

Village of Newberry, Michigan

BASIC FINANCIAL STATEMENTS

December 31, 2008

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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, 2008, 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, 2008, 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 August 20, 2009 on our consideration of the Village of Newberry, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 20, 2009

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 29% from a year ago increasing from \$4,020,991 to \$5,188,676. The governmental activities experienced a \$141,578 increase in net assets primarily due to reduced expenditures. The business-type activities experienced a \$1,026,107 increase in net assets, primarily as a result of increased efficiencies in the overall operations.

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

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current Assets	\$ 115,836	\$ 116,485	\$ 2,367,432	\$ 1,312,951	\$ 2,483,268	\$ 1,429,436
Noncurrent Assets	<u>823,827</u>	<u>762,550</u>	<u>8,517,964</u>	<u>8,072,236</u>	<u>9,341,791</u>	<u>8,834,786</u>
Total Assets	<u>\$ 939,663</u>	<u>\$ 879,035</u>	<u>\$ 10,885,396</u>	<u>\$ 9,385,187</u>	<u>\$ 11,825,059</u>	<u>\$ 10,264,222</u>
Current Liabilities	\$ 152,602	\$ 162,851	\$ 1,155,170	\$ 484,057	\$ 1,307,772	\$ 646,908
Noncurrent Liabilities	<u>537,791</u>	<u>608,492</u>	<u>4,790,820</u>	<u>4,987,831</u>	<u>5,328,611</u>	<u>5,596,323</u>
Total Liabilities	<u>690,393</u>	<u>771,343</u>	<u>5,945,990</u>	<u>5,471,888</u>	<u>6,636,383</u>	<u>6,243,231</u>
Net Assets						
Invested in Capital Assets - Net of Related Debt	226,876	94,543	3,727,144	2,023,525	3,954,020	2,118,068
Unrestricted	<u>22,394</u>	<u>13,149</u>	<u>1,212,262</u>	<u>1,889,774</u>	<u>1,234,656</u>	<u>1,902,923</u>
Total Net Assets	<u>\$ 249,270</u>	<u>\$ 107,692</u>	<u>\$ 4,939,406</u>	<u>\$ 3,913,299</u>	<u>\$ 5,188,676</u>	<u>\$ 4,020,991</u>

The current level of unrestricted net assets for our governmental activities stands at \$22,394 or about 2% of expenditures.

The following table shows the activities of the Village.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Program Revenues						
Charges for Services	\$ 174,612	\$ 351,709	\$ 3,668,047	\$ 3,600,176	\$ 3,842,659	\$ 3,951,885
Operating Grants and Contributions	225,761	225,120	-	-	225,761	225,120
Capital Grants and Contributions	-	130,564	700,000	325,405	700,000	455,969
General Revenues						
Property Taxes	368,132	366,946	-	-	368,132	366,946
P.I.L.O.T.	19,500	19,500	-	-	19,500	19,500
State-Shared Revenues	221,549	219,745	-	-	221,549	219,745
Interest	3,911	4,633	14,016	7,488	17,927	12,121
Miscellaneous	66,991	16,302	-	-	66,991	16,302
Loss on Disposal of Capital Assets	(23,089)	-	-	-	(23,089)	-
Total Revenues	1,057,367	1,334,519	4,382,063	3,933,069	5,439,430	5,267,588
Program Expenses						
Legislative	7,403	7,792	-	-	7,403	7,792
General Government	164,538	168,890	-	-	164,538	168,890
Public Safety	343,756	392,003	-	-	343,756	392,003
Public Works	386,084	371,041	-	-	386,084	371,041
Interest Expense – Unallocated	12,108	12,009	-	-	12,108	12,009
Other Expenses	-	278,634	-	-	-	278,634
Electric	-	-	2,149,587	2,180,385	2,149,587	2,180,385
Water	-	-	363,101	255,671	363,101	255,671
Sewer	-	-	845,168	830,054	845,168	830,054
Total Expenses	913,889	1,230,369	3,357,856	3,266,110	4,271,745	4,496,479
Transfers	(1,900)	(12,106)	1,900	12,106	-	-
Changes in Net Assets	141,578	104,150	1,026,107	666,959	1,167,685	771,109
Net Assets – Beginning	107,692	110,632	3,913,299	3,288,953	4,020,991	3,399,585
Prior Period Adjustment	-	(107,090)	-	(42,613)	-	(149,703)
Net Assets – Ending	\$ 249,270	\$ 107,692	\$ 4,939,406	\$ 3,913,299	\$ 5,188,676	\$ 4,020,991

Governmental Activities

Revenue from property taxes increased .3% from the previous year increasing from \$366,946 to \$368,132. This is due to slightly increases taxable value and a tax rate rollback.

Expenses decreased by \$316,480. This decrease was primarily due to more conservative spending in 2008.

Business-Type Activities

The Village's total business-type revenues increased by \$448,994 primarily due to an increase in capital grants received. Operating charges for services actually increased by \$67,871.

Expenses increased by \$91,746 during the year. The most significant increases were relating to the increase in fuel prices and additional contracted services purchased in the electric fund.

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 2008 include the General Fund, Major Streets, Local Streets, Electric, Water, Newberry Sewage, and Luce Co. Sewage.

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

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

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

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

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

General Fund Budgetary Highlights

The Village's actual revenues were \$41,073 above the amended budget.

Expenditures were \$33,261 below the amended budget for 2008.

Capital Asset and Debt Administration

Capital Assets – The Village's investment in capital assets as of December 31, 2008, amounted to \$8,491,867, (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 2008 included refurbishing a tanker truck for the Fire Department, infrastructure on the major street system, and updates and improvements to the water system. Additional information on capital assets can be found in Note 4 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year at the end of the current fiscal year. The Village has a total of \$5,584,782 outstanding in capital leases, bond payable, and installment notes. Additional information on the Village's long-term debt can be found in Notes 5 and 6.

