

**Village of Waldron**

Financial Statements  
And Independent Auditors' Report

Year Ended February 29, 2008

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December 23, 2008

Village Council  
Village of Waldron  
P.O. Box 87  
Waldron, MI 49288

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of and for the year ended February 29, 2008, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the Village of Waldron as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2008 on our consideration of the Village of Waldron's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Village of Waldron has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of the financial statements.

The budgetary comparison information on page 20 is not a required part of the financial statements but is 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 supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully Submitted,

Philip R. Rubley, CPA

PRR/cab

**Village of Waldron**  
Statement of Net Assets  
February 29, 2008

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets:</b>			
Cash	\$ 263,832	\$ 171,228	\$ 435,060
Certificate of deposit	168,982	90,663	259,645
Accounts receivable	28,921	9,095	38,016
Taxes receivable	9,569	-	9,569
Due from other funds	3,082	-	3,082
Other receivables	344	-	344
Prepaid expenses	9,033	2,376	11,409
Restricted assets	-	68,418	68,418
Capital assets:			
Non-depreciable assets	7,500	8,331	15,831
Depreciable assets, net	76,807	1,914,027	1,990,834
Total assets	<u>568,070</u>	<u>2,264,138</u>	<u>2,832,208</u>
<b>Liabilities:</b>			
Due to other funds	3,082	-	3,082
Other current liabilities	420	9,357	9,777
Non-current liabilities:			
Due within one year	-	7,500	7,500
Due in more than one year	-	616,300	616,300
Total liabilities	<u>3,502</u>	<u>633,157</u>	<u>636,659</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	84,307	1,298,558	1,382,865
Restricted	-	68,418	68,418
Unrestricted	480,261	264,005	744,266
Total net assets	<u>\$ 564,568</u>	<u>\$ 1,630,981</u>	<u>\$ 2,195,549</u>

See Notes to Financial Statements.

**Village of Waldron**  
Statement of Activities  
Year Ended February 28, 2008

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 8,285	\$ -	\$ -	\$ -	\$ (8,285)	\$ -	\$ (8,285)
General government	76,938	-	-	-	(76,938)	-	(76,938)
Public safety	11,793	-	-	-	(11,793)	-	(11,793)
Public works	51,504	-	51,285	-	(219)	-	(219)
Recreation and culture	8,218	-	-	-	(8,218)	-	(8,218)
Total governmental activities	156,738	-	51,285	-	(105,453)	-	(105,453)
<b>Business-type Activities:</b>							
Water	49,491	90,489	-	-	-	40,998	40,998
Sewer	108,762	74,275	-	-	-	(34,487)	(34,487)
Total business-type activities	158,253	164,764	-	-	-	6,511	6,511
Total primary government	\$ 314,991	\$ 164,764	\$ 51,285	\$ -	\$ (105,453)	\$ 6,511	\$ (98,942)
<b>General Revenues:</b>							
Property taxes, levied for general purposes					75,126	-	75,126
Interest and investment earnings					14,124	8,000	22,124
Unrestricted grants and contributions					63,114	-	63,114
Miscellaneous					8,102	(1,872)	6,230
Total general revenues and transfers					160,466	6,128	166,594
<b>Changes in Net Assets</b>					55,013	12,639	67,652
<b>Net Assets - Beginning of Year</b>					509,555	1,618,342	2,127,897
<b>Net Assets - End of Year</b>					\$ 564,568	\$ 1,630,981	\$ 2,195,549

See Notes to Financial Statements.

