

Village of Newberry, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2011

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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, 2011, 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, 2011, 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 March 23, 2012 on our consideration of the Village of Newberry, Michigan's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison information on pages 3 through 6, page 34 and pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Newberry, Michigan's financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

March 23, 2012

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 3.3% from a year ago increasing from \$6,289,635 to \$6,497,709. The governmental activities experienced a \$106,084 increase in net assets. The business-type activities experienced a \$101,990 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	
	2011	2010	2011	2010	2011	2010
Current Assets	\$ 672,094	\$ 575,989	\$ 2,518,439	\$ 2,466,281	\$ 3,190,533	\$ 3,042,270
Noncurrent Assets	<u>643,322</u>	<u>666,985</u>	<u>8,301,043</u>	<u>8,324,543</u>	<u>8,944,365</u>	<u>8,991,528</u>
Total Assets	<u>\$ 1,315,416</u>	<u>\$ 1,242,974</u>	<u>\$ 10,819,482</u>	<u>\$ 10,790,824</u>	<u>\$ 12,134,898</u>	<u>\$ 12,033,798</u>
Current Liabilities	\$ 85,163	\$ 72,245	\$ 533,255	\$ 506,101	\$ 618,418	\$ 578,346
Noncurrent Liabilities	<u>297,633</u>	<u>344,193</u>	<u>4,721,138</u>	<u>4,821,624</u>	<u>5,018,771</u>	<u>5,165,817</u>
Total Liabilities	<u>382,796</u>	<u>416,438</u>	<u>5,254,393</u>	<u>5,327,725</u>	<u>5,637,189</u>	<u>5,744,163</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	317,025	259,042	2,821,743	3,422,934	3,138,768	3,681,976
Restricted	-	-	-	239,074	-	239,074
Unrestricted	<u>615,595</u>	<u>567,494</u>	<u>2,743,346</u>	<u>1,801,091</u>	<u>3,358,941</u>	<u>2,368,585</u>
Total Net Assets	<u>\$ 932,620</u>	<u>\$ 826,536</u>	<u>\$ 5,565,089</u>	<u>\$ 5,463,099</u>	<u>\$ 6,497,709</u>	<u>\$ 6,289,635</u>

The current level of unrestricted net assets for our governmental activities stands at \$615,595 or about 48% of expenditures.

The following table shows the activities of the Village.

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Program Revenues						
Charges for Services	\$ 565,857	\$ 585,008	\$ 3,642,799	\$ 3,711,368	\$ 4,208,656	\$ 4,296,376
Operating Grants and Contributions	284,513	229,331	-	-	284,513	229,331
Capital Grants and Contributions	-	-	92,552	-	92,552	-
General Revenues						
Property Taxes	328,687	372,451	-	-	328,687	372,451
P.I.L.O.T.	31,500	31,500	-	-	31,500	31,500
State-Shared Revenues	171,544	192,095	-	-	171,544	192,095
Interest	3,231	2,943	15,434	16,575	18,665	19,518
Gain on Sale of Capital Assets	-	-	-	3,297	-	3,297
Miscellaneous	2,376	4,670	-	-	2,376	4,670
Total Revenues	1,387,708	1,417,998	3,750,785	3,731,240	5,138,493	5,149,238
Program Expenses						
Legislative	7,642	6,773	-	-	7,642	6,773
General Government	214,822	222,061	-	-	214,822	222,061
Public Safety	300,830	324,552	-	-	300,830	324,552
Public Works	478,655	457,517	-	-	478,655	457,517
Interest Expense – Unallocated	16,529	19,086	-	-	16,529	19,086
Other Expenses	263,146	226,920	-	-	263,146	226,920
Electric	-	-	2,277,066	2,081,784	2,277,066	2,081,784
Water	-	-	432,553	460,848	432,553	460,848
Sewer	-	-	939,176	859,925	939,176	859,925
Total Expenses	1,281,624	1,256,909	3,648,795	3,402,557	4,930,419	4,659,466
Excess (Deficiency) Before Transfers	106,084	161,089	101,990	328,683	208,074	489,772
Transfers	-	50,000	-	(50,000)	-	-
Changes in Net Assets	106,084	211,089	101,990	278,683	208,074	489,772
Net Assets – Beginning	826,536	567,311	5,463,099	5,184,416	6,289,635	5,751,727
Prior Period Adjustment	-	48,136	-	-	-	48,136
Net Assets – Ending	<u>\$ 932,620</u>	<u>\$ 826,536</u>	<u>\$ 5,565,089</u>	<u>\$ 5,463,099</u>	<u>\$ 6,497,709</u>	<u>\$ 6,289,635</u>

Governmental Activities

Revenue from property taxes was significantly less than previous years decreasing by \$43,764. This is due to significant decreases in taxable value. Other revenues increased slightly.

Expenses increased by \$24,715.

Business-Type Activities

The Village's total business-type revenues increased by \$19,545.

Expenses increased by \$246,238 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 2011 include the General Fund, Fire Operating, Electric, Water, Newberry Sewage, and Luce County 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 public works.

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 \$2,530 above the amended budget.

Expenditures were \$28,075 below the amended budget for 2011.

Capital Asset and Debt Administration

Capital Assets – The Village's investment in capital assets as of December 31, 2011, amounted to \$8,207,866, (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 2011 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 \$5,088,013 outstanding in capital leases, compensated absences, 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 through Friday or write the Village of Newberry at 307 E. McMillan Ave., Newberry, Michigan 49868.

