

VILLAGE OF NEWBERRY  
Luce County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Village of Newberry	<b>County</b> Luce
<b>Audit Date</b> December 31, 2005	<b>Opinion Date</b> March 26, 2006	<b>Date Accountant Report Submitted to State:</b> June 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

VILLAGE OF NEWBERRY  
Luce County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

March 26, 2006

To the Village Council  
Village of Newberry  
Luce County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Village of Newberry, Luce County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Village of Newberry, Luce County, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2006, on our consideration of the Village of Newberry's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Accounting Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information 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 an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

VILLAGE OF NEWBERRY  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2005

This section of the Village of Newberry annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended December 31, 2005. Please read it in conjunction with the financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2005, totaled \$261,434.93 for governmental activities and \$2,782,868.72 for business-type activities. Of these totals, \$159,948.15 and \$1,405,122.50 respectively, represent capital assets net of depreciation and related debt. Overall, net assets increased by \$195,568.65 from the prior year.

Overall revenues were \$4,455,833.20. Overall expenses were \$4,231,410.35.

The tax base increased by five percent (5%).

We incurred new debt for Electric Utility System Revenue Bonds \$985,000.00.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are Village wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

VILLAGE OF NEWBERRY  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2005

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

Most of the activities of the Village are reported as governmental activities. These would include the General Fund, Major Street Fund, Local Street Fund, Fire Capital Fund, Fire Operating Fund, Downtown Development Fund, and the Historical Society Fund. Some activities such as the Water Fund, the Electric Fund, the Newberry Sewage Fund, and the Luce County Sewage Fund are treated as business-type activities where the revenues of the activity are designed to pay for the operations of the activity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

**Governmental Funds:** Most of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include: General, Major Street, Local Street, Fire Capital, Fire Operating, Downtown Development, and the Historical Society Funds.

**Proprietary Funds:** These funds represent activities in the government, which are basically treated like private sector companies. These funds are designed to have revenues earned adequate to pay for the operations of the activity. These funds are presented on a full accrual method and will show no difference between the Village's government-wide statements and fund statements presentation. The Village's proprietary funds include: Water, Electric, Newberry Sewage and Luce County Sewage Funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

**Net Assets:** The Village's combined net assets increased by \$195,568.65 during the year ended December 31, 2005, totaling \$3,044,303.65.

**Governmental Activities:** The net assets for governmental activities decreased by \$186,165.03 due largely to construction of downtown street project and shortfall of revenue sharing.

**Business-Type Activities:** The net assets for business-type activities increased by \$381,733.68 due largely to water, electric system improvements.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

**General Fund:** This 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 expenses for this fiscal year include the upgrades to the Village's downtown business district.

VILLAGE OF NEWBERRY  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2005

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS (continued)

Major Street Fund: This fund is used to record revenues and expenses for major streets located within the Village. The major source of revenue comes from 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.

Local Street Fund: This 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.

Fire Capital Fund: This is used to record major equipment purchases for the Newberry Fire Department. The major source of revenue comes from appropriations from the General Fund, McMillan Township and Pentland Township.

Fire Operating Fund: This fund is used to record revenues and expenses for the Newberry Fire Department. Fire Operating Fund revenue comes from the General Fund, McMillan Township and Pentland Township.

Downtown Development Fund: This fund is used to record the major capital improvement project to upgrade and replace aging infrastructure in Newberry's Downtown Business District. Revenues came from a grant from USEDA (Federal Economic Development Authority); a grant from MEDC (State Economic Development); a grant from MDOT Road Funds (Michigan Department of Transportation); a grant from MDOT Enhancement Funds; a grant from Luce County EDC (Local Economic Development); Newberry Sewer funds, Newberry Water and Electric Funds, and Village General Fund appropriation. The project construction was completed in 2004. Minor checklist and project audit was completed in 2005.

Newberry Sewage and Luce County Sewage Funds: These 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.

Water and Electric Funds: These funds are used to record revenues and expenses for the Village water 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.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Additions to the Village's governmental fund capital assets for this year totaled \$132,334.44 and included a new plow truck for motor pool, the balance on a new copier for the Village Office, security cameras and radar system for the police department. Projects in process include water system improvements and electric conversion of \$998,667.71.

Long-term Debt:

Business-type activities: Bond issue proceeds of \$1,407,000.00 and bond principal payments of \$103,849.00.

Governmental activities: Notes payable on a general obligation bond, plow truck, and pick-up truck. Total principal payments of \$45,775.88..



VILLAGE OF NEWBERRY  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended December 31, 2005

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village's plans for the future include street, water and sewer system improvements to West McMillan Avenue from Newberry Avenue to Tahquamenon Boulevard. The Village is committed to the improvement of the water system and the completion of the electric conversion.

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 Robert F. Cameron, Village President, by calling 906-293-3433 ext. 1 during the hours of 8 am to 4:30 pm, Monday thru Friday.

VILLAGE OF NEWBERRY  
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
CURRENT ASSETS:			
Cash in bank	169 575 31	876 772 66	1 046 347 97
Petty cash	100 00	50 00	150 00
Accounts receivable	576 13	383 027 18	383 603 31
Taxes receivable	32 392 43	-	32 392 43
Internal balances	(115 961 55)	115 961 55	-
Due from other units	10 133 15	-	10 133 15
Due from State of Michigan	63 179 92	-	63 179 92
Inventory	-	86 436 65	86 436 65
Total Current Assets	<u>159 995 39</u>	<u>1 462 248 04</u>	<u>1 622 243 43</u>
FIXED ASSETS:			
Capital Assets	2 541 541 20	9 243 979 12	11 785 520 32
Less: Accumulated Depreciation	<u>(1 762 598 74)</u>	<u>(4 810 409 87)</u>	<u>(6 573 008 61)</u>
Total Fixed Assets	<u>778 942 46</u>	<u>4 433 569 25</u>	<u>5 212 511 71</u>
OTHER ASSETS:			
Capital credits in cooperative	-	780 231 54	780 231 54
Total Other Assets	<u>-</u>	<u>780 231 54</u>	<u>780 231 54</u>
TOTAL ASSETS	<u><u>938 937 85</u></u>	<u><u>6 676 048 83</u></u>	<u><u>7 614 986 68</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	17 397 58	190 465 06	207 862 64
Due to other units	905 81	-	905 81
Accrued interest payable	-	4 862 00	4 862 00
Total Current Liabilities	<u>18 303 39</u>	<u>195 327 06</u>	<u>213 630 45</u>
NON-CURRENT LIABILITIES:			
Notes payable	93 994 31	-	93 994 31
Bonds payable	525 000 00	3 656 283 00	4 181 283 00
Accrued compensated absences	<u>40 205 22</u>	<u>41 570 05</u>	<u>81 775 27</u>
Total Non-current Liabilities	<u>659 199 53</u>	<u>3 697 853 05</u>	<u>4 357 052 58</u>
Total Liabilities	<u>677 502 92</u>	<u>3 893 180 11</u>	<u>4 570 683 03</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	159 948 15	1 405 122 50	1 565 070 65
Unrestricted	<u>101 486 78</u>	<u>1 377 746 22</u>	<u>1 479 233 00</u>
Total Net Assets	<u>261 434 93</u>	<u>2 782 868 72</u>	<u>3 044 303 65</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>938 937 85</u></u>	<u><u>6 676 048 83</u></u>	<u><u>7 614 986 68</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NEWBERRY  
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended December 31, 2005