Economic Factors and Next Year's Budgets and Rates

The Village is in a budget battle from year to year. 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 and possibly other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in most major funds, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

Contacting the Village's Management

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

Basic Financial Statements

	Primary Government		Totals
	Governmental Activities	Business-type Activities	
ASSETS:			
Current Assets			
Cash & Equivalents - Unrestricted	\$ 217,862	\$ 692,705	\$ 910,567
- Restricted	-	82,425	82,425
Accounts Receivable	-	355,670	355,670
Due from Governmental Units	60,483	992,648	1,053,131
Internal Loans	(210,571)	210,571	-
Taxes Receivable	48,062	-	48,062
Inventories	-	33,413	33,413
Total Current Assets	<u>115,836</u>	<u>2,367,432</u>	<u>2,483,268</u>
Noncurrent Assets			
Capital Credits in Coop	-	849,924	849,924
Capital Assets (Not Depreciated)	-	715,204	715,204
Capital Assets (Net of Accumulated Depreciation)	<u>823,827</u>	<u>6,952,836</u>	<u>7,776,663</u>
Total Noncurrent Assets	<u>823,827</u>	<u>8,517,964</u>	<u>9,341,791</u>
TOTAL ASSETS	<u><u>\$ 939,663</u></u>	<u><u>\$ 10,885,396</u></u>	<u><u>\$ 11,825,059</u></u>
LIABILITIES:			
Current Liabilities			
Accounts Payable	\$ 23,084	\$ 846,111	\$ 869,195
Accrued Liabilities	2,818	38,553	41,371
Other Liabilities	-	20,125	20,125
Accrued Interest Payable	3,170	53,370	56,540
Capital Leases	13,697	-	13,697
Notes Payable	22,697	-	22,697
Bonds Payable	39,000	197,011	236,011
Due to Governmental Units	<u>48,136</u>	<u>-</u>	<u>48,136</u>
Total Current Liabilities	<u>152,602</u>	<u>1,155,170</u>	<u>1,307,772</u>
Noncurrent Liabilities			
Compensated Absences	16,234	-	16,234
Capital Leases	130,750	-	130,750
Notes Payable	9,807	-	9,807
Bonds Payable	<u>381,000</u>	<u>4,790,820</u>	<u>5,171,820</u>
Total Noncurrent Liabilities	<u>537,791</u>	<u>4,790,820</u>	<u>5,328,611</u>
TOTAL LIABILITIES	<u><u>690,393</u></u>	<u><u>5,945,990</u></u>	<u><u>6,636,383</u></u>
NET ASSETS:			
Invested in Capital Assets (net of related debt)	226,876	3,727,144	3,954,020
Unrestricted	<u>22,394</u>	<u>1,212,262</u>	<u>1,234,656</u>
TOTAL NET ASSETS	<u><u>\$ 249,270</u></u>	<u><u>\$ 4,939,406</u></u>	<u><u>\$ 5,188,676</u></u>

Village of Newberry, Michigan

Statement of Activities For the Year Ended December 31, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
Legislative	\$ 7,403	\$ -	\$ -	\$ -	\$ (7,403)	\$ -	\$ (7,403)
General Government	164,538	55,390	-	-	(109,148)	-	(109,148)
Public Safety	343,756	26,251	63,547	-	(253,958)	-	(253,958)
Public Works	386,084	92,971	162,214	-	(130,899)	-	(130,899)
Interest expense - Unallocated	12,108	-	-	-	(12,108)	-	(12,108)
Total Governmental Activities	913,889	174,612	225,761	-	(513,516)	-	(513,516)
Business-type activities:							
Electric	2,149,587	2,396,091	-	700,000	-	946,504	946,504
Water	363,101	403,274	-	-	-	40,173	40,173
Sewer	845,168	868,682	-	-	-	23,514	23,514
Total Business-type Activities	3,357,856	3,668,047	-	700,000	-	1,010,191	1,010,191
Total Primary Government	\$ 4,271,745	\$ 3,842,659	\$ 225,761	\$ 700,000	(513,516)	1,010,191	496,675
General Revenues:							
Taxes					368,132	-	368,132
P.I.L.O.T.					19,500	-	19,500
State Revenue Sharing					221,549	-	221,549
Interest on Deposits					3,911	14,016	17,927
Miscellaneous					43,902	-	43,902
Interfund Transfers (net)					(1,900)	1,900	-
Total General Revenues					655,094	15,916	671,010
Change in Net Assets					141,578	1,026,107	1,167,685
Net Assets - Beginning					107,692	3,913,299	4,020,991
Net Assets - Ending					\$ 249,270	\$ 4,939,406	\$ 5,188,676

Village of Newberry, Michigan

Balance Sheet Governmental Funds December 31, 2008

	General	Major Streets	Local Streets	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash & Equivalents - Unrestricted	\$ 119,925	\$ -	\$ -	\$ 97,937	\$ 217,862
Taxes Receivable	48,062	-	-	-	48,062
Due from Other Funds	390,349	68,907	217,059	8,389	684,704
Due from Governmental Units	41,485	13,582	5,416	-	60,483
TOTAL ASSETS	\$ 599,821	\$ 82,489	\$ 222,475	\$ 106,326	\$ 1,011,111
LIABILITIES:					
Due to Other Funds	\$ 569,541	\$ 82,379	\$ 222,307	\$ 21,048	\$ 895,275
Accounts Payable	14,127	-	-	8,957	23,084
Accrued Liabilities	2,818	-	-	-	2,818
Due to Governmental Units	-	-	-	48,136	48,136
TOTAL LIABILITIES	586,486	82,379	222,307	78,141	969,313
FUND BALANCES:					
Unreserved:					
Undesignated	13,335	110	168	28,185	41,798
TOTAL FUND BALANCES	13,335	110	168	28,185	41,798
TOTAL LIABILITIES AND FUND BALANCES	\$ 599,821	\$ 82,489	\$ 222,475	\$ 106,326	