Basic Financial Statements

Village of Newberry, Michigan

Statement of Net Assets

December 31, 2011

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Current Assets			
Cash & Equivalents - Unrestricted	\$ 399,187	\$ 1,194,002	\$ 1,593,189
Cash & Equivalents - Restricted	-	241,477	241,477
Receivables			
Accounts - net	39,123	401,414	440,537
Current Tax	40,301	-	40,301
Other Governments	86,475	726,369	812,844
Internal Balances	107,008	(107,008)	-
Inventory	-	62,185	62,185
Total Current Assets	672,094	2,518,439	3,190,533
Noncurrent Assets			
Capital Credits in Coop	-	736,499	736,499
Capital Assets (Not Depreciated)	-	15,204	15,204
Capital Assets, (Net of Depreciation)	643,322	7,549,340	8,192,662
Total Noncurrent Assets	643,322	8,301,043	8,944,365
TOTAL ASSETS	\$ 1,315,416	\$ 10,819,482	\$ 12,134,898
LIABILITIES:			
Current Liabilities			
Account Payable	\$ 30,008	\$ 164,587	\$ 194,595
Accrued Liabilities	4,293	48,967	53,260
Other Liabilities	-	33,600	33,600
Accrued Interest Payable	1,288	51,840	53,128
Capital Leases	15,824	-	15,824
Bonds Payable	33,750	234,261	268,011
Total Current Liabilities	85,163	533,255	618,418
Noncurrent Liabilities			
Compensated Absences	19,518	-	19,518
Post Employment Health Care	1,392	212,601	213,993
Capital Leases	85,473	-	85,473
Bonds Payable	191,250	4,508,537	4,699,787
Total Noncurrent Liabilities	297,633	4,721,138	5,018,771
TOTAL LIABILITIES	382,796	5,254,393	5,637,189
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	317,025	2,821,746	3,138,771
Unrestricted Net Assets	615,595	2,743,343	3,358,938
TOTAL NET ASSETS	\$ 932,620	\$ 5,565,089	\$ 6,497,709

Village of Newberry, Michigan

Statement of Activities For the Year Ended December 31, 2011

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
Legislative	\$ 7,642	\$ -	\$ -	\$ -	\$ (7,642)	\$ -	\$ (7,642)
General Government	214,822	229,312	-	-	14,490	-	14,490
Public Safety	300,830	57,138	118,152	-	(125,540)	-	(125,540)
Public Works	478,655	279,407	166,361	-	(32,887)	-	(32,887)
Other Expenses	263,146	-	-	-	(263,146)	-	(263,146)
Interest Expense - Unallocated	16,529	-	-	-	(16,529)	-	(16,529)
Total Governmental Activities	1,281,624	565,857	284,513	-	(431,254)	-	(431,254)
Business-type Activities:							
Electric	2,277,066	2,344,443	-	-	-	67,377	67,377
Water	432,553	333,506	-	92,552	-	(6,495)	(6,495)
Sewer	939,176	964,850	-	-	-	25,674	25,674
Total Business-type Activities	3,648,795	3,642,799	-	92,552	-	86,556	86,556
Total Primary Government	\$ 4,930,419	\$ 4,208,656	\$ 284,513	\$ 92,552	(431,254)	86,556	(344,698)
General Revenues:							
Taxes					328,687	-	328,687
P.I.L.O.T					31,500	-	31,500
State Revenue Sharing					171,544	-	171,544
Interest on Deposits					3,231	15,434	18,665
Miscellaneous					2,376	-	2,376
Total General Revenues					537,338	15,434	552,772
Change in Net Assets					106,084	101,990	208,074
Net Assets - Beginning					826,536	5,463,099	6,289,635
Net Assets - Ending					\$ 932,620	\$ 5,565,089	\$ 6,497,709

See accompanying notes to financial statements.

Village of Newberry, Michigan

Balance Sheet Governmental Funds December 31, 2011

	General Fund	Fire Operating	Other Governmental Funds	Total
ASSETS:				
Cash	\$ 226,335	\$ 50,228	\$ 122,624	\$ 399,187
Taxes Receivable	26,703	-	13,598	40,301
Accounts Receivable	13,423	25,700	-	39,123
Due From Other Funds	552,714	-	46,558	599,272
Due From Other Governmental Units	24,543	42,748	19,184	86,475
TOTAL ASSETS	\$ 843,718	\$ 118,676	\$ 201,964	\$ 1,164,358
LIABILITIES:				
Accounts Payable	\$ 29,051	\$ -	\$ 957	\$ 30,008
Accrued Liabilities	4,285	8	-	4,293
Due to Other Funds	374,042	5,425	112,797	492,264
Deferred Revenue	13,405	-	-	13,405
TOTAL LIABILITIES	420,783	5,433	113,754	539,970
FUND BALANCES:				
Restricted	-	113,243	88,210	201,453
Committed	19,518	-	-	19,518
Unassigned	403,417	-	-	403,417
TOTAL FUND BALANCES	422,935	113,243	88,210	624,388
TOTAL LIABILITIES AND FUND BALANCES	\$ 843,718	\$ 118,676	\$ 201,964	

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

Capital assets used by governmental activities	643,322
Post Employment Health Care (OPEB)	(1,392)
Long-term notes & leases payable for governmental activities	(326,297)
Compensated absences liability	(19,518)
Deferred revenue	13,405
Accrued interest expense	(1,288)
Net assets of governmental activities	\$ 932,620