**Village of Waldron**  
**Balance Sheet**  
**Governmental Funds**  
**February 29, 2008**

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<b><u>Assets</u></b>				
Cash	\$ 157,951	\$ 68,170	\$ 37,711	\$ 263,832
Certificate of deposit	81,192	71,825	15,965	168,982
Receivables:				
Accounts receivable	19,364	7,525	2,032	28,921
Taxes receivable	9,569	-	-	9,569
Due from other funds	-	3,082	-	3,082
Other receivables	-	344	-	344
Prepaid expenses	<u>7,845</u>	<u>792</u>	<u>396</u>	<u>9,033</u>
Total assets	<u>\$ 275,921</u>	<u>\$ 151,738</u>	<u>\$ 56,104</u>	<u>\$ 483,763</u>
 <b><u>Liabilities and Fund Balances</u></b>				
<b>Liabilities:</b>				
Due to other funds	\$ -	\$ -	\$ 3,082	\$ 3,082
Other liabilities	<u>420</u>	<u>-</u>	<u>-</u>	<u>420</u>
Total liabilities	<u>420</u>	<u>-</u>	<u>3,082</u>	<u>3,502</u>
 <b>Fund Balances:</b>				
Unrestricted	<u>275,501</u>	<u>151,738</u>	<u>53,022</u>	<u>480,261</u>
Total fund balances	<u>275,501</u>	<u>151,738</u>	<u>53,022</u>	<u>480,261</u>
 Total liabilities and fund balances	 <u>\$ 275,921</u>	 <u>\$ 151,738</u>	 <u>\$ 56,104</u>	 <u>\$ 483,763</u>

See Notes to Financial Statements.

**Village of Waldron**  
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets  
of Governmental Activities on the Statement of Net Assets  
February 29, 2008

**Total Fund Balances - Governmental Funds** \$ 480,261

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 are not reported in the funds.

The cost of the capital assets is

\$ 138,860

Accumulated depreciation is

(54,553)

84,307

**Total Net Assets - Governmental Activities**

**\$ 564,568**

See Notes to Financial Statements.

**Village of Waldron**  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended February 29, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<b>Revenues:</b>				
Taxes	\$ 75,126	\$ -	\$ -	\$ 75,126
Intergovernmental	63,114	40,381	10,904	114,399
Interest and rentals	8,474	4,979	671	14,124
Other revenue	<u>6,185</u>	<u>1,509</u>	<u>408</u>	<u>8,102</u>
Total revenues	<u>152,899</u>	<u>46,869</u>	<u>11,983</u>	<u>211,751</u>
<b>Expenditures:</b>				
Legislative	8,285	-	-	8,285
General government	60,979	-	-	60,979
Public safety	11,793	-	-	11,793
Public works	43,285	9,964	5,698	58,947
Recreation and culture	<u>8,218</u>	<u>-</u>	<u>-</u>	<u>8,218</u>
Total expenditures	<u>132,560</u>	<u>9,964</u>	<u>5,698</u>	<u>148,222</u>
<b>Revenues Over (Under) Expenditures</b>	<u>20,339</u>	<u>36,905</u>	<u>6,285</u>	<u>63,529</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	-	9,200	9,200
Transfers out	<u>-</u>	<u>(9,200)</u>	<u>-</u>	<u>(9,200)</u>
Total other financing sources (uses)	<u>-</u>	<u>(9,200)</u>	<u>9,200</u>	<u>-</u>
<b>Net Changes in Fund Balances</b>	20,339	27,705	15,485	63,529
<b>Fund Balances - Beginning of Year</b>	<u>255,162</u>	<u>124,033</u>	<u>37,537</u>	<u>416,732</u>
<b>Fund Balances - End of Year</b>	<u>\$ 275,501</u>	<u>\$ 151,738</u>	<u>\$ 53,022</u>	<u>\$ 480,261</u>

See Notes to Financial Statements.

**Village of Waldron**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances  
 of Governmental Funds to the Statement of Activities  
 Governmental Funds  
 Year Ended February 29, 2008

**Net Change in Fund Balances - Total Governmental Funds** \$ 63,529

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	\$ (8,516)	
Capital outlay	-	(8,516)

