

Village of Newberry, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2010

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2011 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, schedule of funding progress, 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 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 2, 2011

Management's Discussion and Analysis

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 9.4% from a year ago increasing from \$5,751,727 to \$6,289,635. The governmental activities experienced a \$259,225 increase in net assets primarily due to increased revenues. The business-type activities experienced a \$278,683 increase in net assets, primarily as a result of increased efficiencies in the overall operations and a grant for water capital assets.

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

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current Assets	\$ 575,989	\$ 315,903	\$ 2,466,281	\$ 2,176,997	\$ 3,042,270	\$ 2,492,900
Noncurrent Assets	<u>666,985</u>	<u>759,487</u>	<u>8,324,543</u>	<u>8,556,289</u>	<u>8,991,528</u>	<u>9,315,776</u>
Total Assets	<u>\$ 1,242,974</u>	<u>\$ 1,075,390</u>	<u>\$ 10,790,824</u>	<u>\$ 10,733,286</u>	<u>\$ 12,033,798</u>	<u>\$ 11,808,676</u>
Current Liabilities	\$ 72,245	\$ 118,857	\$ 506,101	\$ 630,583	\$ 578,346	\$ 749,440
Noncurrent Liabilities	<u>344,193</u>	<u>389,222</u>	<u>4,821,624</u>	<u>4,918,287</u>	<u>5,165,817</u>	<u>5,307,509</u>
Total Liabilities	<u>416,438</u>	<u>508,079</u>	<u>5,327,725</u>	<u>5,548,870</u>	<u>5,744,163</u>	<u>6,056,949</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	259,042	305,490	3,422,934	3,538,680	3,681,976	3,844,170
Restricted	-	-	239,074	-	239,074	-
Unrestricted	<u>567,494</u>	<u>261,821</u>	<u>1,801,091</u>	<u>1,645,736</u>	<u>2,368,585</u>	<u>1,907,557</u>
Total Net Assets	<u>\$ 826,536</u>	<u>\$ 567,311</u>	<u>\$ 5,463,099</u>	<u>\$ 5,184,416</u>	<u>\$ 6,289,635</u>	<u>\$ 5,751,727</u>

The current level of unrestricted net assets for our governmental activities stands at \$567,494 or about 45.1% of expenditures.

The following table shows the activities of the Village.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Program Revenues						
Charges for Services	\$ 585,008	\$ 364,849	\$ 3,711,368	\$ 3,748,711	\$ 4,296,376	\$ 4,113,560
Operating Grants and Contributions	229,331	257,138	-	-	229,331	257,138
General Revenues						
Property Taxes	372,451	374,019	-	-	372,451	374,019
P.I.L.O.T.	31,500	19,500	-	-	31,500	19,500
State-Shared Revenues	192,095	198,844	-	-	192,095	198,844
Interest	2,943	2,735	16,575	17,209	19,518	19,944
Gain on Sale of Capital Assets	-	-	3,297	-	3,297	-
Miscellaneous	4,670	8,674	-	-	4,670	8,674
Total Revenues	1,417,998	1,225,759	3,731,240	3,765,920	5,149,238	4,991,679
Program Expenses						
Legislative	6,773	8,083	-	-	6,773	8,083
General Government	222,061	130,252	-	-	222,061	130,252
Public Safety	324,552	241,603	-	-	324,552	241,603
Public Works	457,517	529,610	-	-	457,517	529,610
Interest Expense – Unallocated	19,086	21,273	-	-	19,086	21,273
Other Expenses	226,920	117,133	-	-	226,920	117,133
Electric	-	-	2,081,784	2,372,673	2,081,784	2,372,673
Water	-	-	460,848	400,120	460,848	400,120
Sewer	-	-	859,925	704,742	859,925	704,742
Total Expenses	1,256,909	1,047,954	3,402,557	3,477,535	4,659,466	4,525,489
Excess (Deficiency) Before Transfers	161,089	177,805	328,683	288,385	489,772	466,190
Transfers	50,000	25,000	(50,000)	(25,000)	-	-
Changes in Net Assets	211,089	202,805	278,683	263,385	489,772	466,190
Net Assets – Beginning	567,311	249,270	5,184,416	4,939,406	5,751,727	5,188,676
Prior Period Adjustment	48,136	115,236	-	(18,375)	48,136	96,861
Net Assets – Ending	\$ 826,536	\$ 567,311	\$ 5,463,099	\$ 5,184,416	\$ 6,289,635	\$ 5,751,727

Governmental Activities

Revenue from property taxes decreased .4% from the previous year decreasing from 374,019 to \$372,451. This is due to a tax rate rollback.

Expenses increased by \$208,955. This increase was primarily due to depreciation expense and health insurance premiums.

Business-Type Activities

The Village's total business-type revenues decreased by \$34,680.

Expenses decreased by \$74,978 during the year.

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 2010 include the General Fund, Fire Operating, 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 Fire Operating Fund is used to record revenues from the two townships and the village for fire protection and the expenditures incurred to operate the fire department.

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 completed conversion 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 \$127,562 above the amended budget.

Expenditures were \$99,962 below the amended budget for 2010.

Capital Asset and Debt Administration

Capital Assets – The Village's investment in capital assets as of December 31, 2010, amounted to \$8,180,203, (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 2010 included 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 \$5,274,486 outstanding in capital leases, bonds 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. The cap on the growth rate under the Headlee Amendment, the voter's 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, in addition possible elimination of personal property tax which itself would eliminate \$28,500 of revenue, and 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 Terrence Webb, Village President, by calling 906-293-3433 ext. 1 during the hours of 8 am to 4:30 pm, Monday thru Friday or write the Village of Newberry at 307 E. McMillan Ave., Newberry, Michigan 49868.