Village of Newberry, Michigan

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2011

	General Fund	Fire Operating	Other Governmental Funds	Total
REVENUES:				
Taxes	\$ 248,246	\$ -	\$ 111,941	\$ 360,187
Licenses and Permits	173	-	-	173
State Sources	171,544	2,047	170,879	344,470
Local Sources	-	88,126	30,560	118,686
Charges for Services	99,440	49,445	-	148,885
Interest and Rents	2,076	828	327	3,231
Refunds & Reimbursements	409,700	2,376	-	412,076
Other Revenue	1,206	-	-	1,206
TOTAL REVENUES	932,385	142,822	313,707	1,388,914
EXPENDITURES:				
Legislative	7,642	-	-	7,642
General Government	210,549	-	-	210,549
Public Safety	125,910	106,258	-	232,168
Public Works	196,561	-	260,124	456,685
Other Expenditures	226,688	-	-	226,688
Capital Outlay	45,615	49,259	9,802	104,676
Debt Service	43,315	-	20,455	63,770
TOTAL EXPENDITURES	856,280	155,517	290,381	1,302,178
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	76,105	(12,695)	23,326	86,736
OTHER FINANCING SOURCES (USES):				
Transfers In	-	44,063	54,945	99,008
Transfers (Out)	(44,915)	-	(54,093)	(99,008)
TOTAL OTHER FINANCING SOURCES (USES)	(44,915)	44,063	852	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	31,190	31,368	24,178	86,736
FUND BALANCES, BEGINNING OF YEAR	391,745	81,875	64,032	537,652
FUND BALANCES, END OF YEAR	\$ 422,935	\$ 113,243	\$ 88,210	\$ 624,388

**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, 2011**

Net changes in fund balances – total governmental funds \$ 86,736

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 (\$93,273) exceeded capital outlay of \$104,676. 11,403

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

Principal repayments:			
Bond principal	\$	31,500	
Lease principal		<u>15,080</u>	46,580

Deferred revenue in fund statement recorded as revenue in GASB statement. (1,206)

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	\$	(1,632)	
Other Post Employment Benefits (OPEB)		(36,458)	
Accrued interest on bonds		<u>661</u>	<u>(37,429)</u>

Changes in net assets of governmental activities \$ 106,084

Village of Newberry, Michigan

Statement of Net Assets Proprietary Funds December 31, 2011

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
ASSETS:					
Current Assets					
Cash & Equivalents - Unrestricted	\$ 444,895	\$ 455,571	\$ 288,548	\$ 4,988	\$ 1,194,002
- Restricted	-	241,477	-	-	241,477
Accounts Receivable	290,601	110,313	-	500	401,414
Due from Other Funds	734,014	19,546	55,492	29,883	838,935
Inventories	49,546	329	-	12,310	62,185
Due from Governmental Units	-	-	15,101	711,268	726,369
Current Assets	<u>1,519,056</u>	<u>827,236</u>	<u>359,141</u>	<u>758,949</u>	<u>3,464,382</u>
Noncurrent Assets					
Capital Credits in Coop	736,499	-	-	-	736,499
Property, Plant & Equipment	5,790,930	5,310,893	2,613,954	56,066	13,771,843
Accumulated Depreciation	(3,426,283)	(1,177,873)	(1,556,531)	(46,612)	(6,207,299)
Total Noncurrent Assets	<u>3,101,146</u>	<u>4,133,020</u>	<u>1,057,423</u>	<u>9,454</u>	<u>8,301,043</u>
TOTAL ASSETS	<u><u>\$ 4,620,202</u></u>	<u><u>\$ 4,960,256</u></u>	<u><u>\$ 1,416,564</u></u>	<u><u>\$ 768,403</u></u>	<u><u>\$ 11,765,425</u></u>
LIABILITIES:					
Current Liabilities					
Due to Other Funds	\$ 37,050	\$ 354,076	\$ 120,107	\$ 434,710	\$ 945,943
Accounts Payable	160,280	4,307	-	-	164,587
Accrued Liabilities	16,823	13,870	-	18,274	48,967
Other Liabilities	33,600	-	-	-	33,600
Accrued Interest Payable	16,261	33,770	1,809	-	51,840
Bonds Payable	175,000	30,000	29,261	-	234,261
Total Current Liabilities	<u>439,014</u>	<u>436,023</u>	<u>151,177</u>	<u>452,984</u>	<u>1,479,198</u>
Noncurrent Liabilities					
Post Employment Health Care(OPEB)	108,095	-	-	104,506	212,601
Bonds Payable	1,945,000	2,426,000	137,537	-	4,508,537
Total Noncurrent Liabilities	<u>2,053,095</u>	<u>2,426,000</u>	<u>137,537</u>	<u>104,506</u>	<u>4,721,138</u>
TOTAL LIABILITIES	<u>2,492,109</u>	<u>2,862,023</u>	<u>288,714</u>	<u>557,490</u>	<u>6,200,336</u>
NET ASSETS:					
Invested in Capital Assets (Net of Related Debt)	244,647	1,677,020	890,625	9,454	2,821,746
Unrestricted net assets	1,883,446	421,213	237,225	201,459	2,743,343
TOTAL NET ASSETS	<u><u>\$ 2,128,093</u></u>	<u><u>\$ 2,098,233</u></u>	<u><u>\$ 1,127,850</u></u>	<u><u>\$ 210,913</u></u>	<u><u>\$ 5,565,089</u></u>

