u>3,316</u>	<u>116,645</u>
Fund balance - beginning of year	<u>388,943</u>	<u>388,943</u>	<u>388,943</u>	<u>-</u>
Fund balance - end of year	<u>\$ 405,569</u>	<u>\$ 275,614</u>	<u>\$ 392,259</u>	<u>\$ 116,645</u>

See Accompanying Notes to Financial Statements

Village of Cass City
Required Supplemental Information
Budgetary Comparison Schedule
Local Street
For the Year Ended December 31, 2007

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes	\$ 268,801	\$ 268,801	\$ 269,466	\$ 665
Other state grants	115,195	120,695	112,994	(7,701)
Charges for services	26,700	25,700	25,388	(312)
Interest income	4,000	7,000	6,931	(69)
Other revenue	23,325	23,325	12,003	(11,322)
Transfers in	-	-	46,000	46,000
	<u>438,021</u>	<u>445,521</u>	<u>472,782</u>	<u>27,261</u>
Expenditures				
Current				
Public works	412,752	522,802	529,309	6,507
Debt service				
Principal retirement	20,000	20,000	20,000	-
Interest and fiscal charges	5,250	5,250	4,613	(637)
	<u>438,002</u>	<u>548,052</u>	<u>553,922</u>	<u>5,870</u>
Excess of revenues (deficiency) over expenditures	<u>19</u>	<u>(102,531)</u>	<u>(81,140)</u>	<u>21,391</u>
Fund balance - beginning of year	<u>245,849</u>	<u>245,849</u>	<u>245,849</u>	<u>-</u>
Fund balance - end of year	<u>\$ 245,868</u>	<u>\$ 143,318</u>	<u>\$ 164,709</u>	<u>\$ 21,391</u>

See Accompanying Notes to Financial Statements

**Village of Cass City
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

	Special Revenue Funds			Total Nonmajor Governmental Funds
	Economic Development Corporation	Downtown Development Authority		
Assets				
Cash and cash equivalents	\$ 2,516	\$ 53,794	\$	56,310
Receivables				
Customers	-	2,000		2,000
Total assets	\$ 2,516	\$ 55,794	\$	58,310
Liabilities				
Accounts payable	\$ -	\$ 500	\$	500
Fund Balances				
Reserved for:				
Undesignated	2,516	55,294		57,810
Total liabilities and fund balances	\$ 2,516	\$ 55,794	\$	58,310

See Accompanying Notes to Financial Statements

Village of Cass City
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2007

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Economic Development Corporation</u>	<u>Downtown Development Authority</u>	
Revenues			
Taxes	\$ -	\$ 53,939	\$ 53,939
Interest income	57	1,602	1,659
Other revenue	<u>-</u>	<u>6,141</u>	<u>6,141</u>
Total revenues	<u>57</u>	<u>61,682</u>	<u>61,739</u>
Expenditures			
Current			
Community and economic development	<u>1,830</u>	<u>43,082</u>	<u>44,912</u>
Excess (deficiency) of revenues over expenditures	<u>(1,773)</u>	<u>18,600</u>	<u>16,827</u>
Other financing sources (uses)			
Transfers in	2,400	-	2,400
Transfers out	<u>-</u>	<u>(1,200)</u>	<u>(1,200)</u>
Total other financing sources and uses	<u>2,400</u>	<u>(1,200)</u>	<u>1,200</u>
Net change in fund balance	<u>627</u>	<u>17,400</u>	<u>18,027</u>
Fund balance - beginning of year	<u>1,889</u>	<u>37,894</u>	<u>39,783</u>
Fund balance - end of year	<u>\$ 2,516</u>	<u>\$ 55,294</u>	<u>\$ 57,810</u>

See Accompanying Notes to Financial Statements

Village of Cass City

Cass City, Michigan

Single Audit Report

December 31, 2007

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Report on Schedule of Federal Awards

To the Village Council
Village of Cass City
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City for the year ended December 31, 2007, and have issued our report thereon dated May 2, 2008. These financial statements are the responsibility of Village of Cass City's management. Our responsibility is to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental 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 basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming opinions on the basic financial statements of Village of Cass City taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

May 2, 2008
Marlette, Michigan

Village of Cass City
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Federal Expenditures
U.S. Department of Agriculture Water and Waste Disposal Systems for Rural Communities Revenue Bond	10.760	\$ 908,054
U.S. Department of Housing and Urban Development Passed through Michigan Community Development Block Grant Sidewalk Improvements MSC 205038-ICE	14.228	<u>1,511</u>
Total Expenditures of Federal Awards		<u>\$ 909,565</u>

Village of Cass City
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2007

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Reconciliation of the revenue/debt reported in the basic financial statements to the Schedule of Expenditure of Federal Awards is as follows:

Water and Waste Disposal System for Rural Communities Revenue Bond	CFDA 10.760	
Debt reported in the basic financial statements		\$ 934,000
Less: retainage on construction contract reported in the prior year		<u>25,946</u>
 Total expenditures for Water and Waste Disposal Systems for Rural Communities Revenue Bond		 <u>908,054</u>
 Sidewalk Improvement MSC 20538-ICE	 CFDA 14.228	
Federal revenue as reported in the basic financial statements		4,500
Less: retainage on construction contract reported in the prior year		<u>2,989</u>
 Total expenditures for Sidewalk Improvements		 <u>1,511</u>
 Total Expenditures of Federal Awards		 <u>\$ 909,565</u>



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**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***

Village Council
Village of Cass City
Cass City, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 2, 2008. 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 of the financial statements of Village of Cass City as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Cass City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. *We did not identify any deficiencies in internal control that we consider to be material weaknesses.* However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

Bank Reconciliations

It came to our attention during the course of the audit that bank reconciliation discrepancies are still not being investigated and resolved on a monthly basis. This is a repeat comment from the prior year. Since we have seen little improvement in this area we have deemed it a significant deficiency. Any discrepancies should be resolved prior to beginning the bank reconciliation for the next month. Leaving these items unresolved compounds the problem and makes it more difficult to track the source. Bank reconciliations are considered an important internal control procedure and should be given high priority. When a discrepancy occurs during reconciliation process, it needs to be investigated and resolved in a timely manner.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Cass City 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Village of Cass City in a separate letter dated May 2, 2008

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

Yeo & Yeo, P.C.

May 2, 2008
Marlette, Michigan

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Village Council
Village of Cass City
Cass City, Michigan

Compliance

We have audited the compliance of Village of Cass City with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2007. Village of Cass City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Village of Cass City's management. Our responsibility is to express an opinion on Village of Cass City's compliance based on our audit.

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

In our opinion, Village of Cass City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2007.

Internal Control Over Compliance

The management of Village of Cass City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Village of Cass City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Village of Cass City's internal control over compliance.

A *control deficiency* in an Village of Cass City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Cass City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Village of Cass City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Village of Cass City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Cass City as of and for the year ended December 31, 2007, and have issued our report thereon dated May 2, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Example Village of Cass City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Yeo & Yeo, P.C.

May 2, 2008
Marlette, Michigan

Village of Cass City
Schedule of Findings and Questioned Costs
December 31, 2007
(continued)

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards generally accepted in the United States of America for the year ended December 31, 2007.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended December 31, 2007.

Village of Cass City
Summary Schedule of Prior Audit Findings
December 31, 2007

SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with government auditing standards generally accepted in the United States of America for the year ended December 31, 2006.

SECTION III - FEDERAL AWARD FINDINGS

There were no findings or questioned costs for the Federal Awards for the year ended December 31, 2006.



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May 2, 2008

Management and the Village Council
Village of Cass City
Cass City, Michigan

Dear Management :

We have completed our audit of the financial statements of Village of Cass City as of and for the year ended December 31, 2007 and have issued our report dated May 2, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit and with management on January 24, 2008.

These communications are intended solely for the information and use of management, the Village Council, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Yeo & Yeo, P.C.

Marlette, Michigan

Appendix I

Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated February 15, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our discussion with you related to planning matters on January 24, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 2, 2008.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the 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, Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and the Schedule of Findings and Questioned Costs. Please read all information included in that those reports to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of Village of Cass City as of and for the year ended December 31, 2007, we considered Village of Cass City internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated May 2, 2008, on the financial statements of Village of Cass City. Our comments and recommendations regarding those matters are:

Balance Sheet Account Reconciliations

As part of the internal control process, accounts should be reconciled on a timely basis. We noted that certain reconciliations were not performed on a timely basis. We recommend that monthly reconciliations of pertinent accounts be completed prior to the end of the following month. In addition we recommend that all reconciliations be reviewed by someone who is not involved in the reconciliation process. This review should be documented with initialing and dating of the reconciliation. The reconciliation process helps to detect any errors or frauds that may have occurred within an account. For example, timely bank reconciliations may detect bank charges which have not been posted to the general ledger; timely accounts payable and accounts receivable reconciliations between the subsidiary ledgers and the general ledger may detect mispostings of transactions to the wrong general ledger account. If the time commitment necessary to reconcile all pertinent accounts on a monthly basis is greater than the Village can afford to expend, you may need to consider additional staffing in your accounting department. If this is a matter of current staff not fully understanding the accounting process and the reconciliations that should be performed, then we would recommend additional training in these areas.

Journal Entry Monitoring

We noted during the course of our audit that many good internal control procedures have been designed and disseminated. We also noted that these internal control procedures appear to be functioning properly. However, there is insufficient monitoring of journal entry posting. We recommend that a monitoring program be implemented and documented over recording and posting journal entries. This monitoring program should include a review and a procedure for initialing and dating journal entries reviewed. This will allow Management to prevent and detect errors or fraud on a timely basis.