Basic Financial Statements

Statement of Net Assets

December 31, 2010

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS:			
Current Assets			
Cash & Equivalents - Unrestricted	\$ 489,119	\$ 1,246,873	\$ 1,735,992
Cash & Equivalents - Restricted	-	239,074	239,074
Taxes Receivable	42,486	-	42,486
Accounts Receivable	14,611	343,359	357,970
Due from Governmental Units	55,203	563,735	618,938
Internal Loans	(25,430)	25,430	-
Inventories	-	47,810	47,810
Total Current Assets	575,989	2,466,281	3,042,270
Noncurrent Assets			
Capital Credits in Coop	-	776,259	776,259
Post Employment Health Care (OPEB)	35,066	-	35,066
Capital Assets (Not Depreciated)	-	67,572	67,572
Capital Assets (Net of Accumulated Depreciation)	631,919	7,480,712	8,112,631
Total Noncurrent Assets	666,985	8,324,543	8,991,528
TOTAL ASSETS	\$ 1,242,974	\$ 10,790,824	\$ 12,033,798
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 19,702	\$ 148,100	\$ 167,802
Accrued Liabilities	4,024	53,634	57,658
Other Liabilities	-	26,875	26,875
Accrued Interest Payable	1,949	52,981	54,930
Capital Leases	15,070	-	15,070
Bonds Payable	31,500	224,511	256,011
Total Current Liabilities	72,245	506,101	578,346
Noncurrent Liabilities			
Compensated Absences	17,886	-	17,886
Post Employment Health Care (OPEB)	-	144,526	144,526
Capital Leases	101,307	-	101,307
Bonds Payable	225,000	4,677,098	4,902,098
Total Noncurrent Liabilities	344,193	4,821,624	5,165,817
TOTAL LIABILITIES	416,438	5,327,725	5,744,163
NET ASSETS:			
Invested in Capital Assets (Net of Related Debt)	259,042	3,422,934	3,681,976
Restricted	-	239,074	239,074
Unrestricted	567,494	1,801,091	2,368,585
TOTAL NET ASSETS	\$ 826,536	\$ 5,463,099	\$ 6,289,635

Village of Newberry, Michigan

Statement of Activities For the Year Ended December 31, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
Legislative	\$ 6,773	\$ -	\$ -	\$ (6,773)	\$ -	\$ (6,773)
General Government	222,061	249,970	-	27,909	-	27,909
Public Safety	324,552	27,360	70,427	(226,765)	-	(226,765)
Public Works	457,517	307,678	158,904	9,065	-	9,065
Other Expenses	226,920	-	-	(226,920)	-	(226,920)
Interest expense - Unallocated	19,086	-	-	(19,086)	-	(19,086)
Total Governmental Activities	<u>1,256,909</u>	<u>585,008</u>	<u>229,331</u>	<u>(442,570)</u>	<u>-</u>	<u>(442,570)</u>
Business-type activities:						
Electric	2,081,784	2,357,563	-	-	275,779	275,779
Water	460,848	398,268	-	-	(62,580)	(62,580)
Sewer	859,925	955,537	-	-	95,612	95,612
Total Business-type Activities	<u>3,402,557</u>	<u>3,711,368</u>	<u>-</u>	<u>-</u>	<u>308,811</u>	<u>308,811</u>
Total Primary Government	<u>\$ 4,659,466</u>	<u>\$ 4,296,376</u>	<u>\$ 229,331</u>	<u>(442,570)</u>	<u>308,811</u>	<u>(133,759)</u>
General Revenues:						
Taxes				372,451	-	372,451
P.I.L.O.T.				31,500	-	31,500
State Revenue Sharing				192,095	-	192,095
Interest on Deposits				2,943	16,575	19,518
Gain on Sale of Capital Assets				-	3,297	3,297
Miscellaneous				4,670	-	4,670
Interfund Transfers (net)				50,000	(50,000)	-
Total General Revenues				<u>653,659</u>	<u>(30,128)</u>	<u>623,531</u>
Change in Net Assets				211,089	278,683	489,772
Net Assets - Beginning				567,311	5,184,416	5,751,727
Prior Period Adjustment				48,136	-	48,136
Net Assets - Ending				<u>\$ 826,536</u>	<u>\$ 5,463,099</u>	<u>\$ 6,289,635</u>

Village of Newberry, Michigan

Balance Sheet Governmental Funds December 31, 2010

	General	Fire Operating	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash & Equivalents - Unrestricted	\$ 362,165	\$ 87,359	\$ 39,595	\$ 489,119
Taxes Receivable	38,150	-	4,336	42,486
Accounts Receivable	14,611	-	-	14,611
Due from Other Funds	342,755	-	9,714	352,469
Due from Governmental Units	33,502	-	21,701	55,203
	<u>\$ 791,183</u>	<u>\$ 87,359</u>	<u>\$ 75,346</u>	<u>\$ 953,888</u>
LIABILITIES:				
Due to Other Funds	\$ 367,363	\$ -	\$ 10,536	\$ 377,899
Accrued Liabilities	4,024	-	-	4,024
Accounts Payable	13,440	5,484	778	19,702
Deferred Revenue	14,611	-	-	14,611
	<u>399,438</u>	<u>5,484</u>	<u>11,314</u>	<u>416,236</u>
FUND BALANCES:				
Unreserved:				
Undesignated	391,745	81,875	64,032	537,652
	<u>391,745</u>	<u>81,875</u>	<u>64,032</u>	<u>537,652</u>
TOTAL FUND BALANCES	<u>391,745</u>	<u>81,875</u>	<u>64,032</u>	<u>537,652</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 791,183</u>	<u>\$ 87,359</u>	<u>\$ 75,346</u>	

Reconciliation to Amounts Reported for Governmental Activities in the Statement of Net Assets:

Capital Assets Used by Governmental Activities	631,919
Post Employment Health Care (OPEB)	35,066
Deferred Revenue	14,611
Long-Term Notes & Leases Payable for Governmental Activities	(372,877)
Compensated Absences Liability	(17,886)
Accrued Interest Payable	(1,949)
Net Assets of Governmental Activities	<u>\$ 826,536</u>