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

Capital assets used by governmental activities	823,827
Long-term notes & leases payable for governmental activities	(596,951)
Compensated absences liability	(16,234)
Accrued interest payable	(3,170)
Net assets of governmental activities	\$ 249,270

Village of Newberry, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended December 31, 2008

	General	Major Streets	Local Streets	Other Governmental Funds	Totals Governmental Funds
REVENUES:					
Taxes	\$ 264,886	\$ 6,812	\$ 78,981	\$ 36,953	\$ 387,632
Licenses & Permits	128	-	-	-	128
State Sources	221,549	107,786	60,781	-	390,116
Local Sources	-	-	-	63,547	63,547
Charges for Services	144,755	-	-	23,375	168,130
Interest & Rentals	1,565	-	-	2,346	3,911
Refunds & Reimbursements	251,107	-	-	2,600	253,707
TOTAL REVENUES	883,990	114,598	139,762	128,821	1,267,171
EXPENDITURES:					
Legislative	7,403	-	-	-	7,403
General Government	151,210	-	-	7,335	158,545
Public Safety	174,155	-	-	97,865	272,020
Public Works	133,695	76,669	145,743	-	356,107
Other Expenditures	186,715	-	-	-	186,715
Capital Outlay	32,811	130,313	-	24,255	187,379
Debt Service	66,417	-	-	20,445	86,862
TOTAL EXPENDITURES	752,406	206,982	145,743	149,900	1,255,031
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	131,584	(92,384)	(5,981)	(21,079)	12,140
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	25,000	92,375	6,064	19,540	142,979
Operating Transfers Out	(144,879)	-	-	-	(144,879)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	11,705	(9)	83	(1,539)	10,240
FUND BALANCES, JANUARY 1	1,630	119	85	29,724	31,558
FUND BALANCES, DECEMBER 31	\$ 13,335	\$ 110	\$ 168	\$ 28,185	\$ 41,798

**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, 2008**

Net changes in fund balances – total governmental funds \$ 10,240

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$187,379 exceeded depreciation expense (\$103,013). 84,366

The sale of capital assets in the governmental funds is recorded at the full sale price while in the Statement of Activities only the loss is recorded. Therefore the cost/net book value of the assets sold must be deducted. (23,089)

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

Principal repayments:			
Bond principal	\$	36,000	
Installment principal		21,554	
Lease principal		13,502	
			71,056

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	\$	(4,693)	
Accrued interest on bonds		3,698	
			(995)

Changes in net assets of governmental activities \$ 141,578

Village of Newberry, Michigan

Statement of Net Assets Proprietary Funds December 31, 2008

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
ASSETS:					
Current Assets					
Cash & Equivalents - Unrestricted	\$ 312,073	\$ 311,956	\$ 68,506	\$ 170	\$ 692,705
- Restricted	-	82,425	-	-	82,425
Accounts Receivable	320,317	35,353	-	-	355,670
Due from Other Funds	353,569	-	55,492	53,529	462,590
Inventories	25,612	328	-	7,473	33,413
Due from Governmental Units	-	700,000	18,282	274,366	992,648
Total Current Assets	<u>1,011,571</u>	<u>1,130,062</u>	<u>142,280</u>	<u>335,538</u>	<u>2,619,451</u>
Noncurrent Assets					
Capital Credits in Coop	849,924	-	-	-	849,924
Property, Plant & Equipment	5,771,008	4,791,879	2,504,145	52,151	13,119,183
Accumulated Depreciation	(3,277,708)	(754,170)	(1,376,683)	(42,582)	(5,451,143)
Total Noncurrent Assets	<u>3,343,224</u>	<u>4,037,709</u>	<u>1,127,462</u>	<u>9,569</u>	<u>8,517,964</u>
TOTAL ASSETS	<u>\$ 4,354,795</u>	<u>\$ 5,167,771</u>	<u>\$ 1,269,742</u>	<u>\$ 345,107</u>	<u>\$ 11,137,415</u>
LIABILITIES:					
Current Liabilities					
Due to Other Funds	\$ 14,995	\$ 3,096	\$ 118,174	\$ 115,754	\$ 252,019
Accounts Payable	125,365	702,529	-	18,217	846,111
Accrued Liabilities	10,337	9,632	-	18,584	38,553
Other Liabilities	20,125	-	-	-	20,125
Accrued Interest Payable	19,388	30,759	3,223	-	53,370
Bonds Payable	156,000	23,000	18,011	-	197,011
Total Current Liabilities	<u>346,210</u>	<u>769,016</u>	<u>139,408</u>	<u>152,555</u>	<u>1,407,189</u>
Noncurrent Liabilities					
Bonds Payable	<u>2,449,000</u>	<u>2,214,000</u>	<u>127,820</u>	<u>-</u>	<u>4,790,820</u>
TOTAL LIABILITIES	<u>2,795,210</u>	<u>2,983,016</u>	<u>267,228</u>	<u>152,555</u>	<u>6,198,009</u>
NET ASSETS:					
Invested in Capital Assets (net of related debt)	894,224	1,823,709	999,642	9,569	3,727,144
Unrestricted	<u>665,361</u>	<u>361,046</u>	<u>2,872</u>	<u>182,983</u>	<u>1,212,262</u>
TOTAL NET ASSETS	<u>\$ 1,559,585</u>	<u>\$ 2,184,755</u>	<u>\$ 1,002,514</u>	<u>\$ 192,552</u>	<u>\$ 4,939,406</u>