Village of Newberry, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2011

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
OPERATING REVENUES:					
Charges for Services	\$ 2,158,208	\$ 280,131	\$ 435,402	\$ 522,720	\$ 3,396,461
Other Income	186,235	53,375	-	6,728	246,338
TOTAL OPERATING REVENUES	2,344,443	333,506	435,402	529,448	3,642,799
OPERATING EXPENSES:					
Employee Wages & Benefits	405,236	100,778	16,915	260,767	783,696
Supplies	185,290	26,243	-	103,345	314,878
Repairs & Maintenance	10,676	930	-	1,138	12,744
Contracted Services	108,577	40,876	318,580	42,821	510,854
Insurance	17,584	8,295	-	14,241	40,120
Depreciation	72,024	152,867	54,145	1,604	280,640
Utilities	1,342,920	-	-	117,163	1,460,083
Other Expenses	30,982	1,158	-	-	32,140
TOTAL OPERATING EXPENSES	2,173,289	331,147	389,640	541,079	3,435,155
OPERATING INCOME (LOSS)	171,154	2,359	45,762	(11,631)	207,644
NONOPERATING REVENUES (EXPENSES):					
Interest Expense	(103,777)	(101,406)	(8,457)	-	(213,640)
Interest & Rentals	9,121	3,317	2,740	256	15,434
Grants	-	92,552	-	-	92,552
Total Non-operating Revenues (Expenses)	(94,656)	(5,537)	(5,717)	256	(105,654)
CHANGES IN NET ASSETS	76,498	(3,178)	40,045	(11,375)	101,990
NET ASSETS, JANUARY 1	2,051,595	2,101,411	1,087,805	222,288	5,463,099
NET ASSETS, DECEMBER 31	\$ 2,128,093	\$ 2,098,233	\$ 1,127,850	\$ 210,913	\$ 5,565,089

Village of Newberry, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2011

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
Cash Flows from Operating Activities:					
Cash Received from Customers or Users	\$ 2,321,554	\$ 298,840	\$ 438,494	\$ 363,222	\$ 3,422,110
Cash Payments to Employees	(375,515)	(100,017)	(16,915)	(227,839)	(720,286)
Cash Payments to Vendors	(1,670,571)	(78,077)	(320,096)	(293,240)	(2,361,984)
Cash Received (Paid) for Other Funds	(365,414)	352,851	9,257	135,744	132,438
Net Cash Provided (Used) by Operating Activities	<u>(89,946)</u>	<u>473,597</u>	<u>110,740</u>	<u>(22,113)</u>	<u>472,278</u>
Cash Flows from Capital and Related Financing Activities:					
Debt Principal Payments	(168,000)	(28,000)	(28,511)	-	(224,511)
Debt Interest Payments	(104,897)	(100,906)	(8,978)	-	(214,781)
Bond Proceeds	-	65,700	-	-	65,700
Federal Grants / State Grants	-	92,552	-	-	92,552
Purchase of Capital Credits	39,760	-	-	-	39,760
Purchase of Property and Equipment	(58,100)	(230,968)	(4,363)	(3,469)	(296,900)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(291,237)</u>	<u>(201,622)</u>	<u>(41,852)</u>	<u>(3,469)</u>	<u>(538,180)</u>
Cash Flows from Investing Activities:					
Interest Received	9,121	3,317	2,740	256	15,434
Net Cash Provided by Investing Activities	<u>9,121</u>	<u>3,317</u>	<u>2,740</u>	<u>256</u>	<u>15,434</u>
Net Increase (Decrease) in Cash	(372,062)	275,292	71,628	(25,326)	(50,468)
Cash and Cash Equivalents, Beginning of Year	816,957	421,756	216,920	30,314	1,485,947
Cash and Cash Equivalents, End of Year	<u>\$ 444,895</u>	<u>\$ 697,048</u>	<u>\$ 288,548</u>	<u>\$ 4,988</u>	<u>\$ 1,435,479</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 171,154	\$ 2,359	\$ 45,762	\$ (11,631)	\$ 207,644
Add Non-Cash Expenses:					
Depreciation Expense	72,024	152,867	54,145	1,604	280,640
Changes in Assets and Liabilities:					
(Increase) Decrease in Assets					
Receivables	(22,889)	(34,666)	-	(500)	(58,055)
Due from Other Governments	-	-	3,092	(165,726)	(162,634)
Inventories	(16,808)	-	-	2,431	(14,377)
Due from (to) Other Funds	(365,414)	352,851	9,257	135,744	132,438
Increase (Decrease) in Liabilities:					
Accounts Payable	35,541	(575)	(1,516)	(16,963)	16,487
Other Liabilities	6,725	-	-	-	6,725
Accrued Liabilities	554	761	-	(5,980)	(4,665)
Post Employment Health Care (OPEB)	29,167	-	-	38,908	68,075
Net Cash Provided (Used) by Operating Activities	<u>\$ (89,946)</u>	<u>\$ 473,597</u>	<u>\$ 110,740</u>	<u>\$ (22,113)</u>	<u>\$ 472,278</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 U.S. 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. Separate statements for each fund category – *governmental and proprietary* – 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 Village sewer utilities.

Luce County Sewage. This fund accounts for the operation, maintenance, and development of County 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 financed 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 and Proprietary Financial Statements. The government-wide and proprietary 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)

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Village has classified Inventories and Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Village has \$201,453 of restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Village. These amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Village's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Village through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Village would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

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.