Village of Newberry, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2010

	General	Fire Operating	Other Governmental Funds	Totals Governmental Funds
REVENUES:				
Taxes	\$ 366,654	\$ -	\$ 37,297	\$ 403,951
Licenses & Permits	213	-	-	213
State Sources	194,173	-	167,078	361,251
Local Sources	-	42,448	27,979	70,427
Charges for Services	97,464	17,934	-	115,398
Interest & Rentals	1,294	1,352	297	2,943
Refunds & Reimbursements	463,661	751	-	464,412
Other	4,258	-	-	4,258
TOTAL REVENUES	1,127,717	62,485	232,651	1,422,853
EXPENDITURES:				
Legislative	6,773	-	-	6,773
General Government	219,333	-	-	219,333
Public Safety	129,101	100,591	28,277	257,969
Public Works	195,954	-	240,218	436,172
Other Expenditures	234,296	-	-	234,296
Capital Outlay	2,451	6,252	-	8,703
Debt Service	52,285	-	20,445	72,730
TOTAL EXPENDITURES	840,193	106,843	288,940	1,235,976
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	287,524	(44,358)	(56,289)	186,877
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	50,000	24,224	142,161	216,385
Operating Transfers Out	(104,727)	-	(61,658)	(166,385)
TOTAL OTHER FINANCING SOURCES (USES)	(54,727)	24,224	80,503	50,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	232,797	(20,134)	24,214	236,877
FUND BALANCES, JANUARY 1	183,150	29,671	39,818	252,639
PRIOR PERIOD ADJUSTMENT	(24,202)	72,338	-	48,136
FUND BALANCES, DECEMBER 31	\$ 391,745	\$ 81,875	\$ 64,032	\$ 537,652

**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, 2010**

Net changes in fund balances – total governmental funds \$ 236,877

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 depreciation expense (\$89,115) and net book value of assets sold (\$19,467) exceeded capital outlay of \$8,703. (99,879)

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

Principal repayments:			
Bond principal	\$	29,250	
Installment principal		9,807	
Lease principal		14,374	53,431

Deferred revenue in fund statement recorded as revenue in GASB statement. 14,611

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	\$	(1,541)	
Other Post Employment Benefits (OPEB)		7,376	
Accrued interest on bonds		214	6,049

Changes in net assets of governmental activities \$ 211,089

Village of Newberry, Michigan

Statement of Net Assets Proprietary Funds December 31, 2010

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
ASSETS:					
Current Assets					
Cash & Equivalents - Unrestricted	\$ 816,957	\$ 182,682	\$ 216,920	\$ 30,314	\$ 1,246,873
Cash & Equivalents - Restricted	-	239,074	-	-	239,074
Accounts Receivable	267,712	75,647	-	-	343,359
Due from Other Funds	353,735	18,678	55,527	52,206	480,146
Inventories	32,741	329	-	14,740	47,810
Due from Governmental Units	-	-	18,193	545,542	563,735
Total Current Assets	1,471,145	516,410	290,640	642,802	2,920,997
Noncurrent Assets					
Capital Credits in Coop	776,259	-	-	-	776,259
Property, Plant & Equipment	5,732,827	5,079,926	2,609,591	52,597	13,474,941
Accumulated Depreciation	(3,354,258)	(1,025,006)	(1,502,386)	(45,007)	(5,926,657)
Total Noncurrent Assets	3,154,828	4,054,920	1,107,205	7,590	8,324,543
TOTAL ASSETS	\$ 4,625,973	\$ 4,571,330	\$ 1,397,845	\$ 650,392	\$ 11,245,540
LIABILITIES:					
Current Liabilities					
Due to Other Funds	\$ 22,185	\$ 357	\$ 110,885	\$ 321,289	\$ 454,716
Accounts Payable	124,739	4,882	1,516	16,963	148,100
Accrued Liabilities	16,269	13,111	-	24,254	53,634
Other Liabilities	26,875	-	-	-	26,875
Accrued Interest Payable	17,381	33,270	2,330	-	52,981
Bonds Payable	168,000	28,000	28,511	-	224,511
Total Current Liabilities	375,449	79,620	143,242	362,506	960,817
Noncurrent Liabilities					
Post Employment Health Care (OPEB)	78,928	-	-	65,598	144,526
Bonds Payable	2,120,000	2,390,300	166,798	-	4,677,098
Total Noncurrent Liabilities	2,198,928	2,390,300	166,798	65,598	4,821,624
TOTAL LIABILITIES	2,574,377	2,469,920	310,040	428,104	5,782,441
NET ASSETS:					
Invested in Capital Assets (Net of Related Debt)	866,828	1,636,620	911,896	7,590	3,422,934
Restricted	-	239,074	-	-	239,074
Unrestricted	1,184,768	225,716	175,909	214,698	1,801,091
TOTAL NET ASSETS	\$ 2,051,596	\$ 2,101,410	\$ 1,087,805	\$ 222,288	\$ 5,463,099

Village of Newberry, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2010

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
OPERATING REVENUES:					
Charges for Services	\$ 2,159,750	\$ 349,028	\$ 449,696	\$ 504,250	\$ 3,462,724
Other Revenue	197,813	49,240	-	1,591	248,644
Total Operating Revenues	2,357,563	398,268	449,696	505,841	3,711,368
OPERATING EXPENSES:					
Employee Wages & Benefits	430,840	111,411	11,286	263,538	817,075
Supplies	159,038	30,555	-	45,081	234,674
Repairs & Maintenance	12,867	802	-	3,499	17,168
Contracted Services	53,256	15,433	304,752	33,464	406,905
Insurance	25,730	12,108	-	20,544	58,382
Depreciation	66,698	148,283	53,664	1,213	269,858
Utilities	1,080,420	-	-	112,947	1,193,367
Other Expenses	142,818	41,999	-	-	184,817
Total Operating Expenses	1,971,667	360,591	369,702	480,286	3,182,246
OPERATING INCOME (LOSS)	385,896	37,677	79,994	25,555	529,122
NON-OPERATING REVENUES (EXPENSES):					
Interest Expense	(110,117)	(100,257)	(9,937)	-	(220,311)
Interest Income	10,179	3,603	2,586	207	16,575
Gain on Sale of Capital Assets	3,297	-	-	-	3,297
Total Non-Operating Revenues (Expenses)	(96,641)	(96,654)	(7,351)	207	(200,439)
Income Before Transfers	289,255	(58,977)	72,643	25,762	328,683
Operating Transfers Out	-	-	(50,000)	-	(50,000)
CHANGE IN NET ASSETS	289,255	(58,977)	22,643	25,762	278,683
NET ASSETS, JANUARY 1	1,762,341	2,160,387	1,065,162	196,526	5,184,416
NET ASSETS, DECEMBER 31	\$ 2,051,596	\$ 2,101,410	\$ 1,087,805	\$ 222,288	\$ 5,463,099

