

# 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 Newberry, Michigan	County Luce
Fiscal Year End December 31, 2007	Opinion Date May 16, 2008	Date Audit Report Submitted to State June 26, 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 | NO | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----|----|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe) Single Audit	<input checked="" type="checkbox"/>	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC	Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue	City Kincheloe	State MI
		Zip 49788
Authorizing CPA Signature <i>Kenneth A. Talsma</i>	Printed Name Kenneth A. Talsma, CPA	License Number 1101024989

**Village of Newberry, Michigan**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2007**

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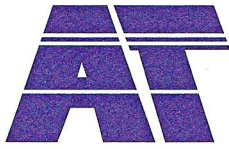
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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Honorable President and Members  
of the Village Council  
Village of Newberry, 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 the Village of Newberry, Michigan, 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 of Newberry'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 the Village of Newberry, Michigan 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 16, 2008 on our consideration of the Village of Newberry, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed 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 the Village of Newberry, Michigan's basic financial statements. The schedules listed as supplementary are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 16, 2008

## **Management's Discussion and Analysis**

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

**The Village as a Whole**

The Village's combined net assets increased 18% from a year ago increasing from \$3,399,585 to \$4,020,991. The governmental activities experienced a \$2,940 decrease in net assets primarily due to a prior period adjustment to record capital leases. The business-type activities experienced a \$624,346 increase in net assets, primarily as a result of a capital grant for the water system.

In a condensed format, the table below shows comparison of the net assets of the Village of Newberry.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current Assets	\$ 116,485	\$ 100,763	\$ 1,312,951	\$ 948,304	\$ 1,429,436	\$ 1,049,067
Noncurrent Assets	<u>762,550</u>	<u>682,646</u>	<u>8,072,236</u>	<u>7,400,108</u>	<u>8,834,786</u>	<u>8,082,754</u>
Total Assets	<u>\$ 879,035</u>	<u>\$ 783,409</u>	<u>\$ 9,385,187</u>	<u>\$ 8,348,412</u>	<u>\$ 10,264,222</u>	<u>\$ 9,131,821</u>
Current Liabilities	\$ 162,851	\$ 65,035	\$ 484,057	\$ 119,450	\$ 646,908	\$ 184,485
Noncurrent Liabilities	<u>608,492</u>	<u>607,742</u>	<u>4,987,831</u>	<u>4,940,009</u>	<u>5,596,323</u>	<u>5,547,751</u>
Total Liabilities	<u>771,343</u>	<u>672,777</u>	<u>5,471,888</u>	<u>5,059,459</u>	<u>6,243,231</u>	<u>5,732,236</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	94,543	116,108	2,023,525	2,503,253	2,118,068	2,619,361
Unrestricted	<u>13,149</u>	<u>(5,476)</u>	<u>1,889,774</u>	<u>785,700</u>	<u>1,902,923</u>	<u>780,224</u>
Total Net Assets	<u>\$ 107,692</u>	<u>\$ 110,632</u>	<u>\$ 3,913,299</u>	<u>\$ 3,288,953</u>	<u>\$ 4,020,991</u>	<u>\$ 3,399,585</u>

The current level of unrestricted net assets for our governmental activities stands at 13,149 or about 1% of expenditures.



The following table shows the activities of the Village.

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Program Revenues						
Charges for Services	\$ 351,709	\$ 369,176	\$ 3,600,176	\$ 2,697,020	\$ 3,951,885	\$ 3,066,196
Operating Grants	225,120	-	-	-	225,120	-
Capital Grants and Contributions	130,564	33,893	325,405	281,254	455,969	315,147
General Revenues						
Property Taxes	366,946	317,321	-	-	366,946	317,321
P.I.L.O.T.	19,500	18,000	-	-	19,500	18,000
State-Shared Revenues	219,745	414,236	-	-	219,745	414,236
Interest	4,633	4,362	7,488	16,479	12,121	20,841
Miscellaneous	16,302	53,662	-	83,700	16,302	137,362
<b>Total Revenues</b>	<b>1,334,519</b>	<b>1,210,650</b>	<b>3,933,069</b>	<b>3,078,453</b>	<b>5,267,588</b>	<b>4,289,103</b>
Program Expenses						
Legislative	7,792	8,814	-	-	7,792	8,814
General Government	168,890	203,710	-	-	168,890	203,710
Public Safety	392,003	358,328	-	-	392,003	358,328
Public Works	371,041	450,319	-	-	371,041	450,319
Recreation and Culture	-	51,751	-	-	-	51,751
Interest Expense – Unallocated	12,009	5,062	-	-	12,009	5,062
Other Expenses	278,634	283,469	-	-	278,634	283,469
Electric	-	-	2,180,385	1,578,840	2,180,385	1,578,840
Water	-	-	255,671	211,525	255,671	211,525
Sewer	-	-	830,054	782,003	830,054	782,003
<b>Total Expenses</b>	<b>1,230,369</b>	<b>1,361,453</b>	<b>3,266,110</b>	<b>2,572,368</b>	<b>4,496,479</b>	<b>3,933,821</b>
Changes in Net Assets	104,150	(150,803)	666,959	506,085	771,109	355,282
Net Assets – Beginning	110,632	261,435	3,288,953	2,782,868	3,399,585	3,044,303
Prior Period Adjustment	(107,090)	-	(42,613)	-	(149,703)	-
<b>Net Assets – Ending</b>	<b>\$ 107,692</b>	<b>\$ 110,632</b>	<b>\$ 3,913,299</b>	<b>\$ 3,288,953</b>	<b>\$ 4,020,991</b>	<b>\$ 3,399,585</b>

**Governmental Activities**

Revenue from property taxes increased 16% from the previous year increasing from \$317,321 to \$366,946. This is due to the fact that there was an additional two mills levied for fire equipment in 2007.

Expenses decreased by \$131,084. This decrease was primarily due to more conservative spending in 2007.

**Business-Type Activities**

The Village's total business-type revenues increased by \$854,616, primarily due to additional fees and penalties issued relating to electric utility billing.

Expenses increased by \$693,742 during the year. The most significant increases were relating to the increase in fuel prices and additional utilities purchased in the electric fund. Interest expense increased in 2007 due to the water bonds.

**The Village's Funds**

Our analysis of the Village's major funds begins on page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2007 include the General Fund, Major Streets, Local Streets, Electric, Water, Newberry Sewage, and Luce Co. Sewage.

The General Fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include legislative, administrative, elections, public safety, motor pool, public works, building and grounds, refuse collection, sidewalks, and sewer maintenance. The major source of revenue for the general fund is from the Village tax base and the revenue sharing from the State of Michigan. The major expense for this fiscal year was police protection.

The Major Streets Fund is used to record revenues and expenses for major streets located within the Village. The major source of revenue comes for the State of Michigan in the form of Act 51 funding and the Village tax base. This fund also records contributions from other entities contributing to paving projects. The major expense for this fund is construction of new paving projects, maintenance and snow removal.

The Local Streets Fund is used to record revenues and expenses for local streets within the Village. Local street revenue comes from the State of Michigan in the form of Act 51 funding and the Village tax base. The major expense for this fund is construction of new paving projects, maintenance and snow removal.

The Newberry Sewage and Luce County Sewage Funds are used to record revenues and expenses for the Village Sewer activities. The revenue comes from user charges and expenses are incurred for operation, maintenance, and improvements.

The Water, Sewer, and Electric Funds are used to record revenues and expenses for the Village water, sewer and electric systems. The revenues come from user charges and the expenses are incurred for operation and maintenance. Some major capital improvement projects have added to the reliability of the Village water system including the rehabilitation of Wells and water line replacement and other projects are still in process. Other major capital improvement projects include the conversion of the remainder of the electric system. These improvements will improve the quality and availability of service to our existing customers and provide opportunity for future economic growth.