**Change in Net Assets of Governmental Activities** \$ 55,013

**Village of Waldron**  
Statement of Net Assets  
Proprietary Funds  
February 29, 2008

	<b>Enterprise Funds</b>		<b>Total</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Assets:</b>			
Cash	\$ 53,065	\$ 118,163	\$ 171,228
Certificate of deposit	25,282	65,381	90,663
Accounts receivable	4,473	4,622	9,095
Prepaid expenses	1,188	1,188	2,376
Restricted assets	-	68,418	68,418
Capital assets:			
Non-depreciable assets	-	8,331	8,331
Depreciable assets, net	<u>141,646</u>	<u>1,772,381</u>	<u>1,914,027</u>
Total assets	<u>225,654</u>	<u>2,038,484</u>	<u>2,264,138</u>
<b>Liabilities:</b>			
Current liabilities (payable from current assets):			
Accrued interest	-	9,357	9,357
Current portion of bonds payable	<u>-</u>	<u>7,500</u>	<u>7,500</u>
	<u>-</u>	<u>16,857</u>	<u>16,857</u>
Non-current liabilities:			
Bonds payable	<u>-</u>	<u>616,300</u>	<u>616,300</u>
Total liabilities	<u>-</u>	<u>633,157</u>	<u>633,157</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	141,646	1,156,912	1,298,558
Restricted for debt service	-	68,418	68,418
Unrestricted	<u>84,008</u>	<u>179,997</u>	<u>264,005</u>
Total net assets	<u>\$ 225,654</u>	<u>\$ 1,405,327</u>	<u>\$ 1,630,981</u>

See Notes to Financial Statements.

**Village of Waldron**  
Statement of Revenues, Expenses and  
Changes in Net Assets - Proprietary Funds  
Year Ended February 29, 2008

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating Revenues:</b>			
Charges for services	\$ 90,489	\$ 74,275	\$ 164,764
<b>Operating Expenses:</b>			
Maintenance and operating	45,501	35,077	80,578
Depreciation	3,990	45,566	49,556
Total operating expenses	49,491	80,643	130,134
<b>Operating Income (Loss)</b>	40,998	(6,368)	34,630
<b>Non-operating Revenues (Expenses):</b>			
Capital grants	-	-	-
Interest income	1,814	6,186	8,000
Miscellaneous income	(1,872)	-	(1,872)
Interest expense	-	(28,119)	(28,119)
Total non-operating revenues (expenses)	(58)	(21,933)	(21,991)
<b>Net Income (Loss)</b>	40,940	(28,301)	12,639
<b>Net Assets - Beginning of Year</b>	184,714	1,433,628	1,618,342
<b>Net Assets - End of Year</b>	\$ 225,654	\$ 1,405,327	\$ 1,630,981

See Notes to Financial Statements.

**Village of Waldron**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year Ended February 29, 2008**

	<b>Business-type Activities</b>		
	<b>Enterprise Funds</b>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Cash Flows From Operating Activities:</b>			
Cash received from customers, residents and users	\$ 92,563	\$ 130,649	\$ 223,212
Payments to suppliers	(27,583)	(26,349)	(53,932)
Payments to employees	(17,918)	(8,728)	(26,646)
Net cash provided by (used in) operating activities	<u>47,062</u>	<u>95,572</u>	<u>142,634</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>			
Purchase of capital assets, net	(18,821)	(9,827)	(28,648)
Principal and interest on capital debt	-	(34,519)	(34,519)
Net cash used by capital and related financing activities	<u>(18,821)</u>	<u>(44,346)</u>	<u>(63,167)</u>
<b>Cash Flows From Investing Activities:</b>			
Other nonoperating income received	(1,872)	-	(1,872)
Interest income received	1,814	6,186	8,000
Net cash provided by investing activities	<u>(58)</u>	<u>6,186</u>	<u>6,128</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	28,183	57,412	85,595
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>50,164</u>	<u>126,132</u>	<u>176,296</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 78,347</u>	<u>\$ 183,544</u>	<u>\$ 261,891</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	\$ 40,998	\$ (6,368)	\$ 34,630
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,990	45,566	49,556
Changes in:			
Accounts receivable	3,262	1,901	5,163
Prepaid expenses	(1,188)	(1,188)	(2,376)
Restricted assets	-	55,757	55,757
Accrued expenses	-	(96)	(96)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 47,062</u>	<u>\$ 95,572</u>	<u>\$ 142,634</u>

See Notes to Financial Statements.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies**

**Description of Village Operations**

The Village of Waldron operates under a Council form of government and provides services to its residents in many areas including public safety, law enforcement, community enrichment, and development and human service. The criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships.