FUNCTIONS/PROGRAMS	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants - Contributions</u>	
Governmental Activities:				
Legislative	10 724 72	-	-	(10 724 72)
General government	228 764 02	214 955 72	-	(13 808 30)
Public safety	391 427 95	93 576 03	7 714 00	(290 137 92)
Public works	495 877 61	122 666 28	-	(373 211 33)
Recreation	38 933 28	-	24 500 00	(14 433 28)
Other	315 173 19	-	-	(315 173 19)
Interest on long-term debt	12 775 71	-	-	(12 775 71)
Total Governmental Activities	<u>1 493 676 48</u>	<u>431 198 03</u>	<u>32 214 00</u>	<u>(1 030 264 45)</u>
Business-Type Activities:				
Electric	1 624 957 21	1 581 934 69	-	-
Water	174 289 63	418 456 44	11 250 00	-
Sewer	862 467 40	751 629 35	-	-
Total Business-Type Activities	<u>2 661 714 24</u>	<u>2 752 020 48</u>	<u>11 250 00</u>	<u>-</u>
Total Government	<u>4 155 390 72</u>	<u>3 183 218 51</u>	<u>43 464 00</u>	<u>(1 030 264 45)</u>
General Revenues:				
Property taxes				306 225 33
P.I.L.O.T.				18 000 00
State revenue sharing				407 852 87
Interest				4 331 22
Miscellaneous				107 690 00
Total General Revenues				<u>844 099 42</u>
Change in net assets				(186 165 03)
Net assets, beginning of year				<u>447 599 96</u>
Net Assets, End of Year				<u>261 434 93</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(10 724 72)
-	(13 808 39)
-	(290 137 92)
-	(373 211 33)
-	(14 433 28)
-	(315 173 19)
-	(12 775 71)
-	(1 030 264 45)
(43 022 52)	
(255 416 81)	(255 416 81)
(110 838 05)	(110 838 05)
(101 556 24)	(101 556 24)
(101 556 24)	(928 708 21)
-	306 225 33
-	18 000 00
-	407 852 87
9 148 51	13 479 73
271 028 88	378 718 88
280 177 39	1 124 276 81
381 733 63	195 568 65
2 401 135 09	2 848 735 05
2 782 868 72	3 044 303 65

VILLAGE OF NEWBERRY  
Luce County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
December 31, 2005

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Operating</u>
Cash in bank	189 398 70	918 52	(48 432 67)	12 804 99
Petty cash	100 00	-	-	-
Accounts receivable	576 13	-	-	-
Taxes receivable	32 392 43	-	-	-
Due from other funds	79 595 65	24 554 35	47 137 31	-
Due from other units	-	-	-	10 133 15
Due from State of Michigan	42 210 00	14 993 64	5 976 28	-
Total Assets	<u>344 272 91</u>	<u>40 466 51</u>	<u>4 680 92</u>	<u>22 938 14</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	15 986 31	422 30	-	988 97
Due to other funds	265 826 39	6 653 96	-	9 603 49
Due to other units	-	-	-	905 81
Total liabilities	<u>281 812 70</u>	<u>7 076 26</u>	<u>-</u>	<u>11 498 27</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	62 460 21	33 390 25	4 680 92	11 439 87
Total fund equity	<u>62 460 21</u>	<u>33 390 25</u>	<u>4 680 92</u>	<u>11 439 87</u>
Total Liabilities and Fund Equity	<u>344 272 91</u>	<u>40 466 51</u>	<u>4 680 92</u>	<u>22 938 14</u>

The accompanying notes are an integral part of these financial statements.

<u>Downtown Development</u>	<u>Other Funds</u>	<u>Total</u>
1 236 86	13 648 91	169 575 31
-	-	100 00
-	-	576 13
-	-	32 392 43
-	14 834 98	166 122 29
-	-	10 133 15
-	-	63 179 92
<u>1 236 86</u>	<u>28 483 89</u>	<u>442 079 23</u>

-	-	17 397 58
-	-	282 083 84
-	-	905 81
-	-	300 387 23

<u>1 236 86</u>	<u>28 483 89</u>	<u>141 692 00</u>
<u>1 236 86</u>	<u>28 483 89</u>	<u>141 692 00</u>
<u>1 236 86</u>	<u>28 483 89</u>	<u>442 079 23</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
December 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	141 692 00
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	2 541 541 20
Accumulated depreciation	(1 762 598 74)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:	
Notes payable	(93 994 31)
Bonds payable	(525 000 00)
Accrued compensated absences	(40 205 22)
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>261 434 93</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended December 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Operating</u>
Revenues:				
Property taxes	306 225 33	-	-	-
P.I.L.O.T.	18 000 00	-	-	-
Licenses and permits	122 50	-	-	-
Federal grant	-	-	-	-
State grant	-	-	-	7 714 00
State revenue sharing	231 285 65	112 647 40	63 919 82	-
Charges for services:				
Refuse	122 666 28	-	-	-
Fire	-	-	-	-
Other	3 031 07	-	-	77 295 68
Interest	3 070 33	-	-	-
Reimbursements:				
Equipment rental and overhead	214 833 22	-	-	-
Miscellaneous	96 193 42	-	-	-
	<u>995 427 80</u>	<u>112 647 40</u>	<u>63 919 82</u>	<u>89 016 23</u>
Total revenues				
Expenditures:				
Legislative:				
Village Council	10 188 47	-	-	-
General government:				
Village President	12 147 41	-	-	-
Administration	26 243 23	-	-	-
Elections	944 13	-	-	-
Accounting	43 840 20	-	-	-
Attorney	17 908 62	-	-	-
Union negotiation	536 25	-	-	-
Clerk	10 087 18	-	-	-
Audit	5 700 00	-	-	-
Treasurer	7 180 41	-	-	-
Building and grounds – garage	19 733 94	-	-	-
Building and grounds – other	8 584 17	-	-	-
Motor pool	68 576 59	-	-	-
Public safety:				
Police protection	206 662 65	-	-	-
Fire protection	-	-	-	-
Public works:				
Department of Public Works	4 912 91	-	-	99 719 86
Sidewalks	1 386 37	-	-	-
Highways and streets	-	116 162 33	209 414 23	-
Street lighting	18 764 31	-	-	-
Sewers	18 605 33	-	-	-
Sanitation	88 306 43	-	-	-
Culture and recreation				
Recreation	-	-	-	-

The accompanying notes are an integral part of these financial statements.



<u>Downtown Development</u>	<u>Other Funds</u>	<u>Total</u>
-	-	306 225 33
-	-	18 000 00
-	-	122 50
-	-	7 714 00
-	24 500 00	24 500 00
-	-	407 852 87
-	-	122 666 28
-	12 912 00	90 207 68
-	337 28	3 368 35
250 92	-	4 331 22
-	-	214 833 22
-	8 500 00	107 690 00
<u>250 92</u>	<u>46 249 28</u>	<u>1 307 511 45</u>
-	-	10 188 47
-	-	12 147 41
-	-	26 243 23
-	-	944 13
-	-	43 840 20
-	-	17 908 62
-	-	536 25
-	-	10 087 18
-	-	5 700 00
-	-	7 180 41
-	-	19 733 94
-	-	8 584 17
-	-	68 576 59
-	-	206 662 65
-	25 824 00	125 543 86
-	-	4 912 91
-	-	1 386 37
3 274 59	-	328 851 15
-	-	18 764 31
-	-	18 605 33
-	-	88 306 43
-	38 933 28	38 933 28

VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended December 31, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Operating</u>
Expenditures: (continued)				
Other:				
Fringe benefits	216 631 67	-	-	-
Insurance	27 802 45	-	-	-
Retirement	39 739 97	-	-	-
Social security	25 288 51	-	-	-
Miscellaneous	5 710 59	-	-	-
Capital outlay	113 538 24	-	-	18 796 20
Debt service	58 551 59	-	-	-
Total expenditures	<u>1 057 571 62</u>	<u>116 162 33</u>	<u>209 414 23</u>	<u>118 516 06</u>
Excess (deficiency) of revenues over expenditures	<u>(62 143 82)</u>	<u>(3 514 93)</u>	<u>(145 494 41)</u>	<u>(29 499 83)</u>
Other financing sources (uses):				
Loan proceeds	104 873 88	-	-	-
Operating transfers in	29 866 85	3 500 00	145 500 00	29 499 83
Operating transfers out	<u>(191 411 83)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(56 671 10)</u>	<u>3 500 00</u>	<u>145 500 00</u>	<u>29 499 83</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(118 814 92)	(14 93)	5 59	-
Fund balances, January 1	<u>181 275 13</u>	<u>33 405 18</u>	<u>4 675 33</u>	<u>11 439 87</u>
Fund Balances, December 31	<u><u>62 460 21</u></u>	<u><u>33 390 25</u></u>	<u><u>4 680 92</u></u>	<u><u>11 439 87</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Downtown Development</u>	<u>Other Funds</u>	<u>Total</u>
-	-	216 631 67
-	-	27 802 45
-	-	39 739 97
-	-	25 288 51
-	-	5 710 59
-	-	132 334 44
-	-	<u>58 551 59</u>
<u>3 274 59</u>	<u>64 757 28</u>	<u>1 569 696 11</u>
<u>(3 023 67)</u>	<u>(18 508 00)</u>	<u>(262 184 66)</u>
-	-	104 873 88
-	12 912 00	221 278 68
<u>(29 866 85)</u>	-	<u>(221 278 68)</u>
<u>(29 866 85)</u>	<u>12 912 00</u>	<u>104 873 88</u>
(32 890 52)	(5 596 00)	(157 310 78)
<u>34 127 38</u>	<u>34 079 89</u>	<u>299 002 78</u>
<u>1 236 86</u>	<u>28 483 89</u>	<u>141 692 00</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended December 31, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (157 310 78)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(98 498 94)
Capital Outlay	132 334 44

Repayment of debt principal is an expenditure in the governmental funds, the  
repayment does not have an effect in the statement of activities but does  
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	45 775 88
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Receipt of loan proceeds is a revenue in the governmental funds, it is not  
a revenue in the statement of activities.  
(104 873 88)

Increase in accrued compensated absences is an expense in the statement  
of activities but it is not in the statement of revenues, expenditures and  
changes in fund balances.