**General Fund Budgetary Highlights**

The Village's actual revenues were \$16,176 below the amended budget.

Expenditures were \$66,083 below budget for 2007. The most significant area was under appropriations.

**Capital Asset and Debt Administration**

Capital Assets – The Village's investment in capital assets as of December 31, 2007, amounted to \$7,962,917, (net of accumulated depreciation). This investment in capital assets includes land, building infrastructure (for the electric, water, and sewer systems), and equipment. The major capital additions for 2007 included a new tanker truck for the Fire Department and updates and improvements to the water system. Additional information on capital assets can be found in Note 4 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year at the end of the current fiscal year. The Village has a total of \$5,856,390 outstanding in capital leases, bond payable, and installment notes. Additional information on the Village's long-term debt can be found in Notes 5 and 6.

**Economic Factors and Next Year's Budgets and Rates**

The Village is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voters reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

**Contacting the Village's Management**

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact Beverly A. Holmes, Village Manager, or Ward Pulfrey, Village President, by calling 906-293-3433 ext. 1 during the hours of 8 am to 4:30 pm, Monday thru Friday.

## **Basic Financial Statements**

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	Primary Government		Totals
	Governmental Activities	Business-type Activities	
<b>ASSETS:</b>			
<b>Current Assets</b>			
Cash & Equivalents - Unrestricted	\$ 214,600	\$ 359,877	\$ 574,477
- Restricted	-	55,490	55,490
Accounts Receivable	-	375,602	375,602
Due from Governmental Units	60,165	244,662	304,827
Internal Loans	(202,837)	202,837	-
Taxes Receivable	44,557	-	44,557
Inventories	-	74,483	74,483
Total Current Assets	116,485	1,312,951	1,429,436
<b>Noncurrent Assets</b>			
Capital Credits in Coop	-	871,869	871,869
Capital Assets (Not Depreciated)	-	3,222,173	3,222,173
Capital Assets (Net of Accumulated Depreciation)	762,550	3,978,194	4,740,744
Total Noncurrent Assets	762,550	8,072,236	8,834,786
<b>TOTAL ASSETS</b>	<b>\$ 879,035</b>	<b>\$ 9,385,187</b>	<b>\$ 10,264,222</b>
<b>LIABILITIES:</b>			
<b>Current Liabilities</b>			
Accounts Payable	\$ 15,831	\$ 181,119	\$ 196,950
Accrued Liabilities	17,028	36,337	53,365
Other Liabilities	-	19,283	19,283
Accrued Interest Payable	6,868	58,307	65,175
Capital Leases	13,502	-	13,502
Notes Payable	21,554	-	21,554
Bonds Payable	36,000	189,011	225,011
Due to Governmental Units	52,068	-	52,068
Total Current Liabilities	162,851	484,057	646,908
<b>Noncurrent Liabilities</b>			
Compensated Absences	11,541	-	11,541
Capital Leases	144,447	-	144,447
Notes Payable	32,504	-	32,504
Bonds Payable	420,000	4,987,831	5,407,831
Total Noncurrent Liabilities	608,492	4,987,831	5,596,323
<b>TOTAL LIABILITIES</b>	<b>771,343</b>	<b>5,471,888</b>	<b>6,243,231</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets (net of related debt)	94,543	2,023,525	2,118,068
Unrestricted	13,149	1,889,774	1,902,923
<b>TOTAL NET ASSETS</b>	<b>\$ 107,692</b>	<b>\$ 3,913,299</b>	<b>\$ 4,020,991</b>

# Village of Newberry, Michigan

## Statement of Activities For the Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 7,792	\$ -	\$ -	\$ -	\$ (7,792)	\$ -	\$ (7,792)
General Government	168,890	167,018	-	-	(1,872)	-	(1,872)
Public Safety	392,003	76,067	37,618	130,564	(147,754)	-	(147,754)
Public Works	371,041	108,624	184,207	-	(78,210)	-	(78,210)
Other Expenses	278,634	-	3,295	-	(275,339)	-	(275,339)
Interest expense - Unallocated	12,009	-	-	-	(12,009)	-	(12,009)
Total Governmental Activities	<u>1,230,369</u>	<u>351,709</u>	<u>225,120</u>	<u>130,564</u>	<u>(522,976)</u>	<u>-</u>	<u>(522,976)</u>
<b>Business-type activities:</b>							
Electric	2,180,385	2,337,064	-	-	-	156,679	156,679
Water	255,671	396,433	-	325,405	-	466,167	466,167
Sewer	830,054	866,679	-	-	-	36,625	36,625
Total Business-type Activities	<u>3,266,110</u>	<u>3,600,176</u>	<u>-</u>	<u>325,405</u>	<u>-</u>	<u>659,471</u>	<u>659,471</u>
Total Primary Government	<u>\$ 4,496,479</u>	<u>\$ 3,951,885</u>	<u>\$ 225,120</u>	<u>\$ 455,969</u>	<u>(522,976)</u>	<u>659,471</u>	<u>136,495</u>
<b>General Revenues:</b>							
Taxes					366,946	-	366,946
P.I.L.O.T.					19,500	-	19,500
State Revenue Sharing					219,745	-	219,745
Interest on Deposits					4,633	7,488	12,121
Miscellaneous					16,302	-	16,302
<b>Total General Revenues</b>					<u>627,126</u>	<u>7,488</u>	<u>634,614</u>
Change in Net Assets					104,150	666,959	771,109
Net Assets - Beginning					110,632	3,288,953	3,399,585
Prior Period Adjustment					(107,090)	(42,613)	(149,703)
<b>Net Assets - Ending</b>					<u>\$ 107,692</u>	<u>\$ 3,913,299</u>	<u>\$ 4,020,991</u>

# Village of Newberry, Michigan

## Balance Sheet Governmental Funds December 31, 2007

	General	Major Streets	Local Streets	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash & Equivalents - Unrestricted	\$ 46,203	\$ 11,211	\$ 60,100	\$ 97,086	\$ 214,600
Taxes Receivable	44,557	-	-	-	44,557
Due from Other Funds	400,906	27,607	184,503	8,379	621,395
Due from Governmental Units	39,919	14,482	5,764	-	60,165
<b>TOTAL ASSETS</b>	<b>\$ 531,585</b>	<b>\$ 53,300</b>	<b>\$ 250,367</b>	<b>\$ 105,465</b>	<b>\$ 940,717</b>
<b>LIABILITIES:</b>					
Due to Other Funds	\$ 499,119	\$ 53,181	\$ 250,282	\$ 21,650	\$ 824,232
Accounts Payable	9,876	-	-	5,955	15,831
Accrued Liabilities	17,028	-	-	-	17,028
Due to Governmental Units	3,932	-	-	48,136	52,068
<b>TOTAL LIABILITIES</b>	<b>529,955</b>	<b>53,181</b>	<b>250,282</b>	<b>75,741</b>	<b>909,159</b>
<b>FUND BALANCES:</b>					
Unreserved:					
Undesignated	1,630	119	85	29,724	31,558
<b>TOTAL FUND BALANCES</b>	<b>1,630</b>	<b>119</b>	<b>85</b>	<b>29,724</b>	<b>31,558</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 531,585</b>	<b>\$ 53,300</b>	<b>\$ 250,367</b>	<b>\$ 105,465</b>	

**Reconciliation to amounts reported for governmental activities in the statement of net assets:**

Capital assets used by governmental activities	762,550
Long-term notes & leases payable for governmental activities	(668,007)
Compensated absences liability	(11,541)
Accrued interest expense	(6,868)
<b>Net assets of governmental activities</b>	<b>\$ 107,692</b>