Village of Newberry, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2010

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
Cash Flows From Operating Activities:					
Cash Received from Customers or Users	\$ 2,445,994	\$ 403,562	\$ 451,300	\$ 338,553	\$ 3,639,409
Cash Payments to Employees	(385,910)	(108,434)	(11,286)	(225,313)	(730,943)
Cash Payments to Vendors	(1,521,051)	(202,948)	(303,236)	(219,739)	(2,246,974)
Cash Received (Paid) from Other Funds	18,585	(18,550)	(2,780)	134,808	132,063
Net Cash Provided (Used) By Operating Activities	<u>557,618</u>	<u>73,630</u>	<u>133,998</u>	<u>28,309</u>	<u>793,555</u>
Cash Flows From Capital and Related Financing Activities:					
Debt Principal Payments	(161,000)	(27,000)	(27,761)	-	(215,761)
Debt Interest Payments	(111,161)	(100,007)	(10,308)	-	(221,476)
Bond Proceeds	-	45,000	-	-	45,000
Purchase of Capital Credits	41,532	-	-	-	41,532
Gain on Sale of Capital Assets	3,297	-	-	-	3,297
Purchase of Property and Equipment	(25,124)	(53,627)	(446)	(447)	(79,644)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(252,456)</u>	<u>(135,634)</u>	<u>(38,515)</u>	<u>(447)</u>	<u>(427,052)</u>
Cash Flows From Non-Capital and Related Financing Activities					
Transfers to Other Funds	-	-	(50,000)	-	(50,000)
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Cash Flows From Investing Activities:					
Interest Income	10,179	3,603	2,586	207	16,575
Net Cash Provided (Used) by Investing Activities	<u>10,179</u>	<u>3,603</u>	<u>2,586</u>	<u>207</u>	<u>16,575</u>
Net Increase (Decrease) in Cash	315,341	(58,401)	48,069	28,069	333,078
Cash and Cash Equivalents at Beginning of Year	501,616	480,157	168,851	2,245	1,152,869
Cash and Cash Equivalents at End of Year	<u>\$ 816,957</u>	<u>\$ 421,756</u>	<u>\$ 216,920</u>	<u>\$ 30,314</u>	<u>\$ 1,485,947</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income	\$ 385,896	\$ 37,677	\$ 79,994	\$ 25,555	\$ 529,122
Add Non-Cash Expenses:					
Depreciation	66,698	148,283	53,664	1,213	269,858
Changes in Assets and Liabilities:					
Decrease (Increase) in Assets:					
Receivables	88,431	(34,387)	-	-	54,044
Due from Other Governments	-	39,681	1,605	(167,289)	(126,003)
Inventory	(9,689)	(1)	-	(6,620)	(16,310)
Due from (to) Other funds	18,585	(18,549)	(2,781)	134,809	132,064
Increase (Decrease) in Liabilities:					
Accounts Payable	(44,858)	(102,051)	1,516	2,416	(142,977)
Other Liabilities	7,625	-	-	-	7,625
Post Employment Health Care (OPEB)	39,257	-	-	33,841	73,098
Accrued Liabilities	5,673	2,977	-	4,384	13,034
Net Cash Provided (Used) By Operating Activities	<u>\$ 557,618</u>	<u>\$ 73,630</u>	<u>\$ 133,998</u>	<u>\$ 28,309</u>	<u>\$ 793,555</u>

Notes to Financial Statements

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.

Fire Operating. The Fire Operating Fund is used to account for the fire contributions from two townships and the Village as well as expenditures to operate the fire department.

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.

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.

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.”

Allowances for uncollectible accounts receivables has been determined to be \$20,007.

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.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND EQUIVALENTS:

	<u>Primary Government</u>
Cash and Equivalents:	
- Restricted	\$ 239,074
- Unrestricted	<u>1,735,992</u>
Total	<u>\$ 1,975,066</u>
Imprest	\$ 450
CD's savings and checking	<u>1,974,616</u>
Total	<u>\$ 1,975,066</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>
Water:		
	Repair, Replacement and Improvement	\$ 72,915
	Bond Redemption	101,159
	Bond Reserve	<u>65,000</u>
		<u>\$ 239,074</u>

NOTE 2 - CASH AND EQUIVALENTS: (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, \$1,439,358 of the Village's bank balance of \$2,073,372 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) Obligations 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, 2010 consisted of the following:

		DUE FROM						
DUE TO		General	Other Governmental	Electric	Water	Newberry Sewage	Luce County Sewage	Total
	General	\$	-	\$ 9,166	\$ 3,714	\$ 357	\$ 8,677	\$ 320,841
Other Governmental		8,344	1,370	-	-	-	-	9,714
Electric		303,492	-	-	-	50,002	241	353,735
Water		-	-	18,471	-	-	207	18,678
Newberry Sewage		55,527	-	-	-	-	-	55,527
Luce County Sewage		-	-	-	-	52,206	-	52,206
Total		<u>\$ 367,363</u>	<u>\$ 10,536</u>	<u>\$ 22,185</u>	<u>\$ 357</u>	<u>\$ 110,885</u>	<u>\$ 321,289</u>	<u>\$ 832,615</u>

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.