(3 591 75)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

(186 165 03)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF NET ASSETS – ALL PROPRIETARY FUNDS  
December 31, 2005

<u>Assets</u>	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Current assets:			
Cash in bank	622 786 16	197 040 65	33 965 04
Petty cash	50 00	-	-
Accounts receivable	211 715 94	13 536 32	10 909 69
Internal balances	183 145 58	-	(71 380 42)
Inventory	32 910 72	42 941 89	-
Total current assets	<u>1 050 608 40</u>	<u>253 518 86</u>	<u>26 505 69</u>
Fixed assets:			
Plant, property and equipment	5 359 888 86	1 336 432 47	2 504 144 72
Accumulated depreciation	<u>(2 955 103 24)</u>	<u>(593 000 26)</u>	<u>(1 223 566 12)</u>
Net fixed assets	<u>2 404 785 62</u>	<u>743 432 21</u>	<u>1 280 578 60</u>
Other assets:			
Capital credits in cooperative	780 231 54	-	-
Total other assets	<u>780 231 54</u>	<u>-</u>	<u>-</u>
Total Assets	<u>4 235 625 56</u>	<u>996 951 07</u>	<u>1 254 072 91</u>
<u>Liabilities and Net Assets</u>			
Liabilities:			
Accounts payable	137 337 86	12 205 34	33 463 25
Accrued interest payable	-	-	4 862 00
Accrued compensated absences	21 468 45	-	-
Bonds payable	<u>3 035 000 00</u>	<u>422 000 00</u>	<u>199 283 00</u>
Total liabilities	<u>3 193 806 31</u>	<u>434 205 34</u>	<u>237 608 25</u>
Net assets:			
Invested in capital assets, net of related debt	(2 378 13)	321 432 21	1 081 295 60
Unrestricted	<u>1 044 197 38</u>	<u>241 313 52</u>	<u>(64 830 94)</u>
Total net assets	<u>1 041 819 25</u>	<u>562 745 73</u>	<u>1 016 464 66</u>
Total Liabilities and Net Assets	<u>4 235 625 56</u>	<u>996 951 07</u>	<u>1 254 072 91</u>

The accompanying notes are an integral part of these financial statements.

Luce County  
Sewage

Total

22 980 81

876 772 66

-

50 00

146 865 23

383 027 18

4 196 39

115 961 55

10 584 04

86 436 65

184 626 47

1 462 248 04

43 513 07

9 243 979 12

(38 740 25)

4 810 409 87

4 772 82

4 433 569 25

-

780 231 54

-

780 231 54

189 399 29

6 676 048 83

7 458 61

190 465 06

-

4 862 00

20 101 60

41 570 05

-

3 656 283 00

27 560 21

3 893 180 11

4 772 82

1 405 122 50

157 066 26

1 377 746 22

161 839 08

2 782 868 72

189 399 29

6 676 048 83

VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –  
ALL PROPRIETARY FUNDS  
Year ended December 31, 2005

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Operating revenues:			
Charges for services	1 581 934 69	418 456 44	373 224 76
Miscellaneous	<u>270 157 88</u>	<u>107 50</u>	<u>-</u>
Total operating revenues	<u>1 852 092 57</u>	<u>418 563 94</u>	<u>373 224 76</u>
Operating expenses:			
Wages	238 537 07	73 606 88	-
Benefits	155 662 07	-	-
Repairs and maintenance	38 314 73	1 658 28	-
Contracted services	39 403 10	24 418 99	415 426 39
Supplies	95 249 24	17 841 13	-
Utilities	822 754 73	16 390 71	-
Insurance	22 298 54	-	-
Miscellaneous	<u>30 792 32</u>	<u>14 995 42</u>	<u>-</u>
Total operating expenses before depreciation	<u>1 443 011 80</u>	<u>148 911 41</u>	<u>415 426 39</u>
Operating income before depreciation	409 080 77	269 652 53	(42 201 63)
Less: depreciation	<u>(86 334 91)</u>	<u>(25 378 22)</u>	<u>(51 038 91)</u>
Operating income (loss)	<u>322 745 86</u>	<u>244 274 31</u>	<u>(93 240 54)</u>
Other income and (expense):			
Federal grant	-	11 250 00	-
Interest income	8 308 17	-	498 94
Interest expense and fees	<u>(95 610 50)</u>	<u>-</u>	<u>(24 945 89)</u>
Net other income and (expense)	<u>(87 302 33)</u>	<u>11 250 00</u>	<u>(24 446 95)</u>
Net income (loss)	235 443 53	255 524 31	(117 687 49)
Net assets, January 1	<u>806 375 72</u>	<u>307 221 42</u>	<u>1 134 152 15</u>
Net Assets, December 31	<u>1 041 819 25</u>	<u>562 745 73</u>	<u>1 016 464 66</u>

The accompanying notes are an integral part of these financial statements.

<u>Luce County Sewage</u>	<u>Total</u>
378 404 59	2 752 020 48
<u>763 50</u>	<u>271 028 88</u>
<u>379 168 09</u>	<u>3 023 049 36</u>

124 527 20	436 671 15
113 154 86	268 816 93
6 598 61	46 571 62
10 768 84	490 017 32
27 549 52	140 639 89
70 304 13	909 449 57
15 342 71	37 641 25
<u>1 606 11</u>	<u>47 393 85</u>
<u>369 851 98</u>	<u>2 377 201 58</u>

9 316 11	645 847 78
<u>(1 204 23)</u>	<u>(163 956 27)</u>

<u>8 111 88</u>	<u>481 891 51</u>
-----------------	-------------------

-	11 250 00
341 40	9 148 51
-	<u>(120 556 39)</u>
<u>341 00</u>	<u>(100 157 88)</u>

8 453 28	381 733 63
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<u>153 385 80</u>	<u>2 401 135 09</u>
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<u>161 839 08</u>	<u>2 782 868 72</u>
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VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUNDS  
Year ended December 31, 2005

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Cash flows from operating activities:			
Cash received from customers	1 558 785 89	404 920 12	387 962 24
Cash payments to suppliers for goods and services	(1 287 255 40)	(63 099 19)	(442 945 65)
Cash payments to employees for services	(238 537 07)	(73 606 88)	-
Other operating revenues	<u>270 157 88</u>	<u>107 50</u>	<u>-</u>
Net cash provided (used) for operating activities	<u>303 151 30</u>	<u>268 321 55</u>	<u>(54 983 41)</u>
Cash flows from non-capital financing activities:			
Net borrowings (repayments) with other funds	<u>(209 830 95)</u>	<u>-</u>	<u>76 678 49</u>
Net cash provided (used) for non- capital financing activities	<u>(209 830 95)</u>	<u>-</u>	<u>76 678 49</u>
Cash flows from capital and related financing activities:			
Acquisition of fixed assets	(494 136 81)	(504 530 90)	-
Proceeds from bond sales	985 000 00	422 000 00	-
Proceeds from federal grant	-	11 250 00	-
Principal paid on revenue bond maturities and equipment contracts	(87 000 00)	-	(16 849 00)
Interest paid on revenue bonds and equipment contracts	<u>(95 610 50)</u>	<u>-</u>	<u>(24 945 89)</u>
Net cash provided (used) for capital and related financing activities	<u>308 252 69</u>	<u>(71 280 90)</u>	<u>(41 794 89)</u>
Cash flows from investing activities:			
Interest income	<u>8 308 17</u>	<u>-</u>	<u>498 94</u>
Net cash provided (used) for investing activities	<u>8 308 17</u>	<u>-</u>	<u>498 94</u>
Net increase (decrease) in cash and cash equivalents	409 881 21	197 040 65	(19 600 87)
Cash and cash equivalents, January 1	<u>212 954 95</u>	<u>-</u>	<u>53 565 91</u>
Cash and Cash Equivalents, December 31	<u><u>622 836 16</u></u>	<u><u>197 040 65</u></u>	<u><u>33 965 04</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Luce County Sewage</u>	<u>Total</u>
347 481 12	2 699 149 37
(245 946 73)	(2 039 246 97)
(124 527 20)	(436 671 15)
<u>763 50</u>	<u>271 028 88</u>
<u>(22 229 31)</u>	<u>494 260 13</u>
<u>7 047 68</u>	<u>(126 104 78)</u>
<u>7 047 68</u>	<u>(126 104 78)</u>
-	(998 667 71)
-	1 407 000 00
-	11 250 00
-	(103 849 00)
<u>-</u>	<u>(120 556 39)</u>
<u>-</u>	<u>195 176 90</u>
<u>341 40</u>	<u>9 148 51</u>
<u>341 40</u>	<u>9 148 51</u>
(14 840 23)	572 480 76
<u>37 821 04</u>	<u>304 341 90</u>
<u>22 980 81</u>	<u>876 822 66</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