# Village of Newberry, Michigan

## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2007

	General	Major Streets	Local Streets	Other Governmental Funds	Totals Governmental Funds
<b>REVENUES:</b>					
Taxes	\$ 386,446	\$ -	\$ -	\$ -	\$ 386,446
Licenses & Permits	205	-	-	-	205
State Sources	221,383	114,680	69,527	-	405,590
Local Sources	-	-	-	169,839	169,839
Charges for Services	141,198	-	-	27,475	168,673
Interest & Rentals	2,125	-	-	2,508	4,633
Refunds & Reimbursements	150,395	-	-	46,066	196,461
Other Revenue	2,672	-	-	-	2,672
<b>TOTAL REVENUES</b>	<b>904,424</b>	<b>114,680</b>	<b>69,527</b>	<b>245,888</b>	<b>1,334,519</b>
<b>EXPENDITURES:</b>					
Legislative	7,792	-	-	-	7,792
General Government	172,328	-	-	-	172,328
Public Safety	211,825	-	-	141,337	353,162
Public Works	109,203	95,367	134,962	-	339,532
Other Expenditures	278,634	-	-	-	278,634
Capital Outlay	-	-	-	176,478	176,478
Debt Service	43,765	-	-	25,824	69,589
<b>TOTAL EXPENDITURES</b>	<b>823,547</b>	<b>95,367</b>	<b>134,962</b>	<b>343,639</b>	<b>1,397,515</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>80,877</b>	<b>19,313</b>	<b>(65,435)</b>	<b>(97,751)</b>	<b>(62,996)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Loan Proceeds	-	-	-	58,826	58,826
Operating Transfers In	-	-	60,100	31,302	91,402
Operating Transfers Out	(38,402)	(53,000)	-	-	(91,402)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>42,475</b>	<b>(33,687)</b>	<b>(5,335)</b>	<b>(7,623)</b>	<b>(4,170)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>(40,845)</b>	<b>33,806</b>	<b>5,420</b>	<b>37,347</b>	<b>35,728</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 1,630</b>	<b>\$ 119</b>	<b>\$ 85</b>	<b>\$ 29,724</b>	<b>\$ 31,558</b>



**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 changes in fund balances – total governmental funds \$ (4,170)

The 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 capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$176,478 exceeded depreciation expense (\$96,575). 79,903

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:			
Bond principal	\$	36,000	
Installment principal		20,481	
Lease principal		<u>7,967</u>	
			64,448

Loan proceeds are in other financing sources in the governmental funds, but increases liabilities in the statements of net assets. (58,826)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$	29,663	
Accrued interest on bonds		<u>(6,868)</u>	
			<u>22,795</u>

Changes in net assets of governmental activities \$ 104,150

# Village of Newberry, Michigan

## Statement of Net Assets Proprietary Funds December 31, 2007

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
<b>ASSETS:</b>					
<b>Current Assets</b>					
Cash & Equivalents - Unrestricted	\$ 38,929	\$ 249,171	\$ 55,091	\$ 16,686	\$ 359,877
- Restricted	-	55,490	-	-	55,490
Accounts Receivable	356,865	18,737	-	-	375,602
Due from Other Funds	354,470	-	28,592	53,888	436,950
Inventories	63,117	329	-	11,037	74,483
Due from Governmental Units	-	10,000	14,330	220,332	244,662
<b>Total Current Assets</b>	<b>813,381</b>	<b>333,727</b>	<b>98,013</b>	<b>301,943</b>	<b>1,547,064</b>
<b>Noncurrent Assets</b>					
Capital Credits in Coop	871,869	-	-	-	871,869
Property, Plant & Equipment	5,771,008	4,051,910	2,504,145	52,151	12,379,214
Accumulated Depreciation	(3,164,832)	(647,002)	(1,325,644)	(41,369)	(5,178,847)
<b>Total Noncurrent Assets</b>	<b>3,478,045</b>	<b>3,404,908</b>	<b>1,178,501</b>	<b>10,782</b>	<b>8,072,236</b>
<b>TOTAL ASSETS</b>	<b>\$ 4,291,426</b>	<b>\$ 3,738,635</b>	<b>\$ 1,276,514</b>	<b>\$ 312,725</b>	<b>\$ 9,619,300</b>
<b>LIABILITIES:</b>					
<b>Current Liabilities</b>					
Due to Other Funds	\$ 11,129	\$ 2,667	\$ 113,610	\$ 106,707	\$ 234,113
Accounts Payable	155,674	9,963	-	15,482	181,119
Accrued Liabilities	8,863	8,863	-	18,611	36,337
Other Liabilities	19,250	33	-	-	19,283
Accrued Interest Payable	40,578	15,379	2,350	-	58,307
Bonds Payable	149,000	22,000	18,011	-	189,011
<b>Total Current Liabilities</b>	<b>384,494</b>	<b>58,905</b>	<b>133,971</b>	<b>140,800</b>	<b>718,170</b>
<b>Noncurrent Liabilities</b>					
Bonds Payable	2,605,000	2,237,000	145,831	-	4,987,831
<b>TOTAL LIABILITIES</b>	<b>2,989,494</b>	<b>2,295,905</b>	<b>279,802</b>	<b>140,800</b>	<b>5,706,001</b>
<b>NET ASSETS:</b>					
Invested in Capital Assets (net of related debt)	873,045	1,167,908	1,032,670	10,782	3,084,405
Unrestricted	428,887	274,822	(35,958)	161,143	828,894
<b>TOTAL NET ASSETS</b>	<b>\$ 1,301,932</b>	<b>\$ 1,442,730</b>	<b>\$ 996,712</b>	<b>\$ 171,925</b>	<b>\$ 3,913,299</b>

# Village of Newberry, Michigan

## Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2007

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
<b>OPERATING REVENUES:</b>					
Charges for Services	\$ 2,179,995	\$ 385,158	\$ 426,291	\$ 438,117	\$ 3,429,561
Other Revenue	157,069	11,275	-	2,271	170,615
Total Operating Revenues	<u>2,337,064</u>	<u>396,433</u>	<u>426,291</u>	<u>440,388</u>	<u>3,600,176</u>
<b>OPERATING EXPENSES:</b>					
Employee Wages & Benefits	410,485	86,777	-	237,624	734,886
Supplies	157,855	18,063	-	46,681	222,599
Repairs & Maintenance	65,614	2,844	-	4,252	72,710
Contracted Services	33,738	1,496	340,917	10,121	386,272
Insurance	14,333	4,793	-	10,912	30,038
Depreciation	112,877	26,994	51,039	1,424	192,334
Utilities	1,184,749	4,510	-	105,057	1,294,316
Other Expenses	33,116	13,245	-	1,310	47,671
Total Operating Expenses	<u>2,012,767</u>	<u>158,722</u>	<u>391,956</u>	<u>417,381</u>	<u>2,980,826</u>
<b>OPERATING INCOME (LOSS)</b>	<u>324,297</u>	<u>237,711</u>	<u>34,335</u>	<u>23,007</u>	<u>619,350</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>					
Interest Expense	(167,618)	(96,949)	(20,717)	-	(285,284)
Interest & Rentals	6,776	-	539	173	7,488
Federal Grants	-	325,405	-	-	325,405
Total Non-operating Revenues (Expenses)	<u>(160,842)</u>	<u>228,456</u>	<u>(20,178)</u>	<u>173</u>	<u>47,609</u>
<b>CHANGE IN NET ASSETS</b>	163,455	466,167	14,157	23,180	666,959
NET ASSETS, JANUARY 1	1,138,477	1,019,176	982,555	148,745	3,288,953
Prior Period Adjustment	-	(42,613)	-	-	(42,613)
<b>NET ASSETS, DECEMBER 31</b>	<u>\$ 1,301,932</u>	<u>\$ 1,442,730</u>	<u>\$ 996,712</u>	<u>\$ 171,925</u>	<u>\$ 3,913,299</u>