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

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:	
- Unrestricted	\$ 1,593,189
- Restricted	<u>241,477</u>
Total	<u>\$ 1,834,666</u>
Imprest	\$ 500
CD's savings and checking	<u>1,834,166</u>
Total	<u>\$ 1,834,666</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	\$ 88,470
	Bond Redemption	75,007
	Bond Reserve	<u>78,000</u>
		<u>\$ 241,477</u>

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

Water Fund – Restricted Cash

	<u>December 31, 2011</u>	
	<u>Required Balance</u>	<u>Actual Balance</u>
Bond Principal and Interest Reserves		
Water Supply System Revenue Bond Series 2005	\$ 75,007	\$ 75,007
Water Supply System Revenue Bond Series 2009	<u>15,004</u>	<u>15,004</u>
	<u>\$ 90,011</u>	<u>\$ 90,011</u>
Bond Reserves		
Water Supply System Revenue Bond Series 2005	\$ 78,000	\$ 78,000
Water Supply System Revenue Bond Series 2009	<u>1,600</u>	<u>1,600</u>
	<u>\$ 79,600</u>	<u>\$ 79,600</u>
Repair, Replacement and Improvements		
Water Supply System Revenue Bond Series 2005	<u>\$ 88,470</u>	<u>\$ 71,866</u>
	<u>\$ 88,470</u>	<u>\$ 71,866</u>

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, \$1,263,733 of the Village’s bank balance of \$1,895,457 was exposed to credit risk because it was uninsured and uncollateralized.

NOTE 2 - CASH AND EQUIVALENTS: (Continued)

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, 2011 consisted of the following:

		DUE FROM OTHER FUNDS							
DUE TO OTHER FUNDS		General	Fire Operating	Nonmajor Governmental	Electric	Water	Newberry Sewage	Luce County Sewage	Total
	General	\$	7,227	\$ 581	\$ 61,268	\$ 16,985	\$ -	\$ 35,860	\$ 430,793
Nonmajor Governmental		2,489	-	41,726	1,592	751	-	-	46,558
Electric		307,967	4,844	9,803	-	353,325	54,364	3,711	734,014
Water		867	-	-	18,473	-	-	206	19,546
Newberry Sewage		55,492	-	-	-	-	-	-	55,492
Luce County Sewage		-	-	-	-	-	29,883	-	29,883
Total	\$	<u>374,042</u>	<u>5,425</u>	<u>112,797</u>	<u>37,050</u>	<u>354,076</u>	<u>120,107</u>	<u>434,710</u>	<u>1,438,207</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.

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

Interfund transfers for the year ended December 31, 2011 consisted of the following:

Interfund Transfers

		TRANSFERS OUT		
		General Fund	Nonmajor Governmental Funds	Total
TRANSFERS IN	Fire Operating	24,470	19,593	44,063
	Nonmajor Governmental	<u>20,445</u>	<u>34,500</u>	<u>54,945</u>
	Total	<u>\$ 44,915</u>	<u>\$ 54,093</u>	<u>\$ 99,008</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, 2011, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	\$ 729,587	\$ 41,139	\$ -	\$ 770,726
Infrastructure	173,360	-	-	173,360
Vehicles and Equipment	<u>1,956,719</u>	<u>63,537</u>	<u>-</u>	<u>2,020,256</u>
Total assets being depreciated	<u>2,859,666</u>	<u>104,676</u>	<u>-</u>	<u>2,964,342</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(690,744)	(4,572)	-	(695,316)
Infrastructure	(17,336)	(8,668)	-	(26,004)
Vehicles and Equipment	<u>(1,519,667)</u>	<u>(80,033)</u>	<u>-</u>	<u>(1,599,700)</u>
Total accumulated depreciation	<u>(2,227,747)</u>	<u>(93,273)</u>	<u>-</u>	<u>(2,321,020)</u>
Governmental Activities Capital Assets, Net	<u>\$ 631,919</u>	<u>\$ 11,403</u>	<u>\$ -</u>	<u>\$ 643,322</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Governmental Activities:	
General Government	\$ 2,641
Public Safety	68,662
Public Works	<u>21,970</u>
 Total Governmental Activities	 <u>\$ 93,273</u>

	<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>52,368</u>	<u>-</u>	<u>(52,368)</u>	<u>-</u>
 Total capital assets not being depreciated	 <u>67,572</u>	 <u>-</u>	 <u>(52,368)</u>	 <u>15,204</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	168,654	27,000	-	195,654
Water system	5,004,779	272,876	-	5,277,655
Sewer system	2,623,149	-	-	2,623,149
Electric system	5,094,574	-	-	5,094,574
Vehicles and equipment	<u>516,214</u>	<u>49,392</u>	<u>-</u>	<u>565,606</u>
 Total capital assets being depreciated	 <u>13,407,370</u>	 <u>349,268</u>	 <u>-</u>	 <u>13,756,638</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(166,349)	(1,001)	-	(167,350)
Water system	(1,015,671)	(149,325)	-	(1,164,996)
Sewer system	(1,526,307)	(54,013)	-	(1,580,320)
Electric system	(2,794,919)	(54,163)	-	(2,849,082)
Vehicles and equipment	<u>(423,412)</u>	<u>(22,138)</u>	<u>-</u>	<u>(445,550)</u>
 Total accumulated depreciation	 <u>(5,926,658)</u>	 <u>(280,640)</u>	 <u>-</u>	 <u>(6,207,298)</u>
 Total capital assets being depreciated, net	 <u>7,480,712</u>	 <u>68,628</u>	 <u>-</u>	 <u>7,549,340</u>
 Business-type activities capital assets, net	 <u>\$ 7,548,284</u>	 <u>\$ 68,628</u>	 <u>\$ (52,368)</u>	 <u>\$ 7,564,544</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Business-type Activities:	
Electric	\$ 72,024
Water	152,867
Newberry Sewage	54,145
Luce County Sewage	<u>1,604</u>
Total Business-type Activities	<u>\$ 280,640</u>