**Reporting Entity**

Generally accepted accounting principles require the reporting entity to include the Village of Waldron (the primary government).

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) 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, which normally are 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 or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Statements** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are 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 revenues 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

**Government-Wide Statements (Continued)** - Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

**Fund-Based Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are 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, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

**Major Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

**Local Street Fund** – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

The government reports the following major proprietary funds:

**Water Fund** - The Water Fund accounts for the water production, purification, and distribution systems of the Village.

**Sewer Fund** – The Sewer Fund accounts for the activities of the sewage collection and treatment systems of the Village.

**Additional Financial Statement Presentation Information** - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**Additional Financial Statement Presentation Information** - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deposits and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit. Deposits are carried at cost.

Deposits of the Village are at three banks in the name of the Village of Waldron. Michigan Compiled Laws, Section 129.91 authorizes the Village to deposit and invest in the accounts of Federally insured banks, insured credit unions and savings and loan associations; bonds and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; banker's acceptances of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or Political Subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government of Michigan. Financial institutions eligible for deposit of funds must maintain an office in Michigan. The Village's deposits are in accordance with statutory authority.

**Receivables and Payables** – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**Restricted Assets** – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

**Village of Waldron**  
Notes to Financial Statements

**1. Summary of Significant Accounting Policies (Continued)**

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Equipment and vehicles	5 - 20
Plant and systems	10 - 50

**Long-Term Obligations** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

**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.

**Property Taxes** - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 30; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2008 had a taxable value of approximately \$6,487,000 (not including properties subject to Industrial Facilities Tax exemption). The Village's general operating tax rate for fiscal year 2008-09 was 10.9812 mills.

**Use of Estimates** – The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Village of Waldron**  
Notes to Financial Statements

**2. Stewardship, Compliance and Accountability**

The Village follows these procedures in establishing budgetary data reflected in the financial statements:

- a) The Village submits a proposed operating budget for the fiscal year commencing March 1.
- b) A public hearing is conducted by the Village to obtain taxpayer comments.
- c) The budget is then legally enacted through passage of the appropriations act.
- d) The budget is adopted on the governmental activity basis and control is exercised at the activity level.
- e) The budget for the general fund and special revenue funds are prepared on a basis consistent with generally accepted accounting principles.
- f) Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.
- g) Once the budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Village Council. Amendments are presented to the Council at their regular meetings. Each amendment must have Council approval. Such amendments are made before the fact, are reflected in the official minutes of the Village Council, and are not made after fiscal year-end as dictated by law.

**3. Cash and Cash Equivalents**

The balance sheet caption, "Cash" includes demand accounts and certificates of deposit with an original maturity date of three months or less. The Village had no investments at year-end other than certificates of deposit with maturity dates greater than three months.

At year-end, the Village's deposits were reported in the financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Proprietary Funds</b>	<b>Total</b>
Cash	\$263,832	\$171,228	\$435,060
Certificates of deposit	<u>168,982</u>	<u>90,663</u>	<u>259,645</u>
Total cash and investments	<u>\$432,814</u>	<u>\$261,891</u>	<u>\$694,705</u>

**Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, \$566,486 of the Village's bank balance of \$766,486 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Village of Waldron**  
Notes to Financial Statements

**4. Capital Assets**

Capital assets activity for the year ended February 29, 2008 was as follows:

<b>Primary Government</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 7,500	\$ -	\$ -	\$ 7,500
Total capital assets not being depreciated	<u>7,500</u>	<u>-</u>	<u>-</u>	<u>7,500</u>
Capital assets being depreciated:				
Buildings and improvements	54,000	-	-	54,000
Equipment and vehicles	<u>77,360</u>	<u>-</u>	<u>-</u>	<u>77,360</u>
Total capital assets being depreciated	<u>131,360</u>	<u>-</u>	<u>-</u>	<u>131,360</u>
Accumulated depreciation:				
Buildings and improvements	10,133	1,800	-	11,933
Equipment and vehicles	<u>35,904</u>	<u>6,716</u>	<u>-</u>	<u>42,620</u>
Total accumulated depreciation	<u>46,037</u>	<u>8,516</u>	<u>-</u>	<u>54,553</u>
Total capital assets being depreciated - net	<u>85,323</u>	<u>(8,516)</u>	<u>-</u>	<u>76,807</u>
Governmental activities capital assets - net	<u>\$ 92,823</u>	<u>\$ (8,516)</u>	<u>\$ -</u>	<u>\$ 84,307</u>
<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals and Adjustments</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 8,331	\$ -	-	\$ 8,331
Capital assets being depreciated:				
Water system	318,984	18,820	-	337,804
Sewer system	<u>2,289,651</u>	<u>9,828</u>	<u>-</u>	<u>2,299,479</u>
Total capital assets being depreciated	<u>2,608,635</u>	<u>28,648</u>	<u>-</u>	<u>2,637,283</u>
Accumulated depreciation	<u>673,700</u>	<u>49,556</u>	<u>-</u>	<u>723,256</u>
Total capital assets being depreciated - net	<u>1,934,935</u>	<u>(20,908)</u>	<u>-</u>	<u>1,914,027</u>
Business-type activities capital assets - net	<u>\$1,943,266</u>	<u>\$ (20,908)</u>	<u>\$ -</u>	<u>\$1,922,358</u>

**Village of Waldron**  
Notes to Financial Statements

**4. Capital Assets (Continued)**

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

Governmental Activities:	
General government	\$ 3,920
Public works	<u>4,596</u>
Total depreciation expense – governmental activities	<u>\$ 8,516</u>
Business-Type Activities:	
Sewer and Water	<u>\$ 49,556</u>

**5. Receivables**

Receivables of the governmental activities of the primary government at February 29, 2008, consist of the following:

Accounts receivable (primarily State of Michigan)	\$ 28,921
Delinquent taxes	9,569
Other receivables	<u>344</u>
	<u>\$ 38,834</u>

**6. Interfund Transfers**

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Transfers:</b>		
Major Street	\$ -	\$ 9,200
Local Street	<u>9,200</u>	<u>-</u>
	<u>\$ 9,200</u>	<u>\$ 9,200</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**Village of Waldron**  
Notes to Financial Statements

**7. Long-Term Debt**

The Village issued \$649,000 of revenue bonds dated June 17, 2003 at 4.5% interest to provide funds for the construction of a sewer project. Income derived from the constructed assets will be used to repay the revenue bonds and the debt is recorded in the Sewer Fund.

Enterprise activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ <u>630,200</u>	\$ <u>-</u>	\$ <u>6,400</u>	\$ <u>623,800</u>	\$ <u>7,500</u>
			<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009			\$ 7,500	\$ 28,000	\$ 35,500
2010			7,500	27,700	35,200
2011			7,600	27,400	35,000
2012			7,700	27,000	34,700
2013			8,800	26,700	35,500
2014-2018			48,000	127,400	175,400
2019-2023			61,500	115,500	177,000
2024-2028			76,500	100,300	176,800
2029-2033			95,300	81,600	176,900
2034-2038			119,100	58,100	177,200
2039-2043			150,100	28,500	178,600
2044			<u>34,200</u>	<u>1,500</u>	<u>35,700</u>
Total			\$ <u>623,800</u>	\$ <u>649,700</u>	\$ <u>1,273,500</u>

**8. Joint Ventures**

The Fire and Ambulance Department is under the joint supervision of the Township of Wright and the Village of Waldron with the books and records being maintained by the Township of Wright. In this joint venture, firemen's salaries are paid 100% by the Township for fire calls in the Township and 100% by the Village for fire calls in the Village. To the extent that other expenditures exceed operating revenues, the Township pays 2/3 of these costs and the Village pays 1/3 of these costs.

**9. Segment Information – Enterprise Funds**

The government issued revenue bonds to finance certain improvements to its sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are reported as major funds in the fund financial statements, segment disclosures herein are not required.