# Village of Newberry, Michigan

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2007

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce Co. Sewage	
<b>Cash Flows From Operating Activities:</b>					
Cash Received from Customers or Users	\$ 2,213,307	\$ 389,842	\$ 425,207	\$ 401,787	\$ 3,430,143
Cash Payments to Employees	(413,400)	(89,692)	-	(238,613)	(741,705)
Cash Payments to Vendors	(1,419,444)	(42,239)	(340,917)	(161,706)	(1,964,306)
Cash Received (Paid) from other Funds	(33,853)	1,256	(17,173)	19,885	(29,885)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>346,610</u>	<u>259,167</u>	<u>67,117</u>	<u>21,353</u>	<u>694,247</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>					
Debt Principal Payments	(144,000)	(21,000)	(18,011)	-	(183,011)
Debt Interest Payments	(127,040)	(81,570)	(23,229)	-	(231,839)
Bond Proceeds	-	453,000	-	-	453,000
Federal Grants	-	325,405	-	-	325,405
Purchase of Capital Credits	(9,007)	-	-	-	(9,007)
Purchase of Property and Equipment	-	(846,818)	-	(8,638)	(855,456)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(280,047)</u>	<u>(170,983)</u>	<u>(41,240)</u>	<u>(8,638)</u>	<u>(500,908)</u>
<b>Cash Flows From Investing Activities:</b>					
Interest Income	6,776	-	539	173	7,488
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>6,776</u>	<u>-</u>	<u>539</u>	<u>173</u>	<u>7,488</u>
Net Increase (Decrease) in Cash	73,339	88,184	26,416	12,888	200,827
Cash and Cash Equivalents at Beginning of Year	(34,410)	216,477	28,675	3,798	214,540
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 38,929</u>	<u>\$ 304,661</u>	<u>\$ 55,091</u>	<u>\$ 16,686</u>	<u>\$ 415,367</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income	\$ 324,297	\$ 237,711	\$ 34,335	\$ 23,007	\$ 619,350
Add Non-Cash Expenses:					
Depreciation	112,877	26,994	51,039	1,424	192,334
Changes in Assets and Liabilities:					
Decrease (Increase) in Assets:					
Receivables	(123,757)	(6,591)	-	-	(130,348)
Due from Other Governments	-	-	(1,084)	(38,601)	(39,685)
Inventory	(4,449)	-	-	7,936	3,487
Due from (to) other funds	(33,853)	1,256	(17,173)	19,885	(29,885)
Increase (Decrease) in Liabilities:					
Accounts Payable	55,160	2,680	-	8,691	66,531
Other Liabilities	19,250	32	-	-	19,282
Accrued Liabilities	(2,915)	(2,915)	-	(989)	(6,819)
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>\$ 346,610</u>	<u>\$ 259,167</u>	<u>\$ 67,117</u>	<u>\$ 21,353</u>	<u>\$ 694,247</u>

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Village of Newberry, Luce County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Newberry. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

**Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the Village). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Village. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Village and for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Village's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

The Village reports the following major governmental funds:

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

*Major Streets.* The Major Streets Fund is used to account for the repair, maintenance, and construction of the Village's major streets.

*Local Streets.* The Local Streets Fund is used to account for the repair, maintenance, and construction of the Village's local streets.

The Village reports the following major enterprise funds:

*Electric.* This fund accounts for the operation, maintenance and development of the electric utility.

*Water.* This fund accounts for the operation, maintenance, and development of water utilities.

*Newberry Sewage.* This fund accounts for the operation, maintenance, and development of sewer utilities.

*Luce County Sewage.* This fund accounts for the operation, maintenance, and development of sewer utilities.

The Village reports the following fund types:

Governmental Funds

*General Fund.* Described above.

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

*Capital Project Funds.* These funds account for the acquisition of capital assets or construction of major capital projects not financial by proprietary funds.

*Enterprise Funds.* Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**Measurement Focus, Basis of Accounting**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Village funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the Village follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

**Cash and Cash Equivalents**

The Village considers cash and cash equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**Interfund 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 arrangements 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.”

**Inventories**

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

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to January 1, 2003 consist of the road network assets, bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. All assets with a cost of \$500 or more and useful life of one (1) year or more are capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	40-50 years
Buildings and Improvements	20-50 years
Vehicles and Equipment	5-15 years

**Budgetary Data**

The Village Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund and Special Revenue Funds to the Village Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year-end.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**Compensated Absences**

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**Post-employment Benefits**

The Village provides health care and life insurance benefits to twelve retirees in accordance with labor contracts. Expenditures for post-employment health care and life insurance benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General, Sewer, Water, and Electric Funds and totaled \$197,792 for the year ended December 31, 2007.

**NOTE 2 - CASH AND INVESTMENTS:**

	<u>Primary Government</u>
Cash and Investments:	
- Unrestricted	\$ 574,477
- Restricted	<u>55,490</u>
Total	<u>\$ 629,967</u>
Imprest	\$ 150
CD's savings and checking	<u>629,817</u>
Total	<u>\$ 629,967</u>

Cash and Investments – Restricted:

The following funds have restricted cash and investments for various purposes:

**Primary Government:**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>Water:</b>		
	Repair, Replacement and Improvement	\$ 29,490
	Bond Reserve	<u>26,000</u>
		<u>\$ 55,490</u>

**NOTE 2 - CASH AND INVESTMENTS: (Continued)**

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The Village has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$613,771 of the Village's bank balance of \$884,220 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority**

Michigan law (Public Act 20 of 1943, as amended) authorizes the Village of Newberry to deposit and invest in one or more of the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- (c) Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in a.
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.
- (g) Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- (h) Obligation described in a. through g. if purchased through an interlocal agreement under the urban corporation act of 1967, 1967 (EX Sess) PA 7, MCL 124.501 to 124.512.
- (i) Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- (j) The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The Village of Newberry reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at December 31, 2007 consisted of the following:

		DUE FROM							
DUE TO		General	Major Streets	Local Streets	Other Funds	Electric	Newberry Sewage	Luce County Sewage	Total
	General	\$ -	\$ 27,607	\$ 130,071	\$ 8,379	\$ 304,470	\$ 28,592	\$ -	\$ -
Major Streets	-	-	53,181	-	-	-	-	-	53,181
Local Streets	250,282	-	-	-	-	-	-	-	250,282
Other Funds	21,650	-	-	-	-	-	-	-	21,650
Electric	8,802	-	645	-	-	-	1,682	-	11,129
Water	2,061	-	606	-	-	-	-	-	2,667
Newberry Sewage	11,404	-	-	-	50,000	-	52,206	-	113,610
Luce County Sewage	106,707	-	-	-	-	-	-	-	106,707
Total	\$ 400,906	\$ 27,607	\$ 184,503	\$ 8,379	\$ 354,470	\$ 28,592	\$ 53,888	\$ -	\$ 1,058,345

All balances resulted 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.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

Interfund transfers for the year ended December 31, 2007 consisted of the following:

**Interfund Transfers**

TRANSFERS IN	TRANSFERS OUT		
	General Fund	Major Streets	Total
Local Streets	\$ 7,100	\$ 53,000	\$ 60,100
Nonmajor Governmental	<u>31,302</u>	<u>-</u>	<u>31,302</u>
Total	<u>\$ 38,402</u>	<u>\$ 53,000</u>	<u>\$ 91,402</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 4 - CAPITAL ASSETS:**

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental Activities:</b>				
<i>Capital assets not depreciated:</i>				
Buildings and Improvements	\$ 778,512	\$ -	\$ -	\$ 778,512
Vehicles and Equipment	<u>1,764,283</u>	<u>176,478</u>	<u>-</u>	<u>1,940,761</u>
Total assets not depreciated	<u>2,542,795</u>	<u>176,478</u>	<u>-</u>	<u>2,719,273</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(679,887)	(4,787)	-	(684,674)
Machinery and equipment	<u>(1,180,261)</u>	<u>(91,788)</u>	<u>-</u>	<u>(1,272,049)</u>
Total accumulated depreciation	<u>(1,860,148)</u>	<u>(96,575)</u>	<u>-</u>	<u>(1,956,723)</u>
Governmental activities capital assets, net	<u>\$ 682,647</u>	<u>\$ 79,903</u>	<u>\$ -</u>	<u>\$ 762,550</u>