NOTE 5 - LEASES:

Capital Leases – The Village leases one vehicle and equipment (value net of depreciation \$266,401) 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:

2012	\$ 20,446
2013	20,446
2014	20,447
2015	20,447
2016	20,447
2017	<u>14,320</u>
Total minimum lease payments	116,553
Less amount representing interest	<u>(15,256)</u>
Present value of minimum lease payments	<u>\$ 101,297</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, 2011 are summarized as follows:

	Balance 01/01/11	Additions	Deductions	Balance 12/31/11	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%.	\$ 256,500	\$ -	\$ 31,500	\$ 225,000	\$ 33,750
Total Governmental Activities	<u>256,500</u>	<u>-</u>	<u>31,500</u>	<u>225,000</u>	<u>33,750</u>

NOTE 6 - LONG-TERM DEBT: (Continued)

	<u>Balance 01/01/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/11</u>	<u>Due Within One Year</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%.	228,000	-	28,000	200,000	30,000
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%.	85,500	-	10,500	75,000	11,250
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%.	625,000	-	40,000	585,000	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%.	710,000	-	40,000	670,000	45,000
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%.	2,190,000	-	25,000	2,165,000	27,000
1976 Sanitary Sewage Improvement Bonds, maturing serially to 2016 in annual amounts ranging from \$7,000 to \$32,000, bearing interest of 5.0%.	109,809*	-	18,011	91,798	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%.	725,000	-	60,000	665,000	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>228,300</u>	<u>65,700</u>	<u>3,000</u>	<u>291,000</u>	<u>3,000</u>
Total Business-type Activities	<u>4,901,609</u>	<u>65,700</u>	<u>224,511</u>	<u>4,742,798</u>	<u>234,261</u>
Accrued sick leave and vacation	<u>17,886</u>	<u>1,632</u>	<u>-</u>	<u>19,518</u>	<u>-</u>
TOTAL LONG-TERM OBLIGATIONS	<u>\$ 5,175,995</u>	<u>\$ 67,332</u>	<u>\$ 256,011</u>	<u>\$ 4,987,316</u>	<u>\$ 268,011</u>

NOTE 6 - LONG-TERM DEBT: (Continued)

* 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.

The annual principal and interest requirements for the years ending December 31, 2011 and after, excluding accrued compensated absences are as follows:

Year End June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 33,750	\$ 10,305	\$ 234,261	\$ 206,450
2013	33,750	8,820	246,261	196,647
2014	36,000	7,335	250,592	186,173
2015	38,250	5,715	270,342	175,275
2016	83,250	6,008	279,092	163,713
2017-2021	-	-	1,176,250	639,807
2022-2026	-	-	466,000	422,828
2027-2031	-	-	330,000	349,287
2032-2036	-	-	414,000	274,644
2037-2041	-	-	520,000	181,091
2042-2046	-	-	526,000	62,992
2047	-	-	30,000	1,898
Total	<u>\$ 225,000</u>	<u>\$ 38,183</u>	<u>\$ 4,742,798</u>	<u>\$ 2,860,805</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, 2011, the liability totaled \$19,518.

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.

The taxable value of real and personal property located in the Village at December 31, 2011 totaled \$17,237,293. 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, 2010.

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.

General – Other	16.15%
Supervisors	34.19%
General Light and Power	6.92%

Annual Pension Cost

During the fiscal year ended December 31, 2011, the Village's contributions totaling \$102,628 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 28 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>
2009	\$ 97,064	100%	0
2010	111,124	100%	0
2011	102,628	100%	0

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

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.

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	\$ 41,566	\$ 51,689	\$ 93,255
Interest	<u>2,286</u>	<u>2,843</u>	<u>5,129</u>
Total Normal Cost	<u>43,852</u>	<u>54,532</u>	<u>98,384</u>
Amortization Component			
Actuarial Accrued Liability	968,934	1,006,624	1,975,558
Less: Assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability	968,934	1,006,624	1,975,558
Divided by PV Factor	<u>21,1223</u>	<u>21,1223</u>	<u>21,1223</u>
Amortization Payment	45,873	47,657	93,530
Interest	<u>2,523</u>	<u>2,621</u>	<u>5,144</u>
Total Amortization Payment	<u>48,396</u>	<u>50,278</u>	<u>98,674</u>
Annual Required Contribution	<u>\$ 92,248</u>	<u>\$ 104,810</u>	<u>\$ 197,058</u>
Annual Cost for OPEB			
Annual Required Contribution	\$ 92,248	\$ 104,810	\$ 197,058
Interest on Net OPEB Obligation	-	-	-
Adjustments to ARC	<u>-</u>	<u>-</u>	<u>-</u>
Annual OPEB Cost	92,248	104,810	197,058
Contributions Made – Current Year	<u>(55,790)</u>	<u>(36,735)</u>	<u>(92,525)</u>
Increase in Net OPEB Obligation	36,458	68,075	104,533
Net OPEB Obligation Beginning of Year	<u>(35,066)</u>	<u>144,526</u>	<u>109,460</u>
Net OPEB Obligation End of Year	<u>\$ 1,392</u>	<u>\$ 212,601</u>	<u>\$ 213,993</u>

The Village provides post retirement health care benefits to all employees who retire from the Village. There were 11 retirees receiving benefits with an approximate annual cost of \$92,525. Three were 10 active employees at December 31, 2011.