**10. Risk Management**

The Village is exposed to various risks of loss-related torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries; and natural disasters. The Village has purchased commercial insurance for its risks of loss, including property and casualty, errors and omissions, fleet, and employee health and accident insurance.

**Required Supplemental Information**

**Village of Waldron**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balances - Budget to Actual**  
**General Fund and Major Special Revenue Funds**  
**Year Ended February 29, 2008**

	General Fund		Major Street Fund		Local Street Fund	
	Original Budget	Final Actual	Original Budget	Final Actual	Original Budget	Final Actual
<b>Revenues:</b>						
Taxes	\$ 73,650	\$ 75,126	\$ -	\$ -	\$ -	\$ -
Intergovernmental	66,443	63,114	41,200	40,381	10,300	10,904
Interest	2,000	8,474	1,500	4,979	100	671
Other	2,650	6,185	-	1,509	-	408
Total revenues	<u>144,743</u>	<u>152,899</u>	<u>42,700</u>	<u>46,869</u>	<u>10,400</u>	<u>11,983</u>
<b>Expenditures:</b>						
Current operations:						
Legislative	6,300	8,285	-	-	-	-
General government	77,275	60,979	-	-	-	-
Public safety	26,500	11,793	-	-	-	-
Public works	59,500	43,285	21,845	9,964	12,955	5,698
Culture and recreation	10,000	8,218	-	-	-	-
Total expenditures	<u>179,575</u>	<u>132,560</u>	<u>21,845</u>	<u>9,964</u>	<u>12,955</u>	<u>5,698</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(34,832)</u>	<u>20,339</u>	<u>20,855</u>	<u>36,905</u>	<u>(2,555)</u>	<u>6,285</u>
<b>Other Financing Sources (Uses):</b>						
Operating transfers in	2,000	-	-	-	7,500	9,200
Operating transfers out	-	-	(9,500)	(9,200)	-	-
Total other financing sources (uses)	<u>2,000</u>	<u>-</u>	<u>(9,500)</u>	<u>(9,200)</u>	<u>7,500</u>	<u>9,200</u>
<b>Net Changes in Fund Balances</b>	<u>(32,832)</u>	<u>(32,832)</u>	<u>11,355</u>	<u>27,705</u>	<u>4,945</u>	<u>15,485</u>
<b>Fund Balances - Beginning of Year</b>	<u>255,162</u>	<u>255,162</u>	<u>124,033</u>	<u>124,033</u>	<u>37,537</u>	<u>37,537</u>
<b>Fund Balances - End of Year</b>	<u>\$ 222,330</u>	<u>\$ 275,501</u>	<u>\$ 135,388</u>	<u>\$ 151,738</u>	<u>\$ 42,482</u>	<u>\$ 53,022</u>