**NOTE 4 - CAPITAL ASSETS: (Continued)**

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

Governmental Activities:	
General Government	\$ 2,255
Public Safety	57,293
Public Works	<u>37,027</u>
 Total Governmental Activities	 <u>\$ 96,575</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type activities:</b>				
<i>Capital assets not depreciated:</i>				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Construction in progress	<u>2,360,151</u>	<u>846,818</u>	<u>-</u>	<u>3,206,969</u>
 Total capital assets not being Depreciated	 <u>2,375,355</u>	 <u>846,818</u>	 <u>-</u>	 <u>3,222,173</u>
 <i>Capital assets being depreciated:</i>				
Buildings	168,654	-	-	168,654
Water system	831,902	-	-	831,902
Sewer system	2,518,149	-	-	2,518,149
Electric system	5,094,574	-	-	5,094,574
Equipment	<u>535,124</u>	<u>8,638</u>	<u>-</u>	<u>543,762</u>
 Total capital assets being depreciated	 <u>9,148,403</u>	 <u>8,638</u>	 <u>-</u>	 <u>9,157,041</u>
 <i>Less accumulated depreciation for:</i>				
Buildings	(164,506)	(461)	-	(164,967)
Water system	(618,378)	(25,364)	-	(643,742)
Sewer system	(1,296,702)	(51,816)	-	(1,348,518)
Electric system	(2,503,819)	(91,386)	-	(2,595,205)
Equipment	<u>(403,108)</u>	<u>(23,307)</u>	<u>-</u>	<u>(426,415)</u>
 Total accumulated depreciation	 <u>(4,986,513)</u>	 <u>(192,334)</u>	 <u>-</u>	 <u>(5,178,847)</u>
 Total capital assets being depreciated, net	 <u>4,161,890</u>	 <u>(183,696)</u>	 <u>-</u>	 <u>3,978,194</u>
 Business-type activities capital assets, net	 <u>\$ 6,537,245</u>	 <u>\$ 663,122</u>	 <u>\$ -</u>	 <u>\$ 7,200,367</u>

**NOTE 4 - CAPITAL ASSETS: (Continued)**

Depreciation expense was charged to business-type activities as follows:

Business-type Activities:	
Electric	\$ 112,877
Water	26,994
Newberry Sewage	51,039
Luce County Sewage	<u>1,424</u>
Total Governmental Activities	<u>\$ 192,334</u>

**NOTE 5 - LEASES:**

Capital Leases – The Village leases one vehicle and equipment under capital leases with yearly lease payments ranging from \$7,533 to \$8,608, including interest rates ranging from 4.75% to 5.0%. The leases qualify as capital leases for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2008	\$ 20,445
2009	20,445
2010	20,447
2011	20,445
2012	20,447
2013 – 2017	<u>96,110</u>
Total minimum lease payments	198,339
Less amount representing interest	<u>(40,390)</u>
Present value of minimum lease payments	<u>\$ 157,949</u>

**NOTE 6 - LONG-TERM DEBT:**

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the Village of Newberry. The Village has pledged the general full faith and credit of the Village for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending December 31, 2007 are summarized as follows:

	<u>Balance 01/01/07</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
2002 General Obligation Bonds, Bonds maturing Serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	\$ 492,000	\$ -	\$ 36,000	\$ 456,000	\$ 36,000

**NOTE 6 - LONG-TERM DEBT: (Continued)**

	Balance 01/01/07	Additions	Deductions	Balance 12/31/07	Due Within One Year
2006 Installment Notes payable with monthly payments of \$1,987 including interest of 5.15%.	74,539	-	20,481	54,058	21,554
Total Governmental Activities	566,539	-	56,481	510,058	57,554
<b>Business-type Activities:</b>					
2002 General Obligation Bonds, Bonds maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	328,000	-	24,000	304,000	24,000
2002 Limited Tax General Obligation Bonds, maturing serially to 2022 in annual amounts ranging from \$25,000 to \$65,000, bearing interest at 4.35% to 5.10%.	770,000	-	35,000	735,000	35,000
2003 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$30,000 to \$70,000, bearing interest ranging from 2.0% to 5.125%.	865,000	-	35,000	830,000	40,000
2005 Water Supply System Revenue Bonds, Maturing serially to 2005 in annual amounts ranging from \$20,000 to \$123,000, bearing interest of 4.125%.	1,817,000	463,000	21,000	2,259,000	22,000
1976 Sanitary Sewage Improvement Bonds, maturing serially to 2016 in annual amounts ranging from \$7,000 to \$32,000, bearing interest of 5.0%.	181,853	-	18,011	163,842	18,011
2005 Electric System Revenue Bonds, Maturing serially to 2023 in annual amounts ranging from \$50,000 to \$90,000, bearing interest ranging from 3.0% to 4.5%.	935,000	-	50,000	885,000	50,000
Total Business-type Activities	4,896,853	463,000	183,011	5,176,842	189,011
Accrued sick leave and vacation	41,204	-	29,663	11,541	-
<b>TOTAL LONG-TERM OBLIGATIONS</b>	<b>\$ 5,504,596</b>	<b>\$ 463,000</b>	<b>\$ 269,155</b>	<b>\$ 5,698,441</b>	<b>\$ 246,565</b>



**NOTE 6 - LONG-TERM DEBT: (Continued)**

The annual principal and interest requirements for the years ending December 31, 2007 and after, excluding accrued compensated absences are as follows:

Year End June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 57,554	\$ 22,890	\$ 189,011	\$ 221,749
2009	61,697	20,163	197,011	214,497
2010	48,807	17,430	203,011	206,830
2011	42,000	15,588	211,011	198,634
2012	45,000	13,740	220,011	189,897
2013-2017	255,000	37,170	1,232,787	799,615
2018-2022	-	-	1,064,000	523,570
2023-2027	-	-	315,000	343,436
2028-2032	-	-	310,000	281,532
2033-2037	-	-	389,000	208,025
2038-2042	-	-	492,000	102,177
2043-2045	-	-	354,000	5,074
Total	<u>\$ 510,058</u>	<u>\$ 126,981</u>	<u>\$ 5,176,842</u>	<u>\$ 3,295,036</u>

Interest expense of the business-type activities is included as a direct expense of water, sewer and electric operations. Interest expense of the governmental activities is unallocated.

**NOTE 7 - COMPENSATED ABSENCES:**

Accumulated unpaid vacation, sick leave and longevity for police and other Village employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of December 31, 2007, the liability totaled \$11,541.

Vacation is earned in varying amounts based on an employee’s years of service. Accrued vacation for salaried and nonunion employees’ leave is limited to the amount earned in the prior year, except by mutual agreement between the Village and the employees. Employees of the Village Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

**NOTE 8 - PROPERTY TAXES:**

Village property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Luce County for collection, which advances the Village 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

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

**NOTE 8 - PROPERTY TAXES: (Continued)**

The taxable value of real and personal property located in the Village at December 31, 2007 totaled \$18,288,570. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	11.6087
Streets and Alleys	4.6434
Garbage	1.4404
Fire Service	2.000

**NOTE 9 - DEFERRED COMPENSATION PLAN:**

The Village offers all of its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodians thereof for the exclusive benefit of the participants hold the custodial accounts for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Village for the purposes of providing direction to the custodians of the custodial accounts from time to time for the investment of the funds held in the accounts, transfers of assets to or from the accounts and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village's financial statements.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN:**

The Village participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

Plan Description

The Village contributes to the Michigan Municipal Employees Retirement System, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service. Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)**

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The Village is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the fiscal year ended December 31, 2007, the Village's contributions totaling \$92,683 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 2,497,726	\$ 2,575,363	\$ 2,672,693
Actuarial Accrued Liability	3,320,255	3,456,118	3,633,342
Unfunded AAL	822,529	880,755	960,649
Funded Ratio	75%	74%	74%
Covered Payroll	702,561	622,152	691,707
UAAL as a Percentage of Covered Payroll	117%	142%	139%

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2005	\$ 86,649	100%	\$ 0
2006	106,829	100%	0
2007	92,683	100%	0

**NOTE 11 - COMMITMENTS AND CONTINGENCIES:**

Grant Assistance - The Village received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Village. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Village at December 31, 2007.