STATEMENT OF CASH FLOWS – ALL PROPRIETARY FUNDS  
Year ended December 31, 2005

	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>
Reconciliation of operating income to net cash provided (used) for operating activities:			
Operating income (loss)	322 745 86	244 274 31	(93 240 54)
Depreciation	86 334 91	25 378 22	51 038 91
Increase (decrease) in assets and liabilities:			
Accounts receivable	(23 148 80)	(13 536 32)	14 737 48
Other assets	(18 302 12)	-	-
Accounts payable	(57 937 06)	(12 205 34)	(27 519 26)
Accrued expenses	(6 541 49)	-	-
Net Cash Provided (Used) for Operating Activities	<u>303 151 30</u>	<u>268 321 55</u>	<u>(54 983 41)</u>

The accompanying notes are an integral part of these financial statements.

<u>Luce County Sewage</u>	<u>Total</u>
8 111 88	481 891 51
1 204 23	163 956 27
(30 923 47)	(52 871 11)
(1 076 50)	(19 378 62)
(1 507 99)	(74 758 97)
<u>1 962 54</u>	<u>(4 578 95)</u>
<u>(22 229 31)</u>	<u>494 260 13</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

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.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Funds

These funds are used to account for the acquisition or construction of capital facilities not financed by proprietary funds.

Proprietary Funds

Enterprise Funds

Enterprise funds report operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have been provided for all collections that are considered doubtful.

Inventories

Inventories of supplies are recorded at the lower of cost or market price.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15 with the final collection date of March 1 before they are added to the county tax rolls. The Village 2005 tax roll millage rate was 17.6925 mills, and the taxable value was \$17, 308,200.00

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	20-50 years
Vehicles and equipment	5-15 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Village's governmental funds is recorded as an expenditure and liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund. Employees may accumulate vacation leave and are partially paid for unused sick leave upon termination of employment.

Post-employment Benefits

The Village provides health care benefits to retirees in accordance with labor contracts. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General, Sewer and Water and Light Funds and totaled \$101,636.32 for the year ended December 31, 2005.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated three banks for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.



VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 3 – Deposits and Investments (continued)

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 046 347 97</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	245 738 49
Uninsured and Uncollateralized	<u>954 204 40</u>
Total Deposits	<u>1 199 942 89</u>

The Village of Newberry did not have any investments as of December 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/05</u>
<u>Governmental Activities:</u>				
Buildings and improvements	778 512 15	-	-	778 512 15
Vehicles and equipment	<u>1 630 694 61</u>	<u>132 334 44</u>	<u>-</u>	<u>1 763 029 05</u>
Total	2 409 206 76	132 334 44	-	2 541 541 20
Accumulated Depreciation	<u>(1 664 099 80)</u>	<u>(98 498 94)</u>	<u>-</u>	<u>(1 762 598 74)</u>
Net Governmental Capital Assets	<u>745 106 96</u>	<u>33 835 50</u>	<u>-</u>	<u>778 942 46</u>
<u>Business-Type Activities:</u>				
Electric System	4 865 752 05	494 136 81	-	5 359 888 86
Water System	831 901 57	504 530 90	-	1 336 432 47
Sewer Systems	<u>2 547 657 79</u>	<u>-</u>	<u>-</u>	<u>2 547 657 79</u>
Total	8 245 311 41	998 667 71	-	9 243 979 12
Accumulated Depreciation	<u>(4 646 453 60)</u>	<u>(163 956 27)</u>	<u>-</u>	<u>(4 810 409 87)</u>
Net Business Type Capital Assets	<u>3 598 857 81</u>	<u>834 711 44</u>	<u>-</u>	<u>4 433 569 25</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Electric	<u>11 403 69</u>	Newberry Sewage	<u>11 403 69</u>
Fire Capital	<u>14 834 98</u>	General	<u>14 834 98</u>
General	<u>69 992 16</u>	Luce County Sewage	<u>69 992 16</u>
General	<u>9 603 49</u>	Fire Operating	<u>9 603 49</u>
Major Street	<u>24 554 35</u>	General	<u>24 554 35</u>
Local Street	<u>40 483 35</u>	General	<u>40 483 35</u>
Luce County Sewage	<u>74 188 55</u>	Newberry Sewage	<u>74 188 55</u>
Local Street	<u>6 653 96</u>	Major Street	<u>6 653 96</u>
Newberry Sewage	<u>14 211 82</u>	General	<u>14 211 82</u>
Electric	<u>171 741 89</u>	General	<u>171 741 89</u>
Total	<u>437 668 24</u>	Total	<u>437 668 24</u>

Note 6 – Changes in Long-Term Debt – Governmental Activities

A summary of changes in long-term debt follows:

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
Accrued compensated absences	36 613 47	3 591 75	-	40 205 22
Note payable – pickup	1 896 31	-	1 896 31	-
Note payable – plow truck	-	104 873 88	10 879 57	93 994 31
2002 General Obligation Bonds	<u>558 000 00</u>	<u>-</u>	<u>33 000 00</u>	<u>525 000 00</u>
Total	<u>596 509 78</u>	<u>108 465 63</u>	<u>45 775 88</u>	<u>659 199 53</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 7 – Note Payable – Pickup

On April 24, 2001, the Village obtained a \$20,120.00 loan from a bank for the purchase of a pickup truck. The loan bears interest at the rate of 6.90% and is due in 48 monthly installments of \$481.03 including interest. The principal balance was paid in full during the year ended December 31, 2005.

Note 8 – Note Payable– Plow Truck

On May 10, 2005 the Village obtained a loan of \$104,873.88 from a bank for the purchase of a plow truck. The loan bears interest at the rate of 5.15% and is due in 60 monthly installments of \$1,986.68 including interest. As of December 31, 2005, the principal balance outstanding on the loan was \$93,994.31.

Note 9 – 2002 Newberry General Obligation Bonds

On August 20, 2002, the Village of Newberry issued \$985,000.00 of its bonds to partially finance streetscape improvements and improvements to the Village's electric utility system. The bonds are backed by the full faith and credit of the Village. Of the \$985,000.00, \$591,000.00 will be paid by the Village's General Fund. \$394,000.00 will be paid by the Village's Electric Fund, and is recorded directly in the Electric Fund. The following is a schedule of the outstanding principal and interest on the bonds:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/2006			19 700 00	19 700 00
11/1/2006	4.4%	55 000 00	19 700 00	74 700 00
5/1/2007			18 490 00	18 490 00
11/1/2007	4.4%	60 000 00	18 490 00	78 490 00
5/1/2008			17 170 00	17 170 00
11/1/2008	4.4%	60 000 00	17 170 00	77 170 00
5/1/2009			15 850 00	15 850 00
11/1/2009	4.4%	65 000 00	15 850 00	80 850 00
5/1/2010			14 420 00	14 420 00
11/1/2010	4.4%	65 000 00	14 420 00	79 420 00
5/1/2011			12 990 00	12 990 00
11/1/2011	4.4%	70 000 00	12 990 00	82 990 00
5/1/2012			11 450 00	11 450 00
11/1/2012	4.4%	75 000 00	11 450 00	86 450 00
5/1/2013			9 800 00	9 800 00
11/1/2013	4.4%	75 000 00	9 800 00	84 800 00
5/1/2014			8 150 00	8 150 00
11/1/2014	4.5%	80 000 00	8 150 00	88 150 00
5/1/2015			6 350 00	6 350 00
11/1/2015	4.6%	85 000 00	6 350 00	91 350 00
5/1/2016			4 395 00	4 395 00
11/1/2016	4.7%	90 000 00	4 395 00	94 395 00
5/1/2017			2 280 00	2 280 00
11/1/2017	4.8%	95 000 00	2 280 00	97 280 00
Totals		<u>875 000 00</u>	<u>282 090 00</u>	<u>1 157 090 00</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 10 – 2002 Newberry Capital Improvement Bonds