Village of Newberry, Michigan

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds For the Year Ended December 31, 2008

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
OPERATING REVENUES:					
Charges for Services	\$ 2,067,581	\$ 382,923	\$ 459,048	\$ 407,253	\$ 3,316,805
Other Revenue	328,510	20,351	-	2,381	351,242
Total Operating Revenues	2,396,091	403,274	459,048	409,634	3,668,047
OPERATING EXPENSES:					
Employee Wages & Benefits	373,129	81,957	37,000	202,772	694,858
Supplies	301,111	21,430	-	41,889	364,430
Repairs & Maintenance	23,802	3,313	-	5,426	32,541
Contracted Services	81,745	28,026	345,156	9,471	464,398
Insurance	22,598	4,160	-	7,343	34,101
Depreciation	112,876	107,168	51,039	1,213	272,296
Utilities	1,114,031	3,495	-	121,052	1,238,578
Other Expenses	19,144	5,142	-	-	24,286
Total Operating Expenses	2,048,436	254,691	433,195	389,166	3,125,488
OPERATING INCOME (LOSS)	347,655	148,583	25,853	20,468	542,559
NON-OPERATING REVENUES (EXPENSES):					
Interest Expense	(101,151)	(108,410)	(22,807)	-	(232,368)
Interest Income	11,149	1,852	856	159	14,016
Federal Grants	-	700,000	-	-	700,000
Total Non-operating Revenues (Expenses)	(90,002)	593,442	(21,951)	159	481,648
Income before transfers	257,653	742,025	3,902	20,627	1,024,207
Operating Transfers In	-	-	1,900	-	1,900
CHANGE IN NET ASSETS	257,653	742,025	5,802	20,627	1,026,107
NET ASSETS, JANUARY 1	1,301,932	1,442,730	996,712	171,925	3,913,299
NET ASSETS, DECEMBER 31	\$ 1,559,585	\$ 2,184,755	\$ 1,002,514	\$ 192,552	\$ 4,939,406

Village of Newberry, Michigan

Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2008

	Enterprise Funds				Totals
	Electric	Water	Newberry Sewage	Luce County Sewage	
Cash Flows From Operating Activities:					
Cash Received from Customers or Users	\$ 2,432,640	\$ 386,658	\$ 455,096	\$ 355,601	\$ 3,629,995
Cash Payments to Employees	(371,655)	(81,188)	(37,000)	(202,799)	(692,642)
Cash Payments to Vendors	(1,554,360)	(73,033)	(345,156)	(178,882)	(2,151,431)
Cash Received (Paid) from other Funds	4,766	430	(22,336)	9,405	(7,735)
Net Cash Provided (Used) By Operating Activities	<u>511,391</u>	<u>232,867</u>	<u>50,604</u>	<u>(16,675)</u>	<u>778,187</u>
Cash Flows From Capital and Related Financing Activities:					
Debt Principal Payments	(149,000)	(22,000)	(18,011)	-	(189,011)
Debt Interest Payments	(122,341)	(93,030)	(21,934)	-	(237,305)
Federal Grants	-	700,000	-	-	700,000
Receipt of Capital Credits	21,945	10,000	-	-	31,945
Purchase of Property and Equipment	-	(739,969)	-	-	(739,969)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(249,396)</u>	<u>(144,999)</u>	<u>(39,945)</u>	<u>-</u>	<u>(434,340)</u>
Cash Flows From Non-Capital and Related Financing Activities					
Transfers to Other Funds	-	-	(25,000)	-	(25,000)
Transfer from Other Funds	-	-	26,900	-	26,900
Net Cash Provided (Used) by Non-Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>1,900</u>	<u>-</u>	<u>1,900</u>
Cash Flows From Investing Activities:					
Interest Income	11,149	1,852	856	159	14,016
Net Cash Provided (Used) by Investing Activities	<u>11,149</u>	<u>1,852</u>	<u>856</u>	<u>159</u>	<u>14,016</u>
Net Increase (Decrease) in Cash	273,144	89,720	13,415	(16,516)	359,763
Cash and Cash Equivalents at Beginning of Year	38,929	304,661	55,091	16,686	415,367
Cash and Cash Equivalents at End of Year	<u>\$ 312,073</u>	<u>\$ 394,381</u>	<u>\$ 68,506</u>	<u>\$ 170</u>	<u>\$ 775,130</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income	\$ 347,655	\$ 148,583	\$ 25,853	\$ 20,468	\$ 542,559
Add Non-Cash Expenses:					
Depreciation	112,876	107,168	51,039	1,213	272,296
Changes in Assets and Liabilities:					
Decrease (Increase) in Assets:					
Receivables	36,549	(16,616)	-	-	19,933
Due from Other Governments	-	-	(3,952)	(54,033)	(57,985)
Inventory	37,506	1	-	-	37,507
Due from (to) other funds	4,766	430	(22,336)	3,564	(13,576)
Increase (Decrease) in Liabilities:					
Accounts Payable	(30,309)	(7,435)	-	9,405	(28,339)
Other Liabilities	874	(33)	-	2,735	3,576
Accrued Liabilities	1,474	769	-	(27)	2,216
Net Cash Provided (Used) By Operating Activities	<u>\$ 511,391</u>	<u>\$ 232,867</u>	<u>\$ 50,604</u>	<u>\$ (16,675)</u>	<u>\$ 778,187</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.