**NOTE 12 - RISK MANAGEMENT:**

The Village is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has purchased commercial insurance for property loss, torts, and workers' compensation 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 13 - CAPITAL CREDITS IN COOPERATIVE:**

The Village of Newberry Electric Fund purchases electricity for resale from Cloverland Electric Co-op. Due to operating surpluses by the cooperative, the Village of Newberry Electric Fund receives patronage capital credits. During the current year the Village received \$9,007 in capital credit distributions. As of December 31, 2007, the Village has capital credits outstanding of \$871,869. This amount is credited to the capital account of the Cooperative for the Village of Newberry Electric fund and has the same status as if it was paid in cash to the village and then the Village furnished the Cooperative with a corresponding amount of capital. Distribution of these credits to the Village of Newberry Electric Fund is made at the complete discretion of the Cooperative.

**NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:**

Segment information for the year ended December 31, 2007, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Nonoperating revenue (expense)	\$ (160,842)	\$ 228,456	\$ (20,178)
Operating income (loss)	324,297	237,711	34,335
Changes in net assets	163,455	466,167	14,157
Operating revenues	2,337,064	396,433	426,291

**NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS: (Continued)**

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Operating expenses	2,012,767	158,722	391,956
Depreciation	112,877	26,994	51,039
Total assets	4,291,426	3,738,635	1,276,514
Current liabilities	384,494	58,905	133,971
Long-term debt payable	2,605,000	2,237,000	145,831
Beginning net assets	1,138,477	1,019,176	982,555
Ending net assets	1,301,932	1,442,730	996,712
Cash provided (used) by:			
Operating activities	346,610	259,167	67,117
Capital financing	(280,047)	(170,983)	41,240
Investing	6,776	-	539
Beginning cash	(34,410)	216,477	28,675
Ending cash	38,929	304,661	55,091

**NOTE 15 - PRIOR PERIOD AJDUSTMENT:**

During prior years \$107,090 in lease proceeds for equipment were not recorded as capital leases. Net assets of Governmental Activities will be decreased as follows:

Beginning Net Assets, January 1, 2007	\$ 110,632
Adjustments for Capital Leases	<u>(107,090)</u>
Restated Net Assets, January 1, 2007	<u>\$ 3,542</u>

Adjustments to reconcile inventory of the water fund at December 31, 2007 is as follows:

Beginning Net Assets, January 1, 2007	\$ 3,288,953
Adjustment for Water Fund	<u>(42,613)</u>
Restated Net Assets, January 1, 2007	<u>\$ 3,246,340</u>

## **Required Supplementary Information**

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# Village of Newberry, Michigan

## Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		Positive (Negative)
<b>REVENUES:</b>				
Taxes	\$ 347,000	\$ 371,750	\$ 386,446	\$ 14,696
Licenses & Permits	250	200	205	5
State Sources	226,900	222,850	221,383	(1,467)
Local Sources	25,000	25,000	-	(25,000)
Charges for Services	185,200	148,400	141,198	(7,202)
Interest & Rentals	2,500	2,100	2,125	25
Refunds & Reimbursements	631,700	150,300	150,395	95
Other Revenue	-	-	2,672	2,672
<b>TOTAL REVENUES</b>	<b>1,418,550</b>	<b>920,600</b>	<b>904,424</b>	<b>(16,176)</b>
<b>EXPENDITURES:</b>				
Legislative:				
Village Council	10,550	7,800	7,792	8
General Government:				
Village President	9,625	8,725	8,608	117
Administration	28,600	13,850	13,763	87
Elections	1,145	2,295	2,251	44
Accounting	33,100	23,000	22,883	117
Attorney	27,900	21,550	21,473	77
Village Clerk	8,200	8,950	8,867	83
Audit	5,700	5,700	5,700	-
Treasurer	8,965	7,565	7,472	93
Building & Grounds	21,850	16,150	15,901	249
Motor Pool	97,680	65,630	65,410	220
<b>Total General Government</b>	<b>242,765</b>	<b>173,415</b>	<b>172,328</b>	<b>1,087</b>
Public Safety:				
Police Department	227,880	203,745	211,825	(8,080)
<b>Total Public Safety</b>	<b>227,880</b>	<b>203,745</b>	<b>211,825</b>	<b>(8,080)</b>
Public Works:				
Department of Public Works	3,150	2,950	2,900	50
Sidewalks	1,400	-	-	-
Street Lighting	16,000	20,050	20,026	24
Sewers	23,000	12,050	12,002	48
Storm Sewer Construction	600	5,850	5,841	9
Rubbish & Garbage	91,190	68,540	68,434	106
<b>Total Public Works</b>	<b>135,340</b>	<b>109,440</b>	<b>109,203</b>	<b>237</b>
Other Expenditures				
Fringe Benefits	303,680	260,330	252,390	7,940
Insurance & Bonds	27,650	23,800	23,744	56
Appropriations	-	75,700	2,500	73,200
<b>Total Other Expenditures</b>	<b>331,330</b>	<b>359,830</b>	<b>278,634</b>	<b>81,196</b>
Debt Service	38,100	35,400	43,765	(8,365)
<b>TOTAL EXPENDITURES</b>	<b>985,965</b>	<b>889,630</b>	<b>823,547</b>	<b>66,083</b>

# Village of Newberry, Michigan

## Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
EXCESS OF REVENUES OVER EXPENDITURES	432,585	30,970	80,877	49,907
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(437,750)	(30,970)	(38,402)	(7,432)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (5,165)</u>	<u>\$ -</u>	42,475	<u>\$ 42,475</u>
FUND BALANCE, JANUARY 1			(40,845)	
FUND BALANCE, DECEMBER 31			<u>\$ 1,630</u>	



**Required Supplementary Information  
Budgetary Comparison Schedule  
Major Streets Fund  
Year Ended December 31, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 115,000	\$ 114,500	\$ 114,680	\$ 180
TOTAL REVENUES	<u>115,000</u>	<u>114,500</u>	<u>114,680</u>	<u>180</u>
EXPENDITURES:				
Public Works	234,140	96,540	95,367	1,173
TOTAL EXPENDITURES	<u>234,140</u>	<u>96,540</u>	<u>95,367</u>	<u>1,173</u>
EXCESS OF REVENUES OVER EXPENDITURES	(119,140)	17,960	19,313	1,353
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	145,000	-	-	-
Operating Transfers Out	(25,860)	(51,766)	(53,000)	(1,234)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ (33,806)</u>	(33,687)	<u>\$ 119</u>
FUND BALANCE, JANUARY 1			<u>33,806</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 119</u>	

# Village of Newberry, Michigan

## Required Supplementary Information Budgetary Comparison Schedule Local Streets Fund Year Ended December 31, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 70,900	\$ 69,500	\$ 69,527	\$ 27
TOTAL REVENUES	<u>70,900</u>	<u>69,500</u>	<u>69,527</u>	<u>27</u>
EXPENDITURES:				
Public Works	186,000	135,200	134,962	238
TOTAL EXPENDITURES	<u>186,000</u>	<u>135,200</u>	<u>134,962</u>	<u>238</u>
EXCESS OF REVENUES OVER EXPENDITURES	(115,100)	(65,700)	(65,435)	265
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	<u>115,100</u>	<u>65,700</u>	<u>60,100</u>	<u>(5,600)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	(5,335)	<u>\$ (5,335)</u>
FUND BALANCE, JANUARY 1			<u>5,420</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 85</u>	