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

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended December 31, 2011 were as follows:

Annual OPEB Costs	\$	197,058
Percentage Contributed		46.95%
Net OPEB Obligation	\$	213,993

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 12 - 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, 2011.

NOTE 13 - 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 14 - 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 received \$39,760 in capital credit distributions. As of December 31, 2011, the Village has capital credits outstanding of \$736,499. 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 15 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended December 31, 2011, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>	<u>Luce County Sewage</u>
Nonoperating revenue (expense)	\$ (94,656)	\$ (5,537)	\$ (5,717)	\$ 256
Operating income (loss)	171,154	2,359	45,762	(11,631)
Changes in net assets	76,498	(3,175)	40,045	(11,375)
Operating revenues	2,344,443	333,506	435,402	529,448
Operating expenses	2,173,289	331,147	389,640	541,079
Depreciation	72,024	152,867	54,145	1,604
Total assets	4,620,202	4,960,256	1,416,564	768,403
Current liabilities	439,014	436,023	151,177	452,984
Long-term debt payable	2,053,095	2,426,000	137,537	104,506
Beginning net assets	2,051,595	2,101,411	1,087,805	222,288
Ending net assets	2,128,093	2,098,233	1,127,850	210,913
Cash provided (used) by:				
Operating activities	(89,946)	473,595	110,740	(22,113)
Capital financing	(291,237)	(201,621)	(41,852)	(3,469)
Investing	9,121	3,317	2,740	256
Beginning cash	816,957	421,756	216,920	30,314
Ending cash	444,895	697,048	288,548	4,988

Required Supplementary Information

Village of Newberry, Michigan

**Employee Retirement and Benefit Systems
December 31, 2011**

Pension:

Three year trend information as of December 31 follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Actuarial Value of Assets	\$ 2,761,714	\$ 2,707,493	\$ 2,730,994
Actuarial Accrued Liability	3,743,331	3,830,614	3,887,243
Unfunded AAL	981,617	1,123,121	1,156,249
Funded Ratio	74%	71%	70%
Covered Payroll	490,762	555,767	564,470
UAAL as a Percentage of Covered Payroll	200%	202%	205%

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	-
2010	\$	-	\$1,975,558	\$1,975,558	0.0%	Not Available	-

**Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 264,700	\$ 247,900	\$ 248,246	\$ 346
Licenses & Permits	125	125	173	48
State Sources	192,200	171,400	171,544	144
Charges for Services	101,000	98,800	99,440	640
Interest & Rentals	1,150	1,150	2,076	926
Refunds & Reimbursements	442,080	409,280	409,700	420
Other Revenue	1,200	1,200	1,206	6
TOTAL REVENUES	1,002,455	929,855	932,385	2,530
EXPENDITURES				
Legislative:				
Village Council	7,850	7,850	7,642	208
General Government:				
Village President	4,700	4,800	3,844	956
Administration	51,200	55,600	54,938	662
Elections	2,300	2,300	1,240	1,060
Accounting	46,890	44,114	39,819	4,295
Attorney	13,400	15,800	11,028	4,772
Village Clerk	11,200	11,200	11,059	141
Audit	9,450	9,450	7,375	2,075
Treasurer	9,045	9,245	8,462	783
Building & Grounds	16,625	19,425	17,642	1,783
Motor Pool	96,850	55,850	55,142	708
Total General Government	261,660	227,784	210,549	17,235
Public Safety:				
Police Department	124,950	126,150	125,910	240
Total Public Safety	124,950	126,150	125,910	240
Public Works:				
Department of Public Works	70,350	60,550	60,217	333
Sidewalks	25,000	-	-	-
Street Lighting	20,600	21,100	21,077	23
Sewers	42,600	53,100	52,845	255
Storm Sewer Construction	600	600	32	568
Rubbish & Garbage	60,830	62,930	62,390	540
Total Public Works	219,980	198,280	196,561	1,719
Other Expenditures				
Fringe Benefits	310,725	207,225	205,233	1,992
Insurance & Bonds	30,800	21,500	21,455	45
Budget Stabilization	6,500	6,500	-	6,500
Total Other Expenditures	348,025	235,225	226,688	8,537
Capital Outlay	41,200	45,676	45,615	61
Debt Service	42,290	43,390	43,315	75
TOTAL EXPENDITURES	1,045,955	884,355	856,280	28,075

**Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
EXCESS OF REVENUES OVER EXPENDITURES	<u>(43,500)</u>	<u>45,500</u>	<u>76,105</u>	<u>30,605</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	45,000	-	-	-
Transfers (Out)	<u>(26,500)</u>	<u>(45,500)</u>	<u>(44,915)</u>	<u>585</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>18,500</u>	<u>(45,500)</u>	<u>(44,915)</u>	<u>585</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ (25,000)</u>	<u>\$ -</u>	31,190	<u>\$ 31,190</u>
FUND BALANCES, JANUARY 1			<u>391,745</u>	
FUND BALANCES, DECEMBER 31			<u>\$ 422,935</u>	