Interfund transfers for the year ended December 31, 2010 consisted of the following:

Interfund Transfers

		TRANSFERS OUT			
TRANSFERS IN		General Fund	Nonmajor Governmental Funds	Newberry Sewage	Total
	General	\$	-	-	\$ 50,000
Fire Operating		5,789	18,435	-	24,224
Nonmajor Governmental		<u>98,938</u>	<u>43,223</u>	-	<u>142,161</u>
Total		<u>\$ 104,727</u>	<u>\$ 61,658</u>	<u>\$ 50,000</u>	<u>\$ 216,385</u>

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

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, 2010, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	\$ 752,762	\$ -	\$ (23,175)	\$ 729,587
Infrastructure	173,360	-	-	173,360
Vehicles and Equipment	<u>1,948,016</u>	<u>8,703</u>	<u>-</u>	<u>1,956,719</u>
Total assets being depreciated	<u>2,874,138</u>	<u>8,703</u>	<u>(23,175)</u>	<u>2,859,666</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(690,643)	(3,809)	3,708	(690,744)
Infrastructure	(8,668)	(8,668)	-	(17,336)
Vehicles and Equipment	<u>(1,443,029)</u>	<u>(76,638)</u>	<u>-</u>	<u>(1,519,667)</u>
Total accumulated depreciation	<u>(2,142,340)</u>	<u>(89,115)</u>	<u>3,708</u>	<u>(2,227,747)</u>
Governmental Activities Capital Assets, Net	<u>\$ 731,798</u>	<u>\$ (80,412)</u>	<u>\$ (19,467)</u>	<u>\$ 631,919</u>

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

Governmental Activities:	
General Government	\$ 1,187
Public Safety	66,583
Public Works	<u>21,345</u>
Total Governmental Activities	<u>\$ 89,115</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
<i>Capital assets not depreciated:</i>				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Construction in progress	<u>971,671</u>	<u>52,368</u>	<u>(971,671)</u>	<u>52,368</u>
Total capital assets not being depreciated	<u>986,875</u>	<u>52,368</u>	<u>(971,671)</u>	<u>67,572</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	168,654	-	-	168,654
Water system	4,033,108	971,671	-	5,004,779
Sewer system	2,623,149	-	-	2,623,149
Electric system	5,094,574	-	-	5,094,574
Vehicles and equipment	<u>554,990</u>	<u>27,276</u>	<u>(66,052)</u>	<u>516,214</u>
Total capital assets being depreciated	<u>12,474,475</u>	<u>998,947</u>	<u>(66,052)</u>	<u>13,407,370</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(165,888)	(461)	-	(166,349)
Water system	(869,758)	(145,914)	-	(1,015,672)
Sewer system	(1,472,294)	(54,013)	-	(1,526,307)
Electric system	(2,740,756)	(54,163)	-	(2,794,919)
Vehicles and equipment	<u>(474,156)</u>	<u>(15,308)</u>	<u>66,052</u>	<u>(423,412)</u>
Total accumulated depreciation	<u>(5,722,852)</u>	<u>(269,859)</u>	<u>66,052</u>	<u>(5,926,659)</u>
Total capital assets being depreciated, net	<u>6,751,623</u>	<u>729,088</u>	<u>-</u>	<u>7,480,711</u>
Business-type activities capital assets, net	<u>\$ 7,738,498</u>	<u>\$ 781,456</u>	<u>\$ (971,671)</u>	<u>\$ 7,548,283</u>

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

Business-type Activities:	
Electric	\$ 66,698
Water	148,284
Newberry Sewage	53,664
Luce County Sewage	<u>1,213</u>
Total Business-type Activities	<u>\$ 269,859</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 have 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:

2011	\$	20,455
2012		20,446
2013		20,446
2014		20,446
2015		20,447
2016 – 2017		<u>34,767</u>
Total minimum lease payments		137,007
Less amount representing interest		<u>(20,630)</u>
Present value of minimum lease payments	\$	<u>116,377</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, 2010 are summarized as follows:

	Balance 01/01/10	Additions	Deductions	Balance 12/31/10	Due Within One Year
Governmental Activities:					
2002 General Obligation Bonds, Bonds maturing Serially to 2017 in annual payments ranging from \$41,250 to \$71,250, bearing interest of 4.4% to 4.8%.	\$ 285,750	\$ -	\$ 29,250	\$ 256,500	\$ 31,500
2006 Installment Notes payable with monthly payments of \$1,987 including interest of 5.15%, secured by plow truck.	<u>9,807</u>	<u>-</u>	<u>9,807</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>295,557</u>	<u>-</u>	<u>39,057</u>	<u>256,500</u>	<u>31,500</u>
Business-type Activities:					
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%.	254,000	-	26,000	228,000	28,000

NOTE 6 - LONG-TERM DEBT: (Continued)

	<u>Balance 01/01/10</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/10</u>	<u>Due Within One Year</u>
Business-type Activities: (Continued)					
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%.	95,250	-	9,750	85,500	10,500
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%.	665,000	-	40,000	625,000	40,000
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%.	750,000	-	40,000	710,000	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%.	2,214,000	-	24,000	2,190,000	25,000
1976 Sanitary Sewage Improvement Bonds, maturing serially to 2016 in annual amounts ranging from \$7,000 to \$32,000, bearing interest of 5.0%.	127,820*	-	18,011	109,809	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%.	780,000	-	55,000	725,000	60,000
2009 Water Supply System Revenue Bonds, maturing serially to 2040 in annual amounts ranging from \$3,000 to \$16,000, bearing interest of 4.125%.	<u>186,300</u>	<u>45,000</u>	<u>3,000</u>	<u>228,300</u>	<u>3,000</u>
Total Business-type Activities	<u>5,072,370</u>	<u>45,000</u>	<u>215,761</u>	<u>4,901,609</u>	<u>224,511</u>
Accrued sick leave and vacation	<u>16,345</u>	<u>1,541</u>	<u>-</u>	<u>17,886</u>	
TOTAL LONG-TERM OBLIGATIONS	<u>\$ 5,384,272</u>	<u>\$ 46,541</u>	<u>\$ 254,818</u>	<u>\$ 5,175,995</u>	

* On August 1, 1976, the County of Luce issued \$805,000 of its bonds to partially finance the cost of sanitary sewage improvements in the Village of Newberry, the Township of Pentland and the Township of McMillan. The Village is responsible for 58.1% of the bond principal plus 58.1% of the interest expense. The bonds bear interest at the rate of 5.0% per annum. The Village's portions of the bonds are backed by full faith and credit of the Village.