## **Other Supplementary Information**

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**Village of Newberry, Michigan**

**Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2007**

	Special Revenues		Capital Project Funds		Total
	Fire Capital	Fire Operating	Downtown Development	Historical Society Renovation	
<b>ASSETS:</b>					
Cash & Equivalents - Unrestricted	\$ 16,579	\$ 75,837	\$ 1,300	\$ 3,370	\$ 97,086
Due from Other Funds	8,379	-	-	-	8,379
<b>TOTAL ASSETS</b>	<b>\$ 24,958</b>	<b>\$ 75,837</b>	<b>\$ 1,300</b>	<b>\$ 3,370</b>	<b>\$ 105,465</b>
<b>LIABILITIES:</b>					
Due to Other Funds	\$ -	\$ 21,650	\$ -	\$ -	\$ 21,650
Accounts Payable	-	5,955	-	-	5,955
Due to Governmental Units	-	48,136	-	-	48,136
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>75,741</b>	<b>-</b>	<b>-</b>	<b>75,741</b>
<b>FUND BALANCES:</b>					
Unreserved					
Undesignated	24,958	96	1,300	3,370	29,724
<b>TOTAL FUND BALANCES</b>	<b>24,958</b>	<b>96</b>	<b>1,300</b>	<b>3,370</b>	<b>29,724</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 24,958</b>	<b>\$ 75,837</b>	<b>\$ 1,300</b>	<b>\$ 3,370</b>	<b>\$ 105,465</b>

**Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Nonmajor Governmental Funds  
Year Ended December 31, 2007**

	Special Revenues		Capital Project Funds		Total
	Fire Capital	Fire Operating	Downtown Development	Historical Society Renovation	
<b>REVENUES:</b>					
Local Sources	\$ 130,564	\$ 35,980	\$ -	\$ 3,295	\$ 169,839
Charges for Services	-	27,475	-	-	27,475
Interest & Rentals	394	2,082	32	-	2,508
Refunds & Reimbursements	-	46,066	-	-	46,066
<b>TOTAL REVENUES</b>	<b>130,958</b>	<b>111,603</b>	<b>32</b>	<b>3,295</b>	<b>245,888</b>
<b>EXPENDITURES:</b>					
Public Safety	-	141,337	-	-	141,337
Recreation & Cultural	-	-	-	-	-
Capital Outlay	176,478	-	-	-	176,478
Debt Service	25,824	-	-	-	25,824
<b>TOTAL EXPENDITURES</b>	<b>202,302</b>	<b>141,337</b>	<b>-</b>	<b>-</b>	<b>343,639</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(71,344)</b>	<b>(29,734)</b>	<b>32</b>	<b>3,295</b>	<b>(97,751)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Loan Proceeds	58,826	-	-	-	58,826
Operating Transfers In	12,912	18,390	-	-	31,302
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>394</b>	<b>(11,344)</b>	<b>32</b>	<b>3,295</b>	<b>(7,623)</b>
<b>FUND BALANCES, JANUARY 1</b>	<b>24,564</b>	<b>11,440</b>	<b>1,268</b>	<b>75</b>	<b>37,347</b>
<b>FUND BALANCES, DECEMBER 31</b>	<b>\$ 24,958</b>	<b>\$ 96</b>	<b>\$ 1,300</b>	<b>\$ 3,370</b>	<b>\$ 29,724</b>

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**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**

Honorable President and Members  
of the Village Council  
Village of Newberry, 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 the Village of Newberry, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Village of Newberry, Luce County, Michigan's basic financial statements and have issued our report thereon, dated May 16, 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, we considered the Village of Newberry, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village'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 Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described as 07-1, 07-2, and 07-3 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

Honorable President and Members  
of the Village Council

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 Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Village of Newberry, Michigan in separate letter dated May 16, 2008.

Village of Newberry, Michigan's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Village's response and, accordingly, we express no opinion on it.

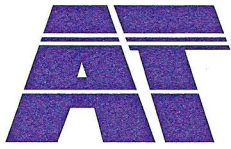
This report is intended solely for the information and use of the President, Village Council, management, federal awarding agencies, pass-through entities, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 16, 2008





**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

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

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

**Compliance**

We have audited the compliance of the Village of Newberry, Michigan 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. The Village'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 the Village's management. Our responsibility is to express an opinion on the Village'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 the Village'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 the Village's compliance with those requirements.

In our opinion, the Village of Newberry, Michigan 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.

Honorable President and Members  
of the Village Council

### **Internal Control Over Compliance**

The management of the Village of Newberry, Michigan 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 the Village of Newberry, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Village's internal control over compliance.

A control deficiency in an entity'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 entity'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 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity'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.

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



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

May 16, 2008

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>				
Direct Program:				
Water and Wastewater Disposal Systems for Rural Communities Loan	10.760	N/A	N/A	\$ <u>463,000</u>
Total U.S. Department of Agriculture				<u>463,000</u>
<b>U.S. Department of Housing and Urban Development:</b>				
Pass-Through Programs from the State of Michigan Economic Development Corporation (MEDC)				
Community Development Block Grant	14.228	N/A	83851A	<u>325,405</u>
Total U.S. Department of Housing and Urban Development				<u>325,405</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 788,405</u>

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Newberry, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B - COGNIZANT AGENCY**

The Village has not been assigned a cognizant agency. Therefore, the Village is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the Village during fiscal year 2007.

**NOTE C - FEDERAL REVENUES**

Total Federal Expenditures	\$ <u>788,405</u>
USDA Loan	<u>(463,000)</u>
Federal Revenues per Financial Statement	\$ <u>325,405</u>

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

**Identification of Major Programs**

**CFDA NUMBERS**

**Name of Federal Program or Cluster**

10.760	Wastewater Disposal System
14.228	Community Development Block Grant
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

**Inability of Management to Prepare the Financial Statements in Accordance with Generally Accepted Accounting Principles**

***Finding 07-1***

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 112.

Criteria: Internal controls should be in place to provide reasonable assurance to the Village that management reports financial statements necessary to monitor and report annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Condition: Personnel responsible for financial reporting are not monitoring and reporting interim or annual financial activity in accordance with GASB Statement 34 without auditor intervention.

Effect: The effect of this condition places a reliance on the independent auditor to part of the Village's internal controls over financial reporting.

Cause: Change in application of auditing standards.

Recommendation: The Village should review and implement the necessary education and procedural activities to monitor and report annual financial activity in accordance with generally accepted accounting principles for Governmental Units.

Planned Corrective Action: As a result of limited funding, the Village does not have resources to fund this process.

- Contact Person(s) Responsible for Correction:  
Beverly Holmes, Village Manager

COMPLIANCE – INTERNAL CONTROL

***Segregation of Duties***

***Finding 07-2***

Condition/Criteria: The accountant performs several functions of receipting, disbursing, and posting to the general ledger. To provide a system of checks and balances, these functions are generally assigned to separate positions to minimize the potential for unauthorized transactions.

Effect: Lack of segregation of duties provides opportunities for inaccurate or unauthorized disbursements or transfers from funds and increases the potential for inaccurate reporting of account activity.

Cause: Sufficient resources and staff are not available to adequately segregate these functions. Additionally, the benefit of separating these duties does not appear to exceed the costs associated with the added personnel.

**Section II – Financial Statement Findings (Continued)**

Recommendation: The Council should be aware of the potential weaknesses in the system and provide appropriate oversight or assistance to personnel when cost beneficial.