Village of Newberry, Michigan

**Required Supplementary Information
Budgetary Comparison Schedule
Fire Operating Fund
Year Ended December 31, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget (Over) Under
	Original	Final		
REVENUES				
State	\$ -	\$ -	\$ 2,047	\$ 2,047
Local Sources	80,332	80,332	88,126	7,794
Charges for Services	17,200	38,800	49,445	10,645
Interest and Rentals	1,802	802	828	26
Refunds, Reimbursements	500	1,500	2,376	876
TOTAL REVENUES	99,834	121,434	142,822	21,388
EXPENDITURES				
Public Safety	140,000	112,200	106,258	5,942
Capital Outlay	-	49,400	49,259	141
TOTAL EXPENDITURES	140,000	161,600	155,517	6,083
EXCESS OF EXPENDITURES OVER REVENUES	(40,166)	(40,166)	(12,695)	27,471
OTHER FINANCING SOURCES (USES)				
Transfers In	40,166	40,166	44,063	3,897
TOTAL OTHER FINANCING SOURCES (USES)	40,166	40,166	44,063	3,897
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	31,368	\$ 31,368
FUND BALANCES, BEGINNING OF YEAR			81,875	
FUND BALANCES, END OF YEAR			\$ 113,243	

Other Supplementary Information

Village of Newberry, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2011

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	Downtown Development	Historical Society Renovation	
ASSETS:							
Cash & Equivalents - Unrestricted	\$ 65,937	\$ 4,245	\$ 17,850	\$ 34,286	\$ 6	\$ 300	\$ 122,624
Taxes Receivable	-	9,503	-	4,095	-	-	13,598
Due From Other Funds	-	36,844	8,379	-	1,335	-	46,558
Due From Other Governmental Units	13,710	5,474	-	-	-	-	19,184
TOTAL ASSETS	<u>\$ 79,647</u>	<u>\$ 56,066</u>	<u>\$ 26,229</u>	<u>\$ 38,381</u>	<u>\$ 1,341</u>	<u>\$ 300</u>	<u>\$ 201,964</u>
LIABILITIES:							
Due to Other Funds	\$ 48,395	\$ 53,177	\$ 4,000	\$ 7,225	\$ -	\$ -	112,797
Accounts Payable	181	776	-	-	-	-	957
TOTAL LIABILITIES	<u>48,576</u>	<u>53,953</u>	<u>4,000</u>	<u>7,225</u>	<u>-</u>	<u>-</u>	<u>113,754</u>
FUND BALANCE:							
Restricted	31,071	2,113	22,229	31,156	1,341	300	88,210
TOTAL FUND BALANCE	<u>31,071</u>	<u>2,113</u>	<u>22,229</u>	<u>31,156</u>	<u>1,341</u>	<u>300</u>	<u>88,210</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 79,647</u>	<u>\$ 56,066</u>	<u>\$ 26,229</u>	<u>\$ 38,381</u>	<u>\$ 1,341</u>	<u>\$ 300</u>	<u>\$ 201,964</u>

Village of Newberry, Michigan

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2011**

	Special Revenue Funds				Capital Project Funds		Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	Downtown Development	Historical Society Renovation	
REVENUES							
Taxes	\$ -	\$ 78,243	\$ -	\$ 33,698	\$ -	\$ -	\$ 111,941
State Sources	104,486	66,393	-	-	-	-	170,879
Local Sources	-	2,581	27,979	-	-	-	30,560
Interest and Rentals	-	-	184	143	-	-	327
TOTAL REVENUES	104,486	147,217	28,163	33,841	-	-	313,707
EXPENDITURES							
Public Works	53,909	178,246	27,969	-	-	-	260,124
Capital Outlay	3,304	3,304	3,194	-	-	-	9,802
Debt Service	-	-	20,455	-	-	-	20,455
TOTAL EXPENDITURES	57,213	181,550	51,618	-	-	-	290,381
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	47,273	(34,333)	(23,455)	33,841	-	-	23,326
OTHER FINANCING SOURCES (USES)							
Transfers In	-	34,500	20,445	-	-	-	54,945
Transfers (Out)	(34,500)	-	-	(19,593)	-	-	(54,093)
TOTAL OTHER FINANCING SOURCES (USES)	(34,500)	34,500	20,445	(19,593)	-	-	852
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	12,773	167	(3,010)	14,248	-	-	24,178
FUND BALANCES, BEGINNING OF YEAR	18,298	1,946	25,239	16,908	1,341	300	64,032
FUND BALANCES, END OF YEAR	\$ 31,071	\$ 2,113	\$ 22,229	\$ 31,156	\$ 1,341	\$ 300	\$ 88,210

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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SUE A. BOWLBY, CPA, PRINCIPAL
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**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, 2011, which collectively comprise the Village of Newberry, Michigan's basic financial statements and have issued our report thereon, dated March 23, 2012. 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 11-1. 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 March 23, 2012.

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

March 23, 2012

COMPLIANCE – INTERNAL CONTROL

Segregation of Duties

Finding 11-1

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.



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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, 2011, and have issued our reports thereon dated March 23, 2012. 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 1, 2012, 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 dated March 1, 2012.

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 2011. 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.
- Management's estimate of the Annual Required Contribution for OPEB Obligations was based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

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 March 23, 2012.

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

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 (Prior Year)

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 escheated to the State if applicable to help keep cash balances accurate.

Payroll (Prior Year)

During the test of controls of the Payroll system one exception was noted. Several employee timecards were not complete. We recommend that every timecard be reviewed and reconciled before payroll is processed.

Disbursements

It was noted during the tests of controls over the disbursements system that two checks' amounts did not match the amounts in the check register. This was due to a software error within the new software system and has since been corrected. We recommend that each check be listed in the check register with correct payee, check number, date and amount.

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

March 23, 2012