NOTE 6 - LONG-TERM DEBT: (Continued)

The annual principal and interest requirements for the years ending December 31, 2010 and after, excluding accrued compensated absences are as follows:

Year End June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 31,500	\$ 11,691	\$ 224,511	\$ 213,035
2012	33,750	10,305	234,261	203,821
2013	33,750	8,820	246,261	194,045
2014	36,000	7,335	250,592	183,607
2015	38,250	5,715	270,342	172,746
2016-2020	83,250	6,008	1,279,342	686,629
2021-2025	-	-	585,000	439,182
2026-2030	-	-	315,000	352,698
2031-2035	-	-	396,000	282,903
2036-2040	-	-	496,000	193,091
2041-2045	-	-	604,300	83,290
Total	\$ 256,500	\$ 49,874	\$ 4,901,609	\$ 3,005,047

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, 2010, the liability totaled \$17,886.

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, 2010 totaled \$19,702,921. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	11.2532
Streets and Alleys	4.5011
Garbage	1.3962
Fire Service	1.9387

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, 2009.

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.

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

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.

General – Other	15.21%
Supervisors	34.32%
General Light and Power	8.59%

Annual Pension Cost

During the fiscal year ended December 31, 2010, the Village's contributions totaling \$111,124 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2009. 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.

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 115,692	100%	0
2009	97,064	100%	0
2010	111,124	100%	0

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB):

Effective for the 2010 calendar year, the Village is required to implement Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions, for certain health care reimbursements provided by the Village to retired employees. The requirements of this statement are implemented prospectively, using the alternative calculation provision of the statement for employers with less than 100 employees, with the accrued liability for benefits amortized over future years. No liability is reported at the transition date. The Village currently is not advance funding the liability. It is funding only the required current amount based on a pay-as-you go policy.

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB): (Continued)

The following table shows the Village's annual OPEB cost and calculation of the Annual Required Contribution.

	Governmental Activities	Business-type Activities	Total
Normal Cost Component			
Normal Cost	\$ 28,164	\$ 60,711	\$ 88,875
Interest	1,548	3,339	4,887
Total Normal Cost	<u>29,712</u>	<u>64,050</u>	<u>93,762</u>
Amortization Component			
Actuarial Accrued Liability	731,563	946,341	1,677,904
Less: Assets	-	-	-
Unfunded Actuarial Accrued Liability	731,563	946,341	1,677,904
Divided by PV Factor	<u>21,1223</u>	<u>21,1223</u>	<u>21,1223</u>
Amortization Payment	34,635	44,803	79,438
Interest	1,905	2,464	4,369
Total Amortization Payment	<u>36,540</u>	<u>47,267</u>	<u>83,807</u>
Annual Required Contribution	<u>\$ 66,252</u>	<u>\$ 111,317</u>	<u>\$ 177,569</u>
Annual Cost for OPEB			
Annual Required Contribution	\$ 66,252	\$ 111,317	\$ 177,569
Interest on Net OPEB Obligation	-	-	-
Adjustments to ARC	-	-	-
Annual OPEB Cost	<u>66,252</u>	<u>111,317</u>	<u>177,569</u>
Contributions Made – Current Year	<u>(73,628)</u>	<u>(38,219)</u>	<u>(111,847)</u>
Increase in Net OPEB Obligation	(7,376)	73,098	65,722
Net OPEB Obligation Beginning of Year	<u>(27,690)</u>	<u>71,428</u>	<u>43,738</u>
Net OPEB Obligation End of Year	<u>\$ (35,066)</u>	<u>\$ 144,526</u>	<u>\$ 109,460</u>

The Village provides post retirement health care benefits to all employees who retire from the Village. There were 12 retirees receiving benefits with an approximate annual cost of \$111,847. Three were 11 active employees at December 31, 2010.

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, 2010.

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's Electric Fund receives patronage capital credits. During the current year the Village distributed \$41,532 in capital credit distributions. As of December 31, 2010, the Village has capital credits outstanding of \$776,259. 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 - PRIOR PERIOD ADJUSTMENT:

Net assets of governmental activities and business-type activities will be increased as follows:

	<u>Governmental Activities</u>
Beginning Net Assets January 1, 2010	\$ 567,311
Governmental Activities: Advance payments from other governments which should have been recorded as revenue in prior years (net).	<u>48,136</u>
Restated Net Assets January 1, 2010	<u>\$ 615,447</u>

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended December 31, 2010, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>	<u>Luce County Sewage</u>
Nonoperating revenue (expense)	\$ (96,641)	\$ (96,654)	\$ (7,351)	\$ 207
Operating income (loss)	385,896	37,677	79,994	25,555
Changes in net assets	289,255	(58,977)	22,643	25,762
Operating revenues	2,357,563	398,268	449,696	505,841
Operating expenses	1,971,667	360,591	369,702	480,286
Depreciation	66,698	148,283	55,664	1,213
Total assets	4,625,973	4,571,330	1,397,845	650,392
Current liabilities	375,449	79,620	143,242	362,506
Long-term debt payable	2,198,928	2,390,300	166,798	65,598
Beginning net assets	1,762,341	2,160,387	1,065,162	196,526
Ending net assets	2,051,596	2,101,410	1,087,805	222,288
Cash provided (used) by:				
Operating activities	557,618	33,949	133,998	28,309
Capital financing	(252,456)	(95,953)	(38,515)	(447)
Investing	10,179	3,603	2,586	207
Beginning cash	501,616	480,157	168,851	2,245
Ending cash	816,957	421,756	216,920	30,314

NOTE 15 – LITIGATION

The Village has a lawsuit outstanding with Glawe, Inc. The lawsuit states that the Village of Newberry (Defendant) breached the contract with Glawe, Inc, who is now suing for damages. It is the belief of the Village’s legal council that the Village did not breach the contract and feels the Court will grant a motion for summary disposition.