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

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

The Village reports the following major enterprise funds:

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

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

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

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

The Village reports the following fund types:

Governmental Funds

General Fund. Described above.

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

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

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

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

Measurement Focus, Basis of Accounting

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

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

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

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

Cash and Cash Equivalents

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

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

Interfund Receivables and Payables

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

Allowances for uncollectible accounts receivables has been determined to be \$20,000.

Inventories

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

Capital Assets

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

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

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

Budgetary Data

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

Use of Estimates

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

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

Compensated Absences

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

Post-employment Benefits

The Village provides health care and life insurance benefits to twelve retirees in accordance with labor contracts. Expenditures for post-employment health care and life insurance benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General, Sewer, Water, and Electric Funds and totaled \$246,142 for the year ended December 31, 2008.

NOTE 2 - CASH AND EQUIVALENTS:

	<u>Primary Government</u>
Cash and Investments:	
- Unrestricted	\$ 910,567
- Restricted	<u>82,425</u>
Total	<u>\$ 992,992</u>
Imprest	\$ 450
CD's savings and checking	<u>992,542</u>
Total	<u>\$ 992,992</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	\$ 43,425
	Bond Reserve	<u>39,000</u>
		<u>\$ 82,425</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, \$672,246 of the Village's bank balance of \$1,124,069 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, 2008 consisted of the following:

		DUE FROM								
DUE TO		General	Major Streets	Local Streets	Other Funds	Electric	Water	Newberry Sewage	Luce County Sewage	Total
	General	\$	-	\$ -	\$ 222,307	\$ 21,038	\$ 13,817	\$ 1,465	\$ 15,968	\$ 115,754
Major Streets		68,907	-	-	-	-	-	-	-	68,907
Local Streets		133,271	82,379	-	-	534	875	-	-	217,059
Other Funds		8,379	-	-	10	-	-	-	-	8,389
Electric		303,492	-	-	-	-	77	50,000	-	353,569
Newberry Sewage		55,492	-	-	-	-	-	-	-	55,492
Luce County Sewage		-	-	-	-	644	679	52,206	-	53,529
Total	\$	569,541	82,379	222,307	21,048	14,995	3,096	118,174	115,754	1,147,294

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, 2008 consisted of the following:

Interfund Transfers

		TRANSFERS OUT	
		<u>General Fund</u>	
TRANSFERS IN	General	\$	25,000
	Major Streets		92,375
	Local Streets		6,064
	Nonmajor		
	Governmental		19,540
	Newberry Sewage		<u>1,900</u>
	Total		<u>\$ 144,879</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, 2008, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not depreciated:</i>				
Buildings and Improvements	\$ 778,512	\$ -	\$ (25,750)	\$ 752,762
Infrastructure	-	163,124	-	163,124
Vehicles and Equipment	<u>1,940,761</u>	<u>24,255</u>	<u>(17,000)</u>	<u>1,948,016</u>
Total assets not depreciated	<u>2,719,273</u>	<u>187,379</u>	<u>(42,750)</u>	<u>2,863,902</u>
<i>Less accumulated depreciation for:</i>				
Buildings and improvements	(684,674)	(4,358)	2,661	(686,371)
Machinery and equipment	<u>(1,272,049)</u>	<u>(98,655)</u>	<u>17,000</u>	<u>(1,353,704)</u>
Total accumulated depreciation	<u>(1,956,723)</u>	<u>(103,013)</u>	<u>19,661</u>	<u>(2,040,075)</u>
Governmental activities capital assets, net	<u>\$ 762,550</u>	<u>\$ 84,366</u>	<u>\$ (23,089)</u>	<u>\$ 823,827</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Governmental Activities:	
General Government	\$ 1,300
Public Safety	71,736
Public Works	<u>29,977</u>
 Total Governmental Activities	 <u>\$ 103,013</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>3,206,969</u>	<u>700,000</u>	<u>(3,206,969)</u>	<u>700,000</u>
 Total capital assets not being depreciated	 <u>3,222,173</u>	 <u>700,000</u>	 <u>(3,206,969)</u>	 <u>715,204</u>
 <i>Capital assets being depreciated:</i>				
Buildings	168,654	-	-	168,654
Water system	831,902	3,246,938	-	4,078,840
Sewer system	2,518,149	-	-	2,518,149
Electric system	5,094,574	-	-	5,094,574
Equipment	<u>543,762</u>	<u>-</u>	<u>-</u>	<u>543,762</u>
 Total capital assets being depreciated	 <u>9,157,041</u>	 <u>3,246,938</u>	 <u>-</u>	 <u>12,403,979</u>
 <i>Less accumulated depreciation for:</i>				
Buildings	(164,967)	(460)	-	(165,427)
Water system	(643,742)	(105,538)	-	(749,280)
Sewer system	(1,348,518)	(51,388)	-	(1,399,906)
Electric system	(2,595,205)	(91,387)	-	(2,686,592)
Equipment	<u>(426,415)</u>	<u>(23,523)</u>	<u>-</u>	<u>(449,938)</u>
 Total accumulated depreciation	 <u>(5,178,847)</u>	 <u>(272,296)</u>	 <u>-</u>	 <u>(5,451,143)</u>
 Total capital assets being depreciated, net	 <u>3,978,194</u>	 <u>2,974,642</u>	 <u>-</u>	 <u>6,952,836</u>
 Business-type activities capital assets, net	 <u>\$ 7,200,367</u>	 <u>\$ 3,674,642</u>	 <u>\$ (3,206,969)</u>	 <u>\$ 7,668,040</u>

NOTE 4 - CAPITAL ASSETS: (Continued)