On August 29, 2002, the Village of Newberry issued \$885,000.00 of its bonds to partially finance improvements to the Village's electric utility system. The bonds are limited tax general obligation bonds. The bonds are recorded in Electric Fund. The following is a schedule of the outstanding principal and interest on the bonds:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/2006			18 861 25	18 861 25
11/1/2006	4.35%	30 000 00	18 861 25	48 861 25
5/1/2007			18 208 75	18 208 75
11/1/2007	4.35%	35 000 00	18 208 75	53 208 75
5/1/2008			17 447 50	17 447 50
11/1/2008	4.35%	35 000 00	17 447 50	52 447 50
5/1/2009			16 686 25	16 686 25
11/1/2009	4.35%	35 000 00	16 686 25	51 686 25
5/1/2010			15 925 00	15 925 00
11/1/2010	4.35%	40 000 00	15 925 00	55 925 00
5/1/2011			15 055 00	15 055 00
11/1/2011	4.35%	40 000 00	15 055 00	55 055 00
5/1/2012			14 185 00	14 185 00
11/1/2012	4.35%	40 000 00	14 185 00	54 185 00
5/1/2013			13 315 00	13 315 00
11/1/2013	4.40%	45 000 00	13 315 00	58 315 00
5/1/2014			12 325 00	12 325 00
11/1/2014	4.50%	45 000 00	12 325 00	57 325 00
5/1/2015			11 312 50	11 312 50
11/1/2015	4.60%	50 000 00	11 312 50	61 312 50
5/1/2016			10 162 50	10 162 50
11/1/2016	4.75%	50 000 00	10 162 50	60 162 50
5/1/2017			8 975 00	8 975 00
11/1/2017	4.90%	50 000 00	8 975 00	58 975 00
5/1/2018			7 750 00	7 750 00
11/1/2018	5.00%	55 000 00	7 750 00	62 750 00
5/1/2019			6 375 00	6 375 00
11/1/2019	5.10%	60 000 00	6 375 00	66 375 00
5/1/2020			4 845 00	4 845 00
11/1/2020	5.10%	60 000 00	4 845 00	64 845 00
5/1/2021			3 315 00	3 315 00
11/1/2021	5.10%	65 000 00	3 315 00	68 315 00
5/1/2022			1 657 50	1 657 50
11/1/2022	5.10%	65 000 00	1 657 50	66 657 50
Totals		<u>800 000 00</u>	<u>392 802 50</u>	<u>1 192 802 50</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

**Note 11 – Newberry Sewage Fund Bonds Payable**

On August 1, 1976, the County of Luce issued \$805,000.00 of its bonds to partially finance the cost of sanitary sewage improvements in the Village of Newberry, the Township of Pentland and the Township of McMillan. The Village is responsible for 58.1% of the bond principal which is \$467,705.00 plus 58.1% of the interest expense. The bonds bear interest at the rate of 5.0% per annum. The Village's portion of the bonds are backed by the full faith and credit of the Village. As of December 31, 2005, the Village's portion of outstanding bond principal amounted to \$199,283.00 which is recorded in the Village's Newberry Sewer Fund. The following is a schedule of the Village's share of the outstanding principal and interest on the bonds:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
March 1, 2006	5%	17,430 00	4,982 00	22,412 00
September 1, 2006			4,546 00	4,546 00
March 1, 2007	5%	18,011 00	4,546 00	22,557 00
September 1, 2007			4,096 00	4,096 00
March 1, 2008	5%	18,011 00	4,096 00	22,107 00
September 1, 2008			3,646 00	3,646 00
March 1, 2009	5%	18,011 00	3,646 00	21,657 00
September 1, 2009			3,195 00	3,195 00
March 1, 2010	5%	18,011 00	3,195 00	21,206 00
September 1, 2010			2,745 00	2,745 00
March 1, 2011	5%	18,011 00	2,745 00	20,756 00
September 1, 2011			2,295 00	2,295 00
March 1, 2012	5%	18,011 00	2,295 00	20,306 00
September 1, 2012			1,845 00	1,845 00
March 1, 2013	5%	18,011 00	1,845 00	19,856 00
September 1, 2013			1,394 00	1,394 00
March 1, 2014	5%	18,592 00	1,394 00	19,986 00
September 1, 2014			930 00	930 00
March 1, 2015	5%	18,592 00	930 00	19,522 00
September 1, 2015			465 00	465 00
March 1, 2016	5%	18,592 00	465 00	19,057 00
Totals		<u>199,283 00</u>	<u>55,296 00</u>	<u>254,579 00</u>

**Note 12 – Electric Fund Bonds Payable**

On September 30, 2003, the Village of Newberry issued \$965,000.00 of it's bonds to the Michigan Municipal Bond Authority to finance the \$345,000.00 retirement of the Electric Utility Revenue Bonds, Series 1991 and to finance part of the cost of improvements and renovations to the system. The bonds are not a general obligation of the Village, but they are payable, both as to principal and interest, from the revenues of the system. As of December 31, 2005, the outstanding bond principal amounted to \$900,000.00 which is recorded in the Village's Electric Fund. The following is a schedule of the outstanding principal and interest on the bonds:

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 12 – Electric Fund Bonds Payable (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/2006			19,385.00	19,385.00
11/1/2006	2.500%	35,000 00	19,385.00	54,385.00
5/1/2007			18,947.50	18,947.50
11/1/2007	2.500%	35,000 00	18,947.50	53,947.50
5/1/2008			18,510.00	18,510.00
11/1/2008	3.000%	40,000 00	18,510.00	58,510.00
5/1/2009			17,910.00	17,910.00
11/1/2009	3.100%	40,000 00	17,910.00	57,910.00
5/1/2010			17,290.00	17,290.00
11/1/2010	3.500%	40,000 00	17,290.00	57,290.00
5/1/2011			16,590.00	16,590.00
11/1/2011	3.750%	40,000 00	16,590.00	56,590.00
5/1/2012			15,840.00	15,840.00
11/1/2012	4.000%	45,000 00	15,840.00	60,840.00
5/1/2013			14,940.00	14,940.00
11/1/2013	4.100%	45,000 00	14,940.00	59,940.00
5/1/2014			14,017.50	14,017.50
11/1/2014	4.300%	45,000 00	14,017.50	59,017.50
5/1/2015			13,050.00	13,050.00
11/1/2015	4.400%	50,000 00	13,050.00	63,050.00
5/1/2016			11,950.00	11,950.00
11/1/2016	4.500%	50,000 00	11,950.00	61,950.00
5/1/2017			10,825.00	10,825.00
11/1/2017	4.700%	55,000 00	10,825.00	65,825.00
5/1/2018			9,532.50	9,532.50
11/1/2018	4.800%	55,000 00	9,532.50	64,532.50
5/1/2019			8,212.50	8,212.50
11/1/2019	5.000%	60,000 00	8,212.50	68,212.50
5/1/2020			6,712.50	6,712.50
11/1/2020	5.000%	60,000 00	6,712.50	66,712.50
5/1/2021			5,212.50	5,212.50
11/1/2021	5.000%	65,000 00	5,212.50	70,212.50
5/1/2022			3,587.50	3,587.50
11/1/2022	5.125%	70,000 00	3,587.50	73,587.50
5/1/2023			1,793.75	1,793.75
11/1/2023	5.125%	70,000 00	1,793.75	71,793.75
Totals		<u>900 000 00</u>	<u>448 612 50</u>	<u>1 348 612 50</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 13 – 2005 Electric Utility System Revenue Bonds