## **Other Supplemental Information**

**Village of Waldron**  
Schedule of Bonded Indebtedness  
February 29, 2008

	Date of Issue	Amount of Issue	Interest Rate	Date of Maturity	Fiscal Year Interest Requirements	Fiscal Year Principal Requirements	Bonds Outstanding February 29
Sewage Disposal System Revenue Bonds, Series 2003	June 17, 2003	\$ 649,000	4.500%	05/01/08	\$ 28,071	\$ 7,500	\$ 623,800
			4.500%	05/01/09	27,734	7,500	616,300
			4.500%	05/01/10	27,396	7,600	608,800
			4.500%	05/01/11	27,054	7,700	601,200
			4.500%	05/01/12	26,708	8,800	593,500
			4.500%	05/01/13	26,312	8,800	584,700
			4.500%	05/01/14	25,916	8,900	575,900
			4.500%	05/01/15	25,515	10,000	567,000
			4.500%	05/01/16	25,065	10,100	557,000
			4.500%	05/01/17	24,611	10,200	546,900
			4.500%	05/01/18	24,152	11,300	536,700
			4.500%	05/01/19	23,643	11,400	525,400
			4.500%	05/01/20	23,130	12,500	514,000
			4.500%	05/01/21	22,568	12,600	501,500
			4.500%	05/01/22	22,001	13,700	488,900
			4.500%	05/01/23	21,384	13,800	475,200
			4.500%	05/01/24	20,763	15,000	461,400
			4.500%	05/01/25	20,088	15,100	446,400
			4.500%	05/01/26	19,409	16,200	431,300
			4.500%	05/01/27	18,680	16,400	415,100
			4.500%	05/01/28	17,942	17,500	398,700
			4.500%	05/01/29	17,154	17,700	381,200
			4.500%	05/01/30	16,358	18,900	363,500
			4.500%	05/01/31	15,507	20,000	344,600
			4.500%	05/01/32	14,607	21,200	324,600
			4.500%	05/01/33	13,653	21,400	303,400
			4.500%	05/01/34	12,650	22,600	282,000
			4.500%	05/01/35	11,673	23,800	259,400
			4.500%	05/01/36	10,602	25,000	235,600
			4.500%	05/01/37	9,475	26,300	210,600
			4.500%	05/01/38	8,294	27,500	184,300
			4.500%	05/01/39	7,056	28,700	156,800
			4.500%	05/01/40	5,765	30,000	128,100
			4.500%	05/01/41	4,413	31,300	98,100
			4.500%	05/01/42	3,004	32,600	66,800
			4.500%	05/01/43	1,537	34,200	34,200
						<u>\$ 623,800</u>	

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**December 23, 2008**

**Village Council  
Village of Waldron  
P.O. Box 87  
Waldron, MI 49288**

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund of the Village of Waldron, Waldron Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village of Waldron's basic financial statements and have issued our report thereon dated December 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of 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.

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

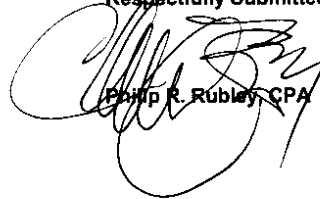
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies of material weaknesses. We did not identify any deficiencies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

**COMPLIANCE AND OTHER MATTERS**

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

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

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

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**December 23, 2008**

**Village Council  
Village of Waldron  
P.O. Box 87  
Waldron, MI 49288**

We have examined the financial statements of the Village of Waldron, Waldron, Michigan dated December 23, 2008. As a part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the Village's system of internal accounting control for the year ended February 29, 2008, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

Statement on Auditing Standards Pronouncement 112 requires us as auditors to communicate what we determine to be significant deficiencies and material weaknesses to management and those charged with governance in regards to internal control matters.

A significant deficiency is a control deficiency or combination of control deficiencies that creates the remote likelihood that a misstatement of the Township's financial statements is more than inconsequential and will not be prevented or detected on a timely basis by employees in the normal course of business.

Based on this criteria the following comments are in this category:

1. **SEGREGATION OF DUTIES**

Because of the size and number of personal segregation of duties is a significant deficiency. These means at the basic level, no single individual should have control over two or more phases of a transaction or operation in the accounting function.

We feel however that because of managements oversight, that this is not a material weakness in the control system.

2. **MANAGEMENT DISCUSSION AND ANALYSIS**

The Village has not presented a management and discussion analysis as supplementary information. This is considered a significant deficiency as defined by SAS 112.

**OTHER MATTERS FOR CONSIDERATION**

These comments are not significant deficiencies but are suggestions to improve your existing accounting and control systems.

1. **DEPOSIT POLICY**

Consider establishing a policy to deposit funds in more than one bank to obtain additional FDIC insurance and reduce your custodial risk.

2. **FIXED ASSETS**

Maintain or continue to maintain any deletions of assets or purchases of assets subject to capitalization. Consider a formal policy of over \$1,000 of asset purchases to be maintained.

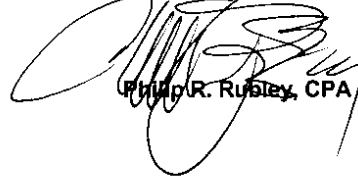
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**Village Council  
Village of Waldron  
December 23, 2008  
Page 3**

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated December 23, 2008, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

**Respectfully Submitted,**



**Philip R. Rubley, CPA**

PRR/cab