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

Business-type Activities:	
Electric	\$ 112,876
Water	107,168
Newberry Sewage	51,039
Luce County Sewage	<u>1,213</u>
 Total Governmental Activities	 <u>\$ 272,296</u>

NOTE 5 - LEASES:

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

2009	\$ 20,445
2010	20,447
2011	20,445
2012	20,447
2013	20,446
2014 – 2017	<u>75,668</u>
 Total minimum lease payments	 177,898
Less amount representing interest	<u>(33,451)</u>
 Present value of minimum lease payments	 <u>\$ 144,447</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, 2008 are summarized as follows:

	<u>Balance</u> <u>01/01/08</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/08</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental 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%.	\$ 456,000	\$ -	\$ 36,000	\$ 420,000	\$ 39,000

NOTE 6 - LONG-TERM DEBT: (Continued)

	Balance 01/01/08	Additions	Deductions	Balance 12/31/08	Due Within One Year
2006 Installment Notes payable with monthly payments of \$1,987 including interest of 5.15%, secured by _____.	54,058	-	21,554	32,504	22,697
Total Governmental Activities	510,058	-	21,554	452,504	61,697
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%.	304,000	-	24,000	280,000	26,000
2002 Limited Tax General Obligation Bonds, maturing serially to 2022 in annual amounts ranging from \$25,000 to \$65,000, bearing interest at 4.35% to 5.10%.	735,000	-	35,000	700,000	35,000
2003 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$30,000 to \$70,000, bearing interest ranging from 2.0% to 5.125%.	830,000	-	40,000	790,000	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%.	2,259,000	-	22,000	2,237,000	23,000
1976 Sanitary Sewage Improvement Bonds, maturing serially to 2016 in annual amounts ranging from \$7,000 to \$32,000, bearing interest of 5.0%.	163,842	-	18,011	145,831	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%.	885,000	-	50,000	835,000	55,000
Total Business-type Activities	5,176,842	-	189,011	4,987,831	197,011
Accrued sick leave and vacation	11,541	4,693	-	16,234	-
TOTAL LONG-TERM OBLIGATIONS	\$ 5,698,441	\$ 4,693	\$ 246,565	\$ 5,456,569	\$ 197,011

NOTE 6 - LONG-TERM DEBT: (Continued)

The annual principal and interest requirements for the years ending December 31, 2008 and after, excluding accrued compensated absences are as follows:

Year End June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	\$ 61,697	\$ 20,163	\$ 197,011	\$ 215,445
2010	48,807	17,430	203,011	207,820
2011	42,000	15,588	211,011	199,666
2012	45,000	13,740	220,011	191,011
2013	45,000	11,760	231,011	181,827
2014-2018	210,000	25,410	1,226,776	751,881
2019-2023	-	-	953,000	481,241
2024-2028	-	-	257,000	339,860
2029-2033	-	-	325,000	281,532
2034-2038	-	-	407,000	208,025
2039-2043	-	-	516,000	115,542
2044-2045	-	-	241,000	15,015
Total	<u>\$ 452,504</u>	<u>\$ 104,091</u>	<u>\$ 4,987,831</u>	<u>\$ 3,188,865</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, 2008, the liability totaled \$16,234.

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, 2008 totaled \$18,919,353. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	11.3371
Streets and Alleys	4.5347
Garbage	1.4067
Fire Service	1.9532

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, 2008.

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	16.73%
Supervisors	33.95%
General Light and Power	8.75%

Annual Pension Cost

During the fiscal year ended December 31, 2008, the Village's contributions totaling \$115,692 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three year trend information as of December 31 follows:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial Value of Assets	\$ 2,575,363	\$ 2,672,693	\$ 2,777,710
Actuarial Accrued Liability	3,456,118	3,633,342	3,683,526
Unfunded AAL	880,755	960,649	905,816
Funded Ratio	74%	74%	75%
Covered Payroll	622,152	691,707	547,771
UAAL as a Percentage of Covered Payroll	142%	139%	165%

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

Year Ended <u>Dec 31</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 106,829	100%	0
2007	92,683	100%	0
2008	115,692	100%	0

NOTE 11 - COMMITMENTS AND CONTINGENCIES:

Grant Assistance - The Village received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Village. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Village at December 31, 2008.

NOTE 12 - RISK MANAGEMENT:

The Village is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 13 - CAPITAL CREDITS IN COOPERATIVE:

The Village of Newberry Electric Fund purchases electricity for resale from Cloverland Electric Co-op. Due to operating surpluses by the cooperative, the Village of Newberry Electric Fund receives patronage capital credits. During the current year the Village received \$21,945 in capital credit distributions. As of December 31, 2008, the Village has capital credits outstanding of \$849,924. This amount is credited to the capital account of the Cooperative for the Village of Newberry Electric fund and has the same status as if it was paid in cash to the village and then the Village furnished the Cooperative with a corresponding amount of capital. Distribution of these credits to the Village of Newberry Electric Fund is made at the complete discretion of the Cooperative.

NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

Segment information for the year ended December 31, 2008, is as follows:

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Nonoperating revenue (expense)	\$ (90,002)	\$ 593,442	\$ (21,951)
Operating income (loss)	347,655	148,583	25,853
Changes in net assets	257,653	742,025	5,802
Operating revenues	2,396,091	403,274	459,048
Operating expenses	2,048,436	254,691	433,195
Depreciation	112,876	107,168	51,039
Total assets	4,354,795	5,167,771	1,269,742
Current liabilities	346,210	769,016	139,408
Long-term debt payable	2,449,000	2,214,000	127,820
Beginning net assets	1,301,932	1,442,730	996,712
Ending net assets	1,559,585	2,184,755	1,002,514
Cash provided (used) by:			
Operating activities	511,391	232,867	50,604
Non Capital Financing	-	-	1,900
Capital financing	(249,396)	(144,999)	(39,945)
Investing	11,149	1,852	856
Beginning cash	38,929	304,661	55,091
Ending cash	312,073	394,381	68,506

Required Supplementary Information

Village of Newberry, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 373,000	\$ 235,417	\$ 264,886	\$ 29,469
Licenses & Permits	200	100	128	28
State Sources	222,600	219,900	221,549	1,649
Charges for Services	138,800	136,700	144,755	8,055
Interest & Rentals	3,000	-	1,565	1,565
Refunds & Reimbursements	168,500	221,500	251,107	29,607
Other Revenue	40,000	29,300	-	(29,300)
TOTAL REVENUES	946,100	842,917	883,990	41,073
EXPENDITURES:				
Legislative:				
Village Council	9,400	7,410	7,403	7
General Government:				
Village President	7,670	6,070	4,925	1,145
Administration	13,600	17,500	17,360	140
Accounting	28,119	22,914	21,374	1,540
Attorney	22,500	3,965	3,956	9
Village Clerk	10,000	10,000	9,858	142
Audit	5,900	12,060	12,055	5
Treasurer	10,300	8,870	8,755	115
Building & Grounds	17,750	16,450	16,147	303
Motor Pool	63,900	57,100	56,780	320
Total General Government	179,739	154,929	151,210	3,719
Public Safety:				
Police Department	167,290	174,550	174,155	395
Total Public Safety	167,290	174,550	174,155	395
Public Works:				
Department of Public Works	3,150	4,300	4,138	162
Sidewalks	1,400	-	-	-
Street Lighting	21,500	20,400	20,359	41
Sewers	23,000	14,700	14,682	18
Storm Sewer Construction	600	100	53	47
Rubbish & Garbage	43,350	94,550	94,463	87
Total Public Works	93,000	134,050	133,695	355
Other Expenditures:				
Fringe Benefits	260,715	195,778	167,393	28,385
Insurance & Bonds	31,850	19,450	19,322	128
Appropriations	5,000	-	-	-
Total Other Expenditures	297,565	215,228	186,715	28,513
Capital Outlay	-	32,900	32,811	89
Debt Service	66,500	66,600	66,417	183
TOTAL EXPENDITURES	813,494	785,667	752,406	33,261

Village of Newberry, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
EXCESS OF REVENUES OVER EXPENDITURES	132,606	57,250	131,584	74,334
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	25,000	25,000	25,000	-
Operating Transfers Out	(157,606)	(82,250)	(144,879)	(62,629)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	11,705	<u>\$ 11,705</u>
FUND BALANCE, JANUARY 1			<u>1,630</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 13,335</u>	

**Required Supplementary Information
Budgetary Comparison Schedule
Major Streets Fund
Year Ended December 31, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ -	\$ 7,095	\$ 6,812	(283)
State Sources	115,000	115,000	107,786	(7,214)
 TOTAL REVENUES	 115,000	 122,095	 114,598	 (7,497)
EXPENDITURES:				
Public Works	77,840	77,190	76,669	521
Capital Outlay	27,403	140,603	130,313	10,290
 TOTAL EXPENDITURES	 105,243	 217,793	 206,982	 10,811
 EXCESS OF REVENUES OVER EXPENDITURES	 9,757	 (95,698)	 (92,384)	 3,314
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	51,075	92,375	41,300
Operating Transfers Out	(9,757)	-	-	-
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	 \$ -	 \$ (44,623)	 (9)	 \$ 44,614
 FUND BALANCE, JANUARY 1			 119	
 FUND BALANCE, DECEMBER 31			 \$ 110	

Village of Newberry, Michigan

Required Supplementary Information Budgetary Comparison Schedule Local Streets Fund Year Ended December 31, 2008

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget - Positive (Negative)
REVENUES:				
Taxes	\$ -	\$ 81,845	\$ 78,981	\$ (2,864)
State Sources	70,900	64,000	60,781	(3,219)
TOTAL REVENUES	<u>70,900</u>	<u>145,845</u>	<u>139,762</u>	<u>(6,083)</u>
EXPENDITURES:				
Public Works	167,025	145,845	145,743	102
TOTAL EXPENDITURES	<u>167,025</u>	<u>145,845</u>	<u>145,743</u>	<u>102</u>
EXCESS OF REVENUES OVER EXPENDITURES	(96,125)	-	(5,981)	(5,981)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	96,125	-	6,064	6,064
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	83	<u>\$ 83</u>
FUND BALANCE, JANUARY 1			<u>85</u>	
FUND BALANCE, DECEMBER 31			<u>\$ 168</u>	

Other Supplementary Information

Village of Newberry, Michigan

**Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2008**

	Special Revenues		Capital Project Funds		Total
	Fire Capital	Fire Operating	Downtown Development	Historical Society Renovation	
ASSETS:					
Cash & Equivalents - Unrestricted	\$ 16,827	\$ 79,480	\$ 1,330	\$ 300	\$ 97,937
Due from Other Funds	8,379	-	10	-	8,389
TOTAL ASSETS	\$ 25,206	\$ 79,480	\$ 1,340	\$ 300	\$ 106,326
LIABILITIES:					
Due to Other Funds	\$ -	\$ 21,048	\$ -	\$ -	\$ 21,048
Accounts Payable	-	8,957	-	-	8,957
Due to Governmental Units	-	48,136	-	-	48,136
TOTAL LIABILITIES	-	78,141	-	-	78,141
FUND BALANCES:					
Unreserved					
Undesignated	25,206	1,339	1,340	300	28,185
TOTAL FUND BALANCES	25,206	1,339	1,340	300	28,185
TOTAL LIABILITIES AND FUND BALANCES	\$ 25,206	\$ 79,480	\$ 1,340	\$ 300	\$ 106,326