On October 1, 2005, the Village of Newberry issued \$985,000.00 of it's bonds to finance improvements to the electric utility system. The bonds are not a general obligation of the Village but they are payable both as to principal and interest, from the revenues of the system. As of December 31, 2005, the outstanding bond principal amounted to \$985, 000.00 which is recorded in the Village's Electric Fund. The following is a schedule of the outstanding principal and interest on the bonds.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
5/1/2006			22,825.83	22,825.83
11/1/2006	3.0%	50,000.00	19,565.00	69,565.00
5/1/2007			18,815.00	18,815.00
11/1/2007	3.10%	50,000.00	18,815.00	68,815.00
5/1/2008			18,040.00	18,040.00
11/1/2008	3.25%	50,000.00	18,040.00	68,040.00
5/1/2009			17,227.50	17,227.50
11/1/2009	3.40%	55,000.00	17,227.50	72,227.50
5/1/2010			16,292.50	16,292.50
11/1/2010	3.60%	55,000.00	16,292.50	71,292.50
5/1/2011			15,302.50	15,302.50
11/1/2011	3.75%	60,000.00	15,302.50	75,302.50
5/1/2012			14,177.50	14,177.50
11/1/2012	3.85%	60,000.00	14,177.50	74,177.50
5/1/2013			13,022.50	13,022.50
11/1/2013	4.00%	65,000.00	13,022.50	78,022.50
5/1/2014			11,722.50	11,722.50
11/1/2014	4.10%	65,000.00	11,722.50	76,722.50
5/1/2015			10,390.00	10,390.00
11/1/2015	4.20%	70,000.00	10,390.00	80,390.00
5/1/2016			8,920.00	8,920.00
11/1/2016	4.30%	75,000.00	8,920.00	83,920.00
5/1/2017			7,307.50	7,307.50
11/1/2017	4.35%	75,000.00	7,307.50	82,307.50
5/1/2018			5,676.25	5,676.25
11/1/2018	4.40%	80,000.00	5,676.25	85,676.25
5/1/2019			3,916.25	3,916.25
11/1/2019	4.45%	85,000.00	3,916.25	88,916.25
5/1/2020			2,025.00	2,025.00
11/1/2020	4.50%	90,000.00	2,025.00	92,025.00
Totals		<u>985,000.00</u>	<u>368,060.83</u>	<u>1,353,060.83</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 14 – 2005 Water Supply System Revenue Bonds

During 2005 the Village of Newberry issued \$2,300,000.00 of it's bonds to finance improvements to the water supply system. The bonds are not a general obligation of the Village, but they are payable, both as to principal and interest, from the revenues of the system. As of December 31, 2005, only \$422,000.00 of the bond proceeds had been received by the Village and this amount is recorded in the Village's Water Fund.

Note 15 – Deferred Compensation Plans

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 16 – Michigan Employees Retirement System of Michigan

Plan Description – The Village has adopted a defined benefit plan of the Michigan Employees Retirement System (MERS). MERS, an agent, multiple-employer public employee retirement system, acts as the common investment and administrative agent pursuant to State of Michigan Public Act 427 of 1984, as amended, and the Constitution of the State of Michigan. The Village's plan provides benefits for Normal retirement, Deferred retirement, Disability retirement, Non-duty death allowance, Duty-connected death allowance, and Death after retirement surviving spouse benefits. Substantially all full-time employees of the Village participate. There is no vesting for the first 10 years, and 100% vesting after 10 years.

FUNDING POLICY – The Plan's funding policy provides for employer contributions at a varying percentage of compensation, paid monthly. Employees do not currently contribute to the plan.

The normal cost and amortization payment were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of 4.5%, (b) a net long-term investment yield rate of 8%, (c) 1994 Group Authority Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 30 years.

ANNUAL PENSION COST – For the fiscal year ended December 31, 2005, the Village's actual pension cost of \$86,649.38, amounted to 11.6% of covered payroll of \$748,828.05. Total gross payroll was \$764,560.23.

Components of the Actuarial Accrued Liability at December 31, 2004, the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$1,880,832.00
Terminated employees not yet receiving benefits	\$72,202.00
Current employees contributions – including allocated investment income	9,170.00
Employer financed contributions – including allocated investment income	
	<u>\$1,358,051.00</u>



VILLAGE OF NEWBERRY  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 16 – Michigan Employees Retirement System of Michigan (continued)

Total Actuarial Accrued Liability	\$3,320,255.00
Net Assets Available for Benefits at Actuarial Value (Market Value was \$2,438,078.00)	<u>\$2,497,726.00</u>
Unfunded Actuarial Accrued Liability	<u>\$822,529.00</u>

For the fiscal year ending December 31, 2006, the Annual Required Contribution is \$104,076.00. The Amortization Factor Used was 0.053632.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004, actuarial valuation.

Three year trend information of aggregate accrued liabilities follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Accrued liabilities	2 862 762 00	3 018 564 00	3 320 255 00
Valuation Assets	2 299 682 00	2 406 255 00	2 497 726 00
Funded Percent	80%	80%	75%
Unfunded Actuarial Liability	563 080 00	612 309 00	822 529 00
Unfunded Actuarial Liability as a % of Annual Covered Payroll	77%	82%	117%

Note 17 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). 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.

VILLAGE OF NEWBERRY  
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NOTES TO FINANCIAL STATEMENTS  
December 31, 2005

Note 18 – Segment Information for Enterprise Funds

The Village maintains three Enterprise Funds which provide water, light and sewage services. Segment information for the year ended December 31, 2005, is as follows:

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Newberry Sewage Fund</u>	<u>Luce County Sewage Fund</u>
Operating revenues	1 852 092 57	418 563 94	373 224 76	379 168 09
Operating expenses	1 443 011 80	148 911 41	415 426 39	369 851 98
Depreciation expense	86 334 91	25 378 22	51 038 91	1 204 23
Net income (loss)	235 443 53	255 524 31	(117 687 49)	8 453 28
Total assets	4 235 625 56	996 951 07	1 254 072 91	189 399 29
Plant, property and Equipment:				
Additions (deletions)	494 136 81	504 530 90	-	-
Net working capital	913 270 54	241 313 52	(64 830 94)	177 167 86
Bonds payable	3 035 000 00	422 000 00	199 283 00	-
Total equity	1 041 819 25	562 745 73	1 016 464 66	161 839 08

Note 19– Transfers In and Transfers Out

For the fiscal year ended, December 31, 2005, the Village made the following interfund transfers:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Major Streets	3 500 00	General	3 500 00
Local Streets	145 500 00	General	145 500 00
Fire Capital	12 912 00	General	12 912 00
Fire Operating	29 499 83	General	29 499 83
General	<u>29 866 85</u>	Downtown Development	<u>29 866 85</u>
Total	<u>221 278 68</u>	Total	<u>221 278 68</u>

Note 20 – 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 \$42,238.84 in capital credit distributions. As of December 31, 2005, the Village had capital credits outstanding of \$780,231.54. 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.