Planned Corrective Action: The Village is aware of the potential risk in this situation. This situation is due to lack of staffing needed to separate duties. However, please note. The confidential secretary cuts all the checks for the organization and the Village Manager reviews and signs said checks. If the circumstance arises in which the confidential secretary should need to sign checks in the Village Manager’s absence the confidential secretary is required to take a photocopy of the check for the Village Manager’s review. The Village Manager keeps a file copy of any checks not signed by her. The Village Manager reviews all checks issued from the Village or Water and Light Funds.

- Contact Person(s) Responsible for Correction:  
Beverly Holmes, Village Manager

**SIGNIFICANT DEFICIENCIES**

***Balance Sheet Account Reconciliation***

***Finding 07-3***

Condition: The Village does not properly reconcile its balance sheet accounts including: accounts receivable, capital assets and accumulated depreciation, accounts payable, compensated absences, and debt.

Criteria: Generally Accepted Accounting Principles (GAAP) and the Michigan Department of Treasury require governmental funds to be maintained on a modified accrual basis and proprietary funds to be maintained on a full accrual basis and that all accounts be reconciled with their respective subsidiary ledgers. Accounts receivable and the accounts payable should be recorded to properly match the fiscal year’s revenues and expenses. Capital assets, accumulated depreciation, and depreciation expense should reconcile with an up to date capital asset listing. Finally, the compensated absence liability should reconcile to the employee’s balance at the end of the fiscal year.

Cause and Effect: Failure to post complete accounting records on a timely basis may result in the following:

- The financial condition of the Village may not be readily available.
- The Council may not be able to make sound business decisions because it has no financial data on which to make an evaluation.

Recommendation: We recommend that the Village implement procedures to assure that all balance sheet accounts are properly reconciled on a monthly basis. This would ensure the errors are detected and corrected in a timely manner.

Planned Corrective Action: All balance sheet accounts will be reconciled on a monthly basis. This has been added to the normal balancing cycle for end of month.

- Contact Person(s) Responsible for Correction:  
Beverly Holmes, Village Manager

**Section III – Federal Award Findings and Questioned Costs**

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**NONE.**



**Section II – Financial Statement Findings**

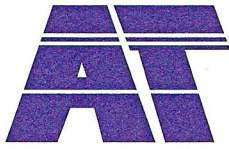
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NONE.

**Section III – Federal Award Findings and Questioned Costs**

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NONE.



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**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

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

We have audited the financial statements of the Village of Newberry, Michigan as of and for the year ended December 31, 2007, and have issued our reports thereon dated May 16, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated March 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on March 13, 2008.

### **Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Newberry are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2007. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. A copy of any adjustments are available from management.

### **Disagreement with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 16, 2008.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

### **Comments and Recommendations**

#### **Fraud Policy**

With the implementation of Statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Village does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Response: Audit firm has agreed to provide templates for this policy for council to review and adopt.

#### **Policy Manual**

We encourage the Village to continue to develop and adopt appropriate policies for procurement, investments, credit card usage, etc., in order to achieve compliance with federal and state requirements.

Response: Audit firm has agreed to provide templates for these policies for council to review and adopt.

#### **Capitalization Policy**

GASB 34 requires that the Board adopt a capitalization threshold for depreciation of capital assets and infrastructure. The Board currently capitalizes assets above \$500; however, this amount should be authorized by Board Policy. Also, we recommend increasing the policy threshold to \$5,000.

Response: Audit firm has agreed to provide templates for this policy for council to review and adopt.

### **Electronic Banking**

State law requires that a policy regarding electronic banking be established and approved by the Council. This policy determines who is responsible for activating electronic transactions and the types of transactions which will be made.

Response: Audit firm has agreed to provide templates for this policy for council to review and adopt.

### **Check Images**

Due to changes in bank practices, the Village does not receive canceled checks. The Village should contact the bank to obtain, "imaged" checks to assure compliance with state retention policies and to assure proper clearing of amounts by the bank.

Response: The Village now receives check copies via digital images from our financial institutions.

### **Dual Signatures**

Currently, only one signature is required on all checks. To strengthen internal controls over disbursements and provide additional review of expenditures, the Board should consider requiring two signatures on all checks written. This provides protection to elected officials, that two individuals have authorized each disbursement.

Response: Dual signatures on checks would prove cumbersome to the daily operation of the Village. Please refer to Findings and Questioned Costs of the Audit report Section II COMPLIANCE – INTERNAL CONTROL Finding 07-2's response.

### **Enterprise Capital Assets**

Capital asset purchases for the enterprise funds were recorded as capital outlay expenses during fiscal 2007. Capital asset purchases for the enterprise funds should be recorded in the applicable Capital asset account in the general ledger to comply with U.S. generally accepted accounting principles.

### **Accounting Procedures Manual**

The Village does not maintain a complete current accounting policies and procedures manual. We recommend the Village develop an accounting policies and procedures manual which includes but is not limited to information regarding the criteria for establishing or discontinuing a fund, activities to be accounted for in each fund, closing practices to be followed for preparation of financial reports.

### **General Capital Assets**

A capital asset listing at the time of audit had not been completed. The capital asset listing should be updated to reflect these assets as well as deletions found during the year.

## **General Ledger**

Several accounts (receivables, payables, interfund loans, transfers, and fund equity) needed to be reconciled at year end. We recommend that management reconcile all accounts to supporting information periodically.

Response: All balance sheet accounts will be reconciled on a monthly basis. This has been added to the normal balancing cycle for end of month.

## **Inventory**

The Village currently expenses inventory for the Electric, Water, and Sewer funds. We recommend that the Village record inventory for these funds as required by U.S. generally accepted accounting principles. We also recommend the Village reconcile the physical inventory to the general ledger on a periodic basis.

## **941 Quarterly Reports**

At the current time, the quarterly IRS 941 reports are not reconciled to the wages on the Village's general ledger. We understand that some employees are shared between the Village and Water and Electric Funds, which complicate this reconciliation; however, to insure posting accuracy and proper reporting, we recommend a quarterly reconciliation be performed comparing wages reported per the Village's general ledger to wages reported on the Federal form 941.

## **Control of Tax Revenues**

Monies received during tax collections are recorded in the General Fund. This allows tax revenues to mix with other monies held by the Village. The Michigan Treasury Accounting Procedures Manual states that tax collections are to be recorded in a fiduciary fund (Fund #703-Current Tax Collection Fund). We recommend that tax monies be moved out of the General Fund and placed in the #703 fund. Also, all future tax collections should be recorded in this same fund.

Response: This will begin for 2008 fiscal year as the audit recommends Fund 703 will be set up for tax income.

## **Budgeting**

The Village adopted its budget expenditures in excess of budgeted revenues and beginning fund balances. Specifically, budgets adopted for the General and Fire Operating Funds had budgeted expenditures in excess of budgeted revenue and beginning fund balances. These funds should be budgeted in accordance with Uniform Budgeting and Accounting Act guidelines.

### **Accounts Receivable**

The subsidiary accounts receivable listings do not completely reconcile to the accounts receivable control account in the electric fund. One of the difficulties in reconciling the account is that the sewer and garbage receivables are recorded in the control account of the electric fund instead of the respective funds. Also, the delinquent accounts per the subsidiary report are lower than the control account. We recommend that the sewer and garbage receivables be recorded in their respective funds. Also, a reconciliation should be performed between the delinquent control account and the subsidiary listing.

Response: The electric fund carries all the customer account balances for all services due. At the time of billing each of the funds receive revenue for the amount billed for each matching service. Our software does not allow for interface of payment amounts out to various funds.

### **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, which requires the Village implement the Statement for the year ended December 31, 2009. GASB Statement 45 impacts the future accounting of post-employment health insurance costs as it relates to the amount the Village will be required to fund these benefits. The Village will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Village Council as well as management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Village of Newberry, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should no be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**