**Combining Statement of Revenues, Expenditures, and
Changes in Fund Balance - Nonmajor Governmental Funds
Year Ended December 31, 2008**

	Special Revenues		Capital Project Funds		Total
	Fire Capital	Fire Operating	Downtown Development	Historical Society Renovation	
REVENUES:					
Taxes	\$ 20,445	\$ 16,508	\$ -	\$ -	\$ 36,953
Local Sources	-	63,547	-	-	63,547
Charges for Services	-	23,375	-	-	23,375
Interest & Rentals	248	2,068	30	-	2,346
Refunds & Reimbursements	-	2,600	-	-	2,600
TOTAL REVENUES	20,693	108,098	30	-	128,821
EXPENDITURES:					
General Government	-	-	4,265	3,070	7,335
Public Safety	-	97,865	-	-	97,865
Capital Outlay	-	24,255	-	-	24,255
Debt Service	20,445	-	-	-	20,445
TOTAL EXPENDITURES	20,445	122,120	4,265	3,070	149,900
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	248	(14,022)	(4,235)	(3,070)	(21,079)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	15,265	4,275	-	19,540
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	248	1,243	40	(3,070)	(1,539)
FUND BALANCES, JANUARY 1	24,958	96	1,300	3,370	29,724
FUND BALANCES, DECEMBER 31	\$ 25,206	\$ 1,339	\$ 1,340	\$ 300	\$ 28,185

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008, which collectively comprise the Village of Newberry, Luce County, Michigan's basic financial statements and have issued our report thereon, dated August 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Newberry, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiency described as 07-2 in the accompanying summary schedule of prior audit findings to be a significant deficiency in internal control over financial reporting.

Honorable President and Members
of the Village Council

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Village of Newberry, Michigan in separate letter dated August 20, 2009.

Village of Newberry, Michigan's response to the findings identified in our audit are described in the accompanying summary schedule of prior audit findings. 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

August 20, 2009



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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

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

Compliance

We have audited the compliance of the Village of Newberry, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

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

In our opinion, the Village of Newberry, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Honorable President and Members
of the Village Council

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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



Anderson, Tackman & Company, PLC
Certified Public Accountants

August 20, 2009

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Project Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development: Pass-Through Programs from the State of Michigan Economic Development Corporation (MEDC) Community Development Block Grant	14.228	MJC-206029-ICE	N/A	<u>700,000</u>
Total U.S. Department of Housing and Urban Development				<u>700,000</u>
Total Expenditures of Federal Awards				<u>\$ 700,000</u>

NOTE A - BASIS OF PRESENTATION

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

NOTE B - COGNIZANT AGENCY

The Village has not been assigned a cognizant agency. Therefore, the Village is under the general oversight of the U.S. Department of Housing and Urban Development which provided the greatest amount of indirect federal funding to the Village during fiscal year 2008.

NOTE C - FEDERAL REVENUES

Total Federal Expenditures	\$ <u>700,000</u>
Federal Revenues per Financial Statement	\$ <u>700,000</u>

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

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

Identification of Major Programs

CFDA NUMBERS

Name of Federal Program or Cluster

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

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

SIGNIFICANT DEFICIENCIES

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

Finding 07-1

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

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

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

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

Cause: Change in application of auditing standards.

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

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

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

Status: Corrected.

COMPLIANCE – INTERNAL CONTROL

Segregation of Duties

Finding 07-2

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

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

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

Section II – Financial Statement Findings (Continued)

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

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

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

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

SIGNIFICANT DEFICIENCIES

Balance Sheet Account Reconciliation

Finding 07-3

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

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

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

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

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

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

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

Status : Corrected.

Section III – Federal Award Findings and Questioned Costs

NONE.



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
TRISH D. BRAZIL, CPA

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, 2008, and have issued our reports thereon dated August 20, 2009. 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 May 13, 2009, 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 May 13, 2009.

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 2008. 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 \$20,000.

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 August 20, 2009.

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

Policy Manual (Prior Year)

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

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

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.

Dual Signatures (Prior Year)

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

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

Accounting Procedures Manual (Prior Year)

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

941 Quarterly Reports (Prior Year)

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

Budgeting (Prior Year)

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

Accounting and Financial Reporting for Intangible Assets

In June of 2007, the GASB issued Statement No. 51, to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments.

Personal Property Taxes

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.

Michigan New Hire Form

Upon reviewing employee personnel files, we noted that there were no Michigan New Hire Forms completed for employees. The State of Michigan requires this form be faxed or mailed upon completion. It is recommended that the Village set up a New Hire packet with all forms that should be completed by new employees.

Accrued Sick and Vacation

Through discussions held with individuals at the Village and several Council Members, questions have arisen regarding the issue of salaried employee's receiving accrued sick and vacation pay outs. Many governmental units only provide this benefit to hourly employees. Government Accounting Standards Board Statement No. 16 does make mention of both hourly and salaried employees receiving this benefit. We would recommend that you consult with your labor attorneys regarding your current sick and vacation policy to ensure conformity with similar governmental units.

Due From Governmental Units

The Village has been accruing what is determined to be the neighboring townships portion of the Luce County Sewage Systems operating costs. The neighboring townships have disputed the validity of this liability to the Village. We recommend that the management of the Village and the Village Council review these amounts currently due from the Townships and consider making an allowance for any portion that they consider will not be collectable.

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

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

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

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

Conclusion

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

This information is intended solely for the use of the Village of Newberry, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC". The signature is written in a cursive, flowing style.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 20, 2009