VILLAGE OF NEWBERRY  
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BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	291 000 00	300 900 00	306 225 33	5 325 33
P.I.L.O.T.	18 000 00	18 000 00	18 000 00	-
Licenses and permits	50 00	50 00	122 50	72 50
State revenue sharing	233 570 00	231 770 00	231 285 65	(484 35)
Charges for services:				
Refuse	117 000 00	117 000 00	122 666 28	5 666 28
Other	3 000 00	3 000 00	3 031 07	31 07
Interest	2 500 00	2 500 00	3 070 33	570 33
Reimbursements:				
Equipment rental and overhead	117 000 00	212 000 00	214 833 22	2 833 22
Miscellaneous	160 350 00	88 450 00	96 193 42	7 743 42
Total revenues	<u>942 470 00</u>	<u>973 670 00</u>	<u>995 427 80</u>	<u>21 757 80</u>
Expenditures:				
Legislative:				
Village Council	10 400 00	10 450 00	10 188 47	(261 53)
General government:				
Village President	9 475 00	12 975 00	12 147 41	(827 59)
Administration	26 000 00	26 500 00	26 243 23	(256 77)
Elections	1 145 00	1 145 00	944 13	(200 87)
Accounting	38 011 00	48 511 00	43 840 20	(4 670 80)
Attorney	22 380 00	18 330 00	17 908 62	(421 38)
Union negotiations	3 650 00	3 650 00	536 25	(3 113 75)
Clerk	14 200 00	14 200 00	10 087 18	(4 112 82)
Audit	3 600 00	5 700 00	5 700 00	-
Treasurer	9 250 00	9 250 00	7 180 41	(2 069 59)
Building and grounds – garage	10 300 00	19 950 00	19 733 94	(216 06)
Building and grounds – other	8 580 00	8 680 00	8 584 17	(95 83)
Motor pool	82 075 00	68 625 00	68 576 59	(48 41)
Public safety:				
Police protection	199 122 00	206 700 00	206 662 65	(37 35)
Building department	2 085 00	-	-	-
Public works:				
Department of Public Works	3 150 00	5 350 00	4 912 91	(437 09)
Sidewalks	1 400 00	1 400 00	1 386 37	(13 63)
Street lighting	20 457 00	20 457 00	18 764 31	(1 692 69)
Sewers	22 700 00	19 400 00	18 605 33	(794 67)
Sanitation	88 790 00	88 790 00	88 306 43	(483 57)
Other:				
Fringe benefits	208 371 00	219 571 00	216 631 67	(2 939 33)
Insurance	33 000 00	33 000 00	27 802 45	(5 197 55)
Retirement	39 700 00	39 750 00	39 739 97	(10 03)
Social security	27 000 00	25 300 00	25 288 51	(11 49)
Miscellaneous	-	6 000 00	5 710 59	(289 41)
Capital outlay	-	116 322 00	113 538 24	(2 783 76)
Debt service	43 570 00	72 820 00	58 551 59	(14 264 71)
Total expenditures	<u>928 411 00</u>	<u>1 102 826 00</u>	<u>1 057 571 62</u>	<u>(45 254 38)</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Excess (deficiency) of revenues over expenditures	<u>14 059 00</u>	<u>(129 156 00)</u>	<u>(62 143 82)</u>	<u>67 012 18</u>
Other financing sources (uses):				
Loan Proceeds	-	300 000 00	104 873 88	(195 126 12)
Operating transfers in	25 000 00	-	29 866 85	29 866 85
Operating transfers out	<u>(58 094 00)</u>	<u>(178 719 00)</u>	<u>(191 411 83)</u>	<u>(12 692 83)</u>
Total other financing sources (uses)	<u>(33 094 00)</u>	<u>(121 281 00)</u>	<u>(56 671 10)</u>	<u>(177 952 10)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(19 035 00)	(7 875 00)	(118 814 92)	(110 939 92)
Fund balance, January 1	<u>19 035 00</u>	<u>7 875 00</u>	<u>181 275 13</u>	<u>173 400 13</u>
Fund Balance, December 31	<u>-</u>	<u>-</u>	<u>62 460 21</u>	<u>62 460 21</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND  
Year ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State shared revenue	<u>117 830 00</u>	<u>112 830 00</u>	<u>112 647 40</u>	<u>(182 60)</u>
Total revenues	<u>117 830 00</u>	<u>112 830 00</u>	<u>112 647 40</u>	<u>(182 60)</u>
Expenditures:				
Public works:				
Highways and streets:				
Routine maintenance	21 520 00	42 760 00	42 701 07	(58 93)
Winter maintenance	41 625 00	52 425 00	52 392 06	(32 94)
Administration	15 940 00	20 135 00	20 095 31	(39 69)
Truckline maintenance	<u>8 130 00</u>	<u>1 010 00</u>	<u>2 973 89</u>	<u>(36 11)</u>
Total expenditures	<u>87 215 00</u>	<u>116 330 00</u>	<u>118 162 33</u>	<u>(167 67)</u>
Excess (deficiency) of revenues over expenditures	<u>30 615 00</u>	<u>(3 500 00)</u>	<u>(3 514 93)</u>	<u>(14 93)</u>
Other financing sources (uses):				
Operating transfers in	-	(3 500 00)	3 500 00	-
Operating transfers out	<u>(30 615 00)</u>	-	-	-
Total other financing sources (uses)	<u>(30 615 00)</u>	<u>(3 500 00)</u>	<u>3 500 00</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(14 93)	(14 93)
Fund balance, January 1	<u>-</u>	<u>-</u>	<u>33 405 18</u>	<u>33 405 18</u>
Fund Balance, December 31	<u>-</u>	<u>-</u>	<u>33 390 25</u>	<u>33 390 25</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND  
Year ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State shared revenue	56 200 00	64 000 00	63 919 82	(80 18)
Total revenues	56 200 00	64 000 00	63 919 82	(80 18)
Expenditures:				
Public works:				
Highways and streets:				
Routine maintenance	47 320 00	97 805 00	97 792 45	(12 55)
Winter maintenance	57 400 00	91 540 00	91 526 47	(13 53)
Administration	15 160 00	20 120 00	20 095 31	(24 69)
Total expenditures	119 880 00	209 465 00	209 414 23	(50 77)
Excess (deficiency) of revenues over expenditures	63 680 00	(145 465 00)	(145 494 41)	(29 41)
Other financing sources (uses):				
Operating transfers in	63 680 00	145 465 00	145 500 00	35 00
Total other financing sources (uses)	63 680 00	145 465 00	145 500 00	35 00
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	5 59	5 59
Fund balance, January 1	-	-	4 675 33	4 675 33
Fund Balance, December 31	-	-	4 680 92	4 680 92

VILLAGE OF NEWBERRY  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE OPERATING FUND  
Year ended December 31, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Federal grant	2 000 00	10 200 00	7 714 00	(2 486 00)
Charges for services	68 200 00	76 960 00	77 295 68	335 68
Interest	1 200 00	1 000 00	1 009 97	9 97
Miscellaneous	-	400 00	2 996 58	2 596 58
Total revenues	<u>71 400 00</u>	<u>88 560 00</u>	<u>89 016 23</u>	<u>456 23</u>
Expenditures:				
Fire protection	101 400 00	100 060 00	99 719 86	(340 14)
Capital outlay	-	18 800 00	18 796 20	(3 80)
Total expenditures	<u>101 400 00</u>	<u>118 860 00</u>	<u>118 516 06</u>	<u>(343 94)</u>
Excess (deficiency) of revenues over expenditures	<u>(30 000 00)</u>	<u>(30 300 00)</u>	<u>(29 499 83)</u>	<u>800 17</u>
Other financing sources (uses):				
Operating transfers in	-	-	29 499 83	29 499 83
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>29 499 83</u>	<u>29 499 83</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(30 000 00)</u>	<u>(30 300 00)</u>	<u>-</u>	<u>30 300 00</u>
Fund balance, January 1	<u>30 000 00</u>	<u>30 300 00</u>	<u>11 439 87</u>	<u>(18 860 13)</u>
Fund Balance, December 31	<u>-</u>	<u>-</u>	<u>11 439 87</u>	<u>11 439 87</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – DOWNTOWN DEVELOPMENT FUND  
Year ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Grants	-	-	-	-
Interest	-	250 00	250 92	92
Total revenues	-	250 00	250 92	92
Expenditures:				
Public works:				
Highways and streets	-	3 275 00	3 274 59	(41)
Total expenditures	-	3 275 00	3 274 59	(41)
Excess (deficiency) of revenues over expenditures	-	(3 025 00)	(3 023 67)	1 33
Other financing sources (uses):				
Operating transfers in	-	3 025 00	-	(3 025 00)
Operating transfers out	-	-	(29 866 85)	(29 866 85)
Total other financing sources (uses)	-	3 025 00	(29 866 85)	(32 891 85)
Excess (deficiency) of revenues and other sources over expenditures and other uses	-	-	(32 890 52)	(32 890 52)
Fund balance, January 1	-	-	34 127 38	34 127 38
Fund Balance, December 31	-	-	1 236 86	1 236 86



VILLAGE OF NEWBERRY  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended December 31, 2005

Village Council:	
Salaries	7 800 00
Dues	2 358 50
Miscellaneous	29 97
	<u>10 188 47</u>
Village President:	
Salary	4 050 00
Miscellaneous	8 097 41
	<u>12 147 41</u>
Administration:	
Wages	25 436 34
Travel	806 89
	<u>26 243 23</u>
Elections:	
Wages	368 00
Miscellaneous	576 13
	<u>944 13</u>
Accounting:	
Wages	23 550 49
Office supplies	3 594 58
Contracted services	12 069 92
Telephone	3 075 41
Miscellaneous	1 549 80
	<u>43 840 20</u>
Attorney:	
Contracted services	15 966 12
Supplies	800 00
Miscellaneous	1 142 50
Union negotiation	536 25
	<u>18 444 87</u>
Clerk:	
Salary	4 986 48
Printing and publishing	5 048 93
Office supplies	51 77
	<u>10 087 18</u>
Audit	<u>5 700 00</u>
Treasurer:	
Salary	5 269 56
Supplies	392 57
Postage	370 00
Tax roll preparation	1 148 28
	<u>7 180 41</u>
Building and grounds – garage:	
Electricity	4 416 99
Heating	6 689 07
Supplies	533 99
Repairs and maintenance	8 093 89
	<u>19 733 94</u>
Building and grounds – other:	
Wages	7 910 46
Supplies	33 71
Contracted services	640 00
	<u>8 584 17</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended December 31, 2005