The Village also has a lawsuit outstanding with Pentland and McMillan Twp’s. The Village is the Plaintiff in this case and as a result no loss is possible. A favorable outcome is expected but the amount is not available.

Required Supplementary Information

Village of Newberry, Michigan

**Employee Retirement and Benefit Systems
December 31, 2010**

Pension:

Three year trend information as of December 31 follows:

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Actuarial Value of Assets	\$ 2,777,710	\$ 2,761,714	\$ 2,707,493
Actuarial Accrued Liability	3,683,526	3,743,331	3,830,614
Unfunded AAL	905,816	981,617	1,123,121
Funded Ratio	75%	74%	71%
Covered Payroll	547,771	490,762	555,767
UAAL as a Percentage of Covered Payroll	165%	200%	202%

Health Plan:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent of Covered Payroll ((b - a) / c)</u>
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Primary Government

2009	\$	-	\$1,677,903	\$1,677,903	0.0%	Not Available	-
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Village of Newberry, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 238,500	\$ 264,700	\$ 366,654	\$ 101,954
Licenses & Permits	125	125	213	88
State Sources	192,200	192,100	194,173	2,073
Charges for Services	89,700	94,900	97,464	2,564
Interest & Rentals	450	450	1,294	844
Refunds & Reimbursements	431,080	447,880	463,661	15,781
Other Revenue	-	-	4,258	4,258
TOTAL REVENUES	952,055	1,000,155	1,127,717	127,562
EXPENDITURES:				
Legislative:				
Village Council	8,600	7,500	6,773	727
General Government:				
Village President	4,950	4,950	3,705	1,245
Administration	61,600	67,900	67,547	353
Accounting	37,500	40,100	37,805	2,295
Attorney	7,500	13,500	10,872	2,628
Village Clerk	12,000	11,000	9,152	1,848
Audit	9,450	9,450	7,570	1,880
Treasurer	10,850	14,050	12,383	1,667
Building & Grounds	17,875	15,225	12,981	2,244
Motor Pool	92,150	64,500	57,318	7,182
Total General Government	253,875	240,675	219,333	21,342
Public Safety:				
Police Department	133,300	129,450	129,101	349
Total Public Safety	133,300	129,450	129,101	349
Public Works:				
Department of Public Works	68,950	61,100	60,500	600
Sidewalks	10,000	10,000	9,690	310
Street Lighting	19,000	21,000	20,968	32
Sewers	27,800	45,200	44,908	292
Storm Sewer Construction	600	300	278	22
Rubbish & Garbage	72,230	60,030	59,610	420
Total Public Works	198,580	197,630	195,954	1,676
Other Expenditures:				
Fringe Benefits	169,180	227,880	212,276	15,604
Insurance & Bonds	30,850	22,100	22,020	80
Budget Stabilization	90,430	60,030	-	60,030
Total Other Expenditures	290,460	310,010	234,296	75,714
Capital Outlay	-	2,500	2,451	49
Debt Service	42,240	52,390	52,285	105
TOTAL EXPENDITURES	927,055	940,155	840,193	99,962

Village of Newberry, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2010

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
EXCESS OF REVENUES OVER EXPENDITURES	25,000	60,000	287,524	227,524
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	25,000	45,000	50,000	5,000
Operating Transfers Out	(50,000)	(105,000)	(104,727)	273
TOTAL OTHER FINANCING SOURCES (USES)	(25,000)	(60,000)	(54,727)	5,273
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	232,797	<u>\$ 232,797</u>
FUND BALANCE, JANUARY 1			<u>183,150</u>	
PRIOR PERIOD ADJUSTMENT			(24,202)	
FUND BALANCE, DECEMBER 31			<u>\$ 391,745</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Fire Operating Fund
Year Ended December 31, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Local Sources	\$ 80,332	\$ 58,352	\$ 42,448	\$ (15,904)
Charges for Services	17,200	20,900	17,934	(2,966)
Interest and Rentals	1,802	1,302	1,352	50
Refunds and Reimbursements	500	600	751	151
Other	-	-	-	-
TOTAL REVENUES	99,834	81,154	62,485	(18,669)
EXPENDITURES:				
Public Safety	140,000	110,330	100,591	9,739
Capital Outlay	-	-	6,252	(6,252)
TOTAL EXPENDITURES	140,000	110,330	106,843	3,487
EXCESS OF REVENUES OVER EXPENDITURES	(40,166)	(29,176)	(44,358)	(15,182)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	40,166	29,176	24,224	(4,952)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	(20,134)	\$ (20,134)
FUND BALANCE, JANUARY 1			29,671	
PRIOR PERIOD ADJUSTMENT			72,338	
FUND BALANCE, DECEMBER 31			\$ 81,875	

Other Supplementary Information

Village of Newberry, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2010

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	Downtown Development	Historical Society Renovation	
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 2,271	\$ 324	\$ 24,122	\$ 12,572	\$ 6	\$ 300	\$ 39,595
Taxes Receivable	-	-	-	4,336	-	-	4,336
Due from Other Funds	-	-	8,379	-	1,335	-	9,714
Due from Governmental Units	16,202	5,499	-	-	-	-	21,701
TOTAL ASSETS	\$ 18,473	\$ 5,823	\$ 32,501	\$ 16,908	\$ 1,341	\$ 300	\$ 75,346
LIABILITIES:							
Due to Other Funds	-	\$ 3,274	\$ 7,262	-	-	-	\$ 10,536
Accounts Payable	175	603	-	-	-	-	778
TOTAL LIABILITIES	175	3,877	7,262	-	-	-	11,314
FUND BALANCES:							
Unreserved Undesignated	18,298	1,946	25,239	16,908	1,341	300	64,032
TOTAL FUND BALANCES	18,298	1,946	25,239	16,908	1,341	300	64,032
TOTAL LIABILITIES AND FUND BALANCES	\$ 18,473	\$ 5,823	\$ 32,501	\$ 16,908	\$ 1,341	\$ 300	\$ 75,346

Village of Newberry, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended December 31, 2010

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	Downtown Development	Historical Society Renovation	
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ 37,297	\$ -	\$ -	\$ 37,297
State Sources	105,043	62,035	-	-	-	-	167,078
Local Sources	-	-	27,979	-	-	-	27,979
Interest & Rentals	-	-	176	121	-	-	297
TOTAL REVENUES	105,043	62,035	28,155	37,418	-	-	232,651
EXPENDITURES:							
Public Safety	-	-	28,277	-	-	-	28,277
Public Works	68,478	171,740	-	-	-	-	240,218
Debt Service	-	-	20,445	-	-	-	20,445
TOTAL EXPENDITURES	68,478	171,740	48,722	-	-	-	288,940
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	36,565	(109,705)	(20,567)	37,418	-	-	(56,289)
OTHER FINANCING SOURCES (USES):							
Transfers In	-	111,493	30,668	-	-	-	142,161
Transfers Out	(33,000)	-	-	(28,658)	-	-	(61,658)
TOTAL OTHER FINANCING SOURCES (USES)	(33,000)	111,493	30,668	(28,658)	-	-	80,503
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	3,565	1,788	10,101	8,760	-	-	24,214
FUND BALANCES, JANUARY 1	14,733	158	15,138	8,148	1,341	300	39,818
FUND BALANCES, DECEMBER 31	\$ 18,298	\$ 1,946	\$ 25,239	\$ 16,908	\$ 1,341	\$ 300	\$ 64,032

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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

ROBERT L. HASKE, CPA

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, 2010, which collectively comprise the Village of Newberry, Michigan's basic financial statements and have issued our report thereon, dated May 2, 2011. 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Honorable President and Members
of the Village Council

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting, listed as 10-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 2, 2011.

Village of Newberry, Michigan's response to the finding identified in our audit is described in the accompanying summary schedule of findings and responses. 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 2, 2011

COMPLIANCE – INTERNAL CONTROL

Segregation of Duties

Finding 10-1

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.

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

Status: Limited staffing is still an issue; therefore, segregation of duties is a deficiency in internal controls.



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
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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, 2010, and have issued our reports thereon dated May 2, 2011. 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 February 28, 2011, 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 February 28, 2011.

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 2010. 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 estimates affecting the financial statements were:

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable in the electric fund is based on past experience and future expectations for collection of various account balances and has been determined to be \$20,007.

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 2, 2011.

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 of our retention.

Comments and Recommendations

Electronic Banking (Prior Year)

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.

Personal Property Taxes (Prior Year)

Currently, the Village is not recording the amount of outstanding delinquent personal property taxes that are due to the Village in the general ledger. It is recommended the Village record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The Village should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Stale Checks

While testing cash we noted several old checks that were still issued as outstanding on the bank reconciliation. We recommend that all "stale" checks be properly voided/replaced and reissued if applicable to help keep cash balances more accurate.

Disbursements

During the test of control of the Disbursement system it was noted that one check (#32188) had conflicting expense account numbers. On the voucher the expense account number was 495-527-775 and in the General Ledger the check was listed in expense account number 495-526-775. We recommend that all vouchers be reviewed for accuracy regarding the account numbers, amounts, dates, names before payment by check is made.

Payroll

During the test of controls of the Payroll system two exceptions were noted. One employee personnel file was missing a Michigan New Hire Form and two employee timecards were not complete. We recommend that all employee personnel files be updated with completed and up to date forms and every timecard is reviewed and reconciled before payroll is processed.

GASB 54 Fund Balance Components

The Governmental Accounting Standards Board has issued a new pronouncement, GASB #54 – Fund Balance Reporting and Governmental Fund Type Definitions. GASB #54 eliminates the current use of the terms reserved and designated in the reporting of fund balance, and replaces those terms with five new categories for segregating fund balance. The Standard is effective for periods beginning after June 15, 2010.

Following are the new categories and related definitions to be used for describing the components of your fund balance:

- **Non-spendable** – Includes amounts either not in spendable form or legally or contractually required to be maintained intact. This would include inventory, prepaids, and non-current receivables.
- **Restricted** – Reflects the same definition as Restricted Net Assets: Constraints placed on the use of amounts are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds and debt service funds.
- **Committed** – Includes amounts that are committed for specific purposes by formal action of the government’s highest level of decision-making authority. Amounts classified as “committed” are not subject to legal enforceability like restricted fund balance; however, those amounts cannot be used for any other purpose unless the government removes or changes the limitation by taking the same form of action it employed to previously imposed the limitation.
- **Assigned** – Amounts that are intended by the government to be used for specific purposes, but are neither restricted nor limited, should be reported as assigned fund balance. Intent should be expressed by the Board itself or a subordinate high-level body or official possessing the authority to assign amounts to be used for specific purposes in accordance with policies established by the board. This would include ANY activity reported in a fund other than the General Fund.

- **Unassigned** – Includes any remaining amounts after applying the above definitions. Planned spending in the subsequent year’s budget would be included here and can no longer be described as “designated”.

The Standard also requires disclosure in the financial statements of any minimum fund balance policies. We encourage the Village to become familiar with the new terms and definitions and work with the users of the financial statements to ensure a clear presentation and understanding of the new requirements.

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

May 2, 2011