Motor pool:	
Wages	28 110 75
Tools and supplies	2 956 91
Gas, oil and grease	17 585 31
Equipment and vehicle maintenance	19 012 96
Telephone	910 66
	<u>68 576 59</u>
Police protection:	
Salaries and wages	99 949 35
Hospitalization	80 327 60
Retirement	5 658 19
Office supplies	1 048 99
Tools and supplies	2 908 34
Uniforms	269 55
Laundry	250 00
Gasoline	5 040 32
Crossing guard	3 833 35
Telephone	1 652 15
Vehicle maintenance	1 195 30
Insurance	2 348 51
Miscellaneous	2 181 00
	<u>206 662 65</u>
Department of Public Works:	
Supplies	4 912 91
Sidewalks:	
Supplies	<u>1 386 37</u>
Street lighting	<u>18 764 31</u>
Sewers:	
Wages	10 178 68
Supplies	1 649 57
Contracted services	6 777 08
	<u>18 605 33</u>
Sanitation:	
Wages	27 148 83
Contracted services	61 114 93
Supplies	42 67
	<u>88 306 43</u>
Fringe benefits:	
Hospitalization, life, holiday, sick and vacation	<u>216 631 67</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended December 31, 2005

Insurance	<u>27 802 45</u>
Retirement	<u>39 739 97</u>
Social security	<u>25 288 51</u>
Miscellaneous	<u>5 710 59</u>
Capital outlay	<u>113 538 24</u>
Debt service	<u>58 551 59</u>
Total Expenditures	<u><u>1 057 571 62</u></u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS  
December 31, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Operating</u>	<u>Fire Capital</u>	<u>Total</u>
<u>Assets</u>					
Cash in bank	918 52	(48 432 67)	12 804 99	9 422 97	(25 286 19)
Due from other funds	24 554 35	47 137 31	-	14 834 98	86 526 64
Due from other units	-	-	10 133 15	-	10 133 15
Due from State of Michigan	<u>14 993 64</u>	<u>5 976 28</u>	<u>-</u>	<u>-</u>	<u>20 969 92</u>
Total Assets	<u>40 466 51</u>	<u>4 680 92</u>	<u>22 938 14</u>	<u>24 257 95</u>	<u>92 343 52</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	422 30	-	988 97	-	1 411 27
Due to other funds	6 653 96	-	9 603 49	-	16 257 45
Due to other units	<u>-</u>	<u>-</u>	<u>905 81</u>	<u>-</u>	<u>905 81</u>
Total liabilities	<u>7 076 26</u>	<u>-</u>	<u>11 498 27</u>	<u>-</u>	<u>18 574 53</u>
Fund balances:					
Unreserved:					
Undesignated	<u>33 390 25</u>	<u>4 680 92</u>	<u>11 439 87</u>	<u>24 257 95</u>	<u>73 768 99</u>
Total fund balances	<u>33 390 25</u>	<u>4 680 92</u>	<u>11 439 87</u>	<u>24 257 95</u>	<u>73 768 99</u>
Total Liabilities and Fund Balances	<u>40 466 51</u>	<u>4 680 92</u>	<u>22 938 14</u>	<u>24 257 95</u>	<u>92 343 52</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS  
Year ended December 31, 2005

	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Operating</u>	<u>Fire Capital</u>	<u>Total</u>
Revenues:					
Federal grant	-	-	7 714 00	-	7 714 00
State shared revenue	112 647 40	63 919 82	-	-	176 567 22
Charges for services – fire	-	-	77 295 68	12 912 00	90 207 68
Interest	-	-	1 009 97	337 28	1 347 25
Miscellaneous	-	-	2 996 58	-	2 996 58
Total revenues	<u>112 647 40</u>	<u>63 919 82</u>	<u>89 016 23</u>	<u>13 249 28</u>	<u>278 832 73</u>
Expenditures:					
Public safety:					
Fire protection	-	-	99 719 86	25 824 00	125 543 86
Public works:					
Highways and streets	116 162 33	209 414 23	-	-	325 576 56
Capital outlay	-	-	18 796 20	-	18 796 20
Total expenditures	<u>116 162 33</u>	<u>209 414 23</u>	<u>118 516 06</u>	<u>25 824 00</u>	<u>469 916 62</u>
Excess (deficiency) of revenues over expenditures	<u>(3 514 93)</u>	<u>(145 494 41)</u>	<u>(29 499 83)</u>	<u>(12 574 72)</u>	<u>191 083 89</u>
Other financing sources (uses):					
Operating transfers in	3 500 00	145 500 00	29 499 83	12 912 00	191 411 83
Total other financing sources (uses)	<u>3 500 00</u>	<u>145 500 00</u>	<u>29 499 83</u>	<u>12 912 00</u>	<u>191 411 83</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(14 93)	5 59	-	337 28	327 94
Fund balances, January 1	<u>33 405 18</u>	<u>4 675 33</u>	<u>11 439 87</u>	<u>23 920 67</u>	<u>73 441 05</u>
Fund Balances, December 31	<u>33 390 25</u>	<u>4 680 92</u>	<u>11 439 87</u>	<u>24 257 95</u>	<u>73 768 99</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

COMBINING BALANCE SHEET – ALL CAPITAL PROJECTS FUNDS  
December 31, 2005

<u>Assets</u>	<u>Downtown Development</u>	<u>Historical Society Renovation</u>	<u>Total</u>
Cash in bank	1 236 86	4 225 94	5 462 80
Due from other funds	-	-	-
Total Assets	<u>1 236 86</u>	<u>4 225 94</u>	<u>5 462 80</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	1 236 86	4 225 94	5 462 80
Total fund balances	<u>1 236 86</u>	<u>4 225 94</u>	<u>5 462 80</u>
Total Liabilities and Fund Balances	<u>1 236 86</u>	<u>4 225 94</u>	<u>5 462 80</u>

VILLAGE OF NEWBERRY  
Luce County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
ALL CAPITAL PROJECTS FUNDS  
Year ended December 31, 2005

	<u>Downtown Development</u>	<u>Historical Society Renovation</u>	<u>Total</u>
Revenues:			
State grant	-	24 500 00	24 500 00
Interest	250 92	-	250 92
Miscellaneous	-	8 500 00	8 500 00
Total revenues	<u>250 92</u>	<u>33 000 00</u>	<u>33 250 92</u>
Expenditures:			
Public works:			
Highways and streets	3 274 59	-	3 274 59
Parks and Recreation:			
Repairs and Maintenance	-	38 933 28	38 933 28
Total expenditures	<u>3 274 59</u>	<u>38 933 28</u>	<u>42 207 87</u>
Excess (deficiency) of revenues over expenditures	<u>(3 023 67)</u>	<u>(5 933 28)</u>	<u>(38 823 80)</u>
Other financing sources (uses):			
Operating transfers out	(29 866 85)	-	(29 866 85)
Total other financing sources (uses)	<u>(29 866 85)</u>	<u>-</u>	<u>(29 866 85)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(32 890 52)	(5 933 28)	(38 823 80)
Fund balances, January 1	<u>34 127 38</u>	<u>10 159 22</u>	<u>44 286 60</u>
Fund Balances, December 31	<u>1 236 86</u>	<u>4 225 94</u>	<u>5 462 80</u>

# CAMPBELL, KUSTERER & CO., P.C.

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## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

March 26, 2006

To the Village Council  
Village of Newberry  
Luce County, Michigan

We have audited the financial statements of the Village of Newberry, Luce County, Michigan, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 26, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Village of Newberry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 non-compliance that are required to be reported under Government Auditing Standards.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Village of Newberry's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Village there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants



# **CAMPBELL, KUSTERER & CO., P.C.**

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

March 26, 2006

To the Village Council  
Village of Newberry  
Luce County, Michigan

We have audited the financial statements of the Village of Newberry for the year ended December 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Village of Newberry in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council  
Village of Newberry  
Luce County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated December 31, 2005.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants