

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Suttons Bay	County Leelanau
Fiscal Year End December 31, 2006	Opinion Date June 28, 2007	Date Audit Report Submitted to State June 28, 2007	

We affirm that:

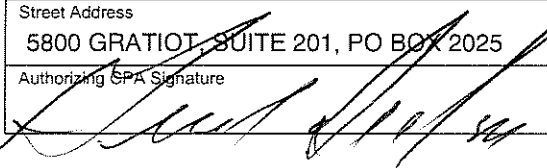
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     |    |  |
|-----|----|--|
| YES | NO | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----|----|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input type="checkbox"/>	
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 989 799-9580
Street Address 5800 GRATIOT, SUITE 201, PO BOX 2025		City SAGINAW
		State MI
		Zip 48605
Authorizing CPA Signature 	Printed Name GERALD J. DESLOOVER, CPA	License Number 1101007126

# **VILLAGE OF SUTTONS BAY, MICHIGAN**

## **FINANCIAL STATEMENTS**

**For the Fiscal Year Ended  
December 31, 2006**

# VILLAGE OF SUTTONS BAY, MICHIGAN

## TABLE OF CONTENTS

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	<b><u>PAGE</u></b>
<b><i>FINANCIAL SECTION</i></b>	
Independent Auditors' Report	1-2
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4-5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6-7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8-9
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual –	
General Fund	10-11
Major Street	12
Local Street	13
Statement of Net Assets – Proprietary Funds	14-15
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	16-17
Statement of Cash Flows – Proprietary Funds	18-19
Notes to the Financial Statements	20-32
<b><i>SINGLE AUDIT SECTION</i></b>	
Schedule of Expenditures of Federal Awards	33
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	36-37
Schedule of Findings and Questioned Costs	38-41



**REHMANN ROBSON**

*Certified Public Accountants*

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An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT**

June 28, 2007

The Honorable President and  
Members of the Village Council  
Village of Suttons Bay  
Suttons Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **Village of Suttons Bay, Michigan** (the "Village"), as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Village, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison of the General Fund and the Major and Local Streets special revenue funds 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 June 28, 2007, on our consideration of the **Village of Suttons Bay, Michigan's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Village of Suttons Bay, Michigan* has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The schedule of expenditures of federal awards 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 in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

## **BASIC FINANCIAL STATEMENTS**

# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

# VILLAGE OF SUTTONS BAY

## STATEMENT OF NET ASSETS

DECEMBER 31, 2006

ASSETS	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
Cash and cash equivalents	\$ 44,509	\$ 142,056	\$ 186,565
Receivables	42,730	262,896	305,626
Inventory	-	12,456	12,456
Internal balances	(38,934)	38,934	-
Prepaid expenses	-	5,352	5,352
Other assets	-	57,148	57,148
Land	1,165,964	1,083,886	2,249,850
Construction in progress	-	179,443	179,443
Depreciable capital assets	1,140,239	7,239,946	8,380,185
<b>Total assets</b>	<b>2,354,508</b>	<b>9,022,117</b>	<b>11,376,625</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	24,632	37,628	62,260
Unearned revenue	-	820	820
Noncurrent liabilities			
Due within one year	53,178	372,154	425,332
Due in more than one year	222,785	2,427,500	2,650,285
<b>Total liabilities</b>	<b>300,595</b>	<b>2,838,102</b>	<b>3,138,697</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,030,240	5,703,621	7,733,861
Unrestricted	23,673	480,394	504,067
<b>Total net assets</b>	<b>\$ 2,053,913</b>	<b>\$ 6,184,015</b>	<b>\$ 8,237,928</b>

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	Program Revenues		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
<b>Primary government</b>				
Governmental activities				
General government	\$ 74,589	\$ 36,119	\$ 5,799	\$ (32,671)
Public safety	155,293	-	29,014	(126,279)
Public works	347,470	-	39,516	(307,954)
Recreation and culture	187,706	-	-	(187,706)
Interest on long-term debt	3,310	-	-	(3,310)
<b>Total governmental activities</b>	<b>768,368</b>	<b>36,119</b>	<b>74,329</b>	<b>(657,920)</b>
Business-type activities				
Sewer	233,831	1,664,583	-	1,430,752
Water	184,347	245,929	-	61,582
Marina	323,399	383,540	-	60,141
<b>Total business-type activities</b>	<b>741,577</b>	<b>2,294,052</b>	<b>-</b>	<b>1,552,475</b>
<b>Total primary government</b>	<b>\$ 1,509,945</b>	<b>\$ 2,330,171</b>	<b>\$ 74,329</b>	<b>\$ 894,555</b>

Continued...

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2006

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	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (657,920)	\$ 1,552,475	\$ 894,555
General revenues			
Property taxes	626,933	-	626,933
Grants and contributions not restricted to specific programs	102,549	-	102,549
Unrestricted investment earnings	9,411	16,443	25,854
<b>Total general revenues</b>	<b>738,893</b>	<b>16,443</b>	<b>755,336</b>
Changes in net assets	80,973	1,568,918	1,649,891
Net assets, beginning of year	1,972,940	4,615,097	6,588,037
<b>Net assets, end of year</b>	<b>\$ 2,053,913</b>	<b>\$ 6,184,015</b>	<b>\$ 8,237,928</b>

Concluded

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

## **FUND FINANCIAL STATEMENTS**

# VILLAGE OF SUTTONS BAY

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 13,379	\$ 573	\$ 23,029	\$ 36,981
Accounts receivable	15,163	18,031	9,342	42,536
Due from other funds	105,000	-	32,000	137,000
<b>Total assets</b>	<b><u>\$ 133,542</u></b>	<b><u>\$ 18,604</u></b>	<b><u>\$ 64,371</u></b>	<b><u>\$ 216,517</u></b>
<b>Liabilities</b>				
Accounts payable	\$ 11,653	\$ 1,461	\$ 1,484	\$ 14,598
Accrued expenses	7,749	-	-	7,749
Due to other funds	100,000	32,000	89,000	221,000
<b>Total liabilities</b>	<b><u>119,402</u></b>	<b><u>33,461</u></b>	<b><u>90,484</u></b>	<b><u>243,347</u></b>
<b>Fund balances</b>				
Unreserved				
Undesignated (deficit)				
General Fund	14,140	-	-	14,140
Special revenue funds	-	(14,857)	(26,113)	(40,970)
<b>Total fund balances</b>	<b><u>14,140</u></b>	<b><u>(14,857)</u></b>	<b><u>(26,113)</u></b>	<b><u>(26,830)</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 133,542</u></b>	<b><u>\$ 18,604</u></b>	<b><u>\$ 64,371</u></b>	<b><u>\$ 216,517</u></b>

Continued ...

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

# VILLAGE OF SUTTONS BAY

## BALANCE SHEET GOVERNMENTAL FUNDS

DECEMBER 31, 2006

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### Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets:

Fund balances (deficit) - total governmental fund: \$ (26,830)

Amounts reported for governmental activities in the statement of net asset  
are different because

Capital assets used in governmental activities are not current financial resource  
and therefore are not reported in the funds

Add - capital assets 1,996,752  
Deduct - accumulated depreciation (156,562)

An internal service fund is used by management to charge the costs of certain equipment  
usage to individual governmental and enterprise funds. A portion of the assets and  
liabilities of the internal service fund are included in governmental activities in the  
statement of net assets.

Add - net assets of governmental-type activities accounted for in the internal service fund 240,553

**Net assets of governmental activities** **\$ 2,053,913**

Concluded

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

## VILLAGE OF SUTTONS BAY

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Major Streets	Local Streets	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 626,933	\$ -	\$ -	\$ 626,933
State revenues	46,723	37,032	18,794	102,549
State grant	29,014	-	-	29,014
Contributions	-	21,149	-	21,149
License and permits	5,236	-	-	5,236
Charges for services	29,395	-	-	29,395
Fines and forfeits	1,488	-	-	1,488
Interest	7,410	807	671	8,888
Miscellaneous	6,166	-	18,000	24,166
<b>Total revenues</b>	<b>752,365</b>	<b>58,988</b>	<b>37,465</b>	<b>848,818</b>
<b>Expenditures</b>				
Current				
General government	105,983	-	-	105,983
Public safety	150,839	-	-	150,839
Public works	193,842	-	-	193,842
Recreation and culture	179,609	-	-	179,609
Highway and streets	-	393,659	160,901	554,560
<b>Total expenditures</b>	<b>630,273</b>	<b>393,659</b>	<b>160,901</b>	<b>1,184,833</b>
Revenues over (under) expenditures	122,092	(334,671)	(123,436)	(336,015)
<b>Other financing sources (uses)</b>				
Transfers in	-	276,590	188,000	464,590
Transfers out	(510,590)	-	-	(510,590)
<b>Total other financing sources</b>	<b>(510,590)</b>	<b>276,590</b>	<b>188,000</b>	<b>(46,000)</b>
Net changes in fund balances	(388,498)	(58,081)	64,564	(382,015)
Fund balances (deficit), beginning of year	402,638	43,224	(90,677)	355,185
<b>Fund balances (deficit), end of year</b>	<b>\$ 14,140</b>	<b>\$ (14,857)</b>	<b>\$ (26,113)</b>	<b>\$ (26,830)</b>

Continued...

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

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### Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds \$ (382,015)

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	466,788
Deduct - depreciation expense	(12,869)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the governmental funds is reported with governmental activities.

Add - transfers in	46,000
Add - interest income	523
Deduct - interest expense	(3,310)
Deduct - net operating loss from governmental activities accounted for in the internal service fund	<u>(34,144)</u>

**Change in net assets of governmental activities** \$ 80,973

Concluded

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 602,818	\$ 656,234	\$ 626,933	\$ (29,301)
State revenues	43,015	43,500	46,723	3,223
State grant	-	29,014	29,014	-
Contributions	-	400	-	(400)
License and permits	6,000	4,711	5,236	525
Charges for services	27,000	29,075	29,395	320
Fines and forfeits	600	1,612	1,488	(124)
Interest	3,200	3,300	7,410	4,110
Miscellaneous	-	1,391	6,166	4,775
<b>Total revenues</b>	<b>682,633</b>	<b>769,237</b>	<b>752,365</b>	<b>(16,872)</b>
<b>General government</b>				
Village council	27,750	15,350	22,691	7,341
Village manager	20,221	23,689	23,670	(19)
Clerk	4,444	6,185	4,918	(1,267)
Treasurer	4,840	5,633	4,644	(989)
Village hall	76,373	54,452	50,060	(4,392)
<b>Total general government</b>	<b>133,628</b>	<b>105,309</b>	<b>105,983</b>	<b>674</b>
<b>Public safety</b>				
<b>Law enforcement</b>	<b>154,966</b>	<b>172,969</b>	<b>150,839</b>	<b>(22,130)</b>

Continued ...

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

## VILLAGE OF SUTTONS BAY

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Public works</b>				
Department of public works	\$ 102,728	\$ 123,647	\$ 125,242	\$ 1,595
Zoning and planning	43,356	60,919	58,413	(2,506)
Street lighting	12,000	12,000	10,187	(1,813)
<b>Total public works</b>	<b>158,084</b>	<b>196,566</b>	<b>193,842</b>	<b>(2,724)</b>
<b>Recreation and culture</b>				
<b>Parks</b>	<b>150,852</b>	<b>161,108</b>	<b>179,609</b>	<b>18,501</b>
<b>Total expenditures</b>	<b>597,530</b>	<b>635,952</b>	<b>630,273</b>	<b>(5,679)</b>
Revenues over (under) expenditures	85,103	133,285	122,092	(11,193)
<b>Other financing sources (uses)</b>				
Transfers out	<b>(116,000)</b>	<b>(510,590)</b>	<b>(510,590)</b>	-
Net change in fund balance	(30,897)	(377,305)	(388,498)	(11,193)
Fund balance, beginning of year	402,638	402,638	402,638	-
<b>Fund balance, end of year</b>	<b>\$ 371,741</b>	<b>\$ 25,333</b>	<b>\$ 14,140</b>	<b>\$ (11,193)</b>

Concluded

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

## VILLAGE OF SUTTONS BAY

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL MAJOR STREETS FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenues	\$ 35,975	\$ 38,000	\$ 37,032	\$ (968)
Contributions	20,800	21,048	21,149	101
Interest	650	728	807	79
<b>Total revenues</b>	<b>57,425</b>	<b>59,776</b>	<b>58,988</b>	<b>(788)</b>
<b>Expenditures</b>				
Public works - highways and streets	83,332	353,823	393,659	39,836
Revenues over (under) expenditures	(25,907)	(294,047)	(334,671)	(40,624)
<b>Other financing (uses)</b>				
Transfers in	11,000	276,590	276,590	-
Transfers out	(9,500)	(9,250)	-	(9,250)
<b>Total other financing (uses) sources</b>	<b>1,500</b>	<b>267,340</b>	<b>276,590</b>	<b>(9,250)</b>
Net change in fund balance	(24,407)	(26,707)	(58,081)	(31,374)
Fund balance, beginning of year	43,224	43,224	43,224	-
<b>Fund balance (deficit), end of year</b>	<b>\$ 18,817</b>	<b>\$ 16,517</b>	<b>\$ (14,857)</b>	<b>\$ (31,374)</b>

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

## VILLAGE OF SUTTONS BAY

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL LOCAL STREETS FUND

FOR THE YEAR ENDED DECEMBER 31, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State revenues	\$ 17,756	\$ 18,903	\$ 18,794	\$ (109)
Interest	500	520	671	
Other revenue	3,000	-	18,000	18,000
<b>Total revenues</b>	<b>21,256</b>	<b>19,423</b>	<b>37,465</b>	<b>18,042</b>
<b>Expenditures</b>				
Public works - highways and streets	97,463	146,290	160,901	14,611
Revenues (under) over expenditure:	(76,207)	(126,867)	(123,436)	3,431
<b>Other financing sources</b>				
Transfers in	99,250	127,250	188,000	60,750
Net change in fund balance	23,043	383	64,564	64,181
Fund balance (deficit), beginning of year	(90,677)	(90,677)	(90,677)	-
<b>Fund balance (deficit), end of year</b>	<b>\$ (67,634)</b>	<b>\$ (90,294)</b>	<b>\$ (26,113)</b>	<b>\$ 64,181</b>

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

**VILLAGE OF SUTTONS BAY**

**STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS**

**DECEMBER 31, 2006**

	<u>Business-type Activities</u>			<u>Total</u>	<u>Internal Service - Motor Pool</u>
	<u>Enterprise - Sewer</u>	<u>Enterprise - Water</u>	<u>Enterprise - Marina</u>		
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 117,455	\$ 1,256	\$ 23,345	\$ 142,056	\$ 7,528
Accounts receivable	91,689	159,368	11,839	262,896	194
Due from other funds	151,360	-	244,000	395,360	-
Inventory	-	12,456	-	12,456	-
Prepaid expenses	3,651	1,701	-	5,352	-
<b>Total current assets</b>	<b>364,155</b>	<b>174,781</b>	<b>279,184</b>	<b>818,120</b>	<b>7,722</b>
Noncurrent assets					
Land	-	-	1,083,886	1,083,886	-
Construction in progress	53,395	126,048	-	179,443	-
Depreciable capital assets - net	5,780,267	726,673	733,006	7,239,946	466,013
Bond issuance costs	57,148	-	-	57,148	-
<b>Total noncurrent assets</b>	<b>5,890,810</b>	<b>852,721</b>	<b>1,816,892</b>	<b>8,560,423</b>	<b>466,013</b>
<b>Total assets</b>	<b>6,254,965</b>	<b>1,027,502</b>	<b>2,096,076</b>	<b>9,378,543</b>	<b>473,735</b>
<b>Liabilities</b>					
Current liabilities					
Accounts payable	17,168	7,303	170	24,641	2,285
Accrued expenses	11,149	1,838	-	12,987	-
Unearned revenue	-	-	820	820	-
Due to other funds	-	296,360	-	296,360	15,000
Current portion of long-term debt	155,000	14,000	203,154	372,154	53,178
<b>Total current liabilities</b>	<b>183,317</b>	<b>319,501</b>	<b>204,144</b>	<b>706,962</b>	<b>70,463</b>
Noncurrent liabilities					
Long-term debt, net of current portion	2,232,500	195,000	-	2,427,500	222,785
<b>Total liabilities</b>	<b>2,415,817</b>	<b>514,501</b>	<b>204,144</b>	<b>3,134,462</b>	<b>293,248</b>
<b>Net assets</b>					
Investment in capital assets, net of related debt	3,446,162	643,721	1,613,738	5,703,621	190,050
Unrestricted (deficit)	392,986	(130,720)	278,194	540,460	(9,563)
<b>Total net assets</b>	<b>\$ 3,839,148</b>	<b>\$ 513,001</b>	<b>\$ 1,891,932</b>	<b>\$ 6,244,081</b>	<b>\$ 180,487</b>

Continued ...

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF NET ASSETS PROPRIETARY FUNDS

DECEMBER 31, 2006

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### Reconciliation of Net Assets on the Statement of Net Assets for Enterprise Funds to Net Assets of Business-Type Activities on the Statement of Net Assets

Net assets - total enterprise funds	\$ 6,244,081
Amounts reported for business-type activities in the statement of net assets are different because	
An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. A portion of the assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.	
Deduct - net assets of business-type activities accounted for in the internal service fund	<u>(60,066)</u>
<b>Net assets of business-type activities</b>	<b><u>\$ 6,184,015</u></b>
	Concluded

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

**VILLAGE OF SUTTONS BAY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Business-type Activities</u>			<u>Total</u>	<u>Internal Service - Motor Pool</u>
	<u>Enterprise - Sewer</u>	<u>Enterprise - Water</u>	<u>Enterprise - Marina</u>		
<b>Operating revenues</b>					
Charges for services	\$ 1,664,583	\$ 245,929	\$ 383,540	\$ 2,294,052	\$ 105,973
<b>Operating expenses</b>					
Personnel services	105,307	98,914	107,914	312,135	31,519
Supplies and materials	11,732	(2,628)	92,576	101,680	25,690
Contractual services	11,727	3,058	31,405	46,190	-
Repairs and maintenance	-	32,499	15,367	47,866	8,765
Depreciation	50,490	21,789	44,571	116,850	95,735
Utilities	12,137	10,290	6,470	28,897	-
Other	-	-	4,075	4,075	-
<b>Total operating expenses</b>	<b>191,393</b>	<b>163,922</b>	<b>302,378</b>	<b>657,693</b>	<b>161,709</b>
Operating income (loss)	1,473,190	82,007	81,162	1,636,359	(55,736)
<b>Nonoperating revenues (expenses)</b>					
Interest income	8,391	1,621	6,431	16,443	523
Amortization of bond issuance costs	(2,716)	-	-	(2,716)	-
Interest and fiscal charges	(28,926)	(12,328)	(18,322)	(59,576)	(3,310)
<b>Total nonoperating expenses</b>	<b>(23,251)</b>	<b>(10,707)</b>	<b>(11,891)</b>	<b>(45,849)</b>	<b>(2,787)</b>
Income (loss) before contributions and transfers	1,449,939	71,300	69,271	1,590,510	(58,523)
<b>Other financing sources</b>					
Transfers in	-	-	-	-	46,000
Change in net assets	1,449,939	71,300	69,271	1,590,510	(12,523)
Net assets, beginning of year	2,389,209	441,701	1,822,661	4,653,571	193,010
<b>Net assets, end of year</b>	<b>\$ 3,839,148</b>	<b>\$ 513,001</b>	<b>\$ 1,891,932</b>	<b>\$ 6,244,081</b>	<b>\$ 180,487</b>

Continued ...

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

# VILLAGE OF SUTTONS BAY

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

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### Reconciliation of the Statement of Revenues, Expenses and Changes in Net Assets of Enterprise Funds to the Statement of Activities

Change in net assets - all enterprise funds: \$ 1,590,510

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental and enterprise funds. The net revenue (expense) of the internal service fund attributable to the enterprise funds is reported with business-type activities.

Deduct - net operating loss of business-type activities accounted for in the internal service fund (21,592)

**Change in net assets of business-type activities** \$ 1,568,918

Concluded

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

VILLAGE OF SUTTONS BAY

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities			Total	Internal Service-Motor Pool
	Enterprise-Sewer	Enterprise-Water	Enterprise-Marina		
<b>Cash flows from operating activities</b>					
Cash received from interfund services	\$ -	\$ 244,000	\$ -	\$ 244,000	\$ -
Cash received from customers	1,833,872	100,055	373,650	2,307,577	106,002
Cash payments to suppliers for goods and services	(450,152)	(51,257)	(150,146)	(651,555)	(36,628)
Cash payments to employees for services	(105,307)	(98,914)	(107,914)	(312,135)	(31,519)
Cash payments for interfund services	(100,000)	-	(244,000)	(344,000)	-
<b>Net cash provided by (used in) operating activities</b>	<b>1,178,413</b>	<b>193,884</b>	<b>(128,410)</b>	<b>1,243,887</b>	<b>37,855</b>
<b>Cash flows from non-capital financing activities</b>					
Transfers in	-	-	-	-	46,000
<b>Cash flows from capital and related financing activities</b>					
Proceeds from issuance of debt	1,122,652	-	-	1,122,652	286,713
Principal payments	(53,000)	(13,000)	(33,564)	(99,564)	(32,816)
Interest payments	(28,926)	(12,328)	(18,322)	(59,576)	(3,310)
Purchases of capital assets	(2,268,280)	(169,963)	(29,637)	(2,467,880)	(327,623)
<b>Net cash used in capital and related financing activities</b>	<b>(1,227,554)</b>	<b>(195,291)</b>	<b>(81,523)</b>	<b>(1,504,368)</b>	<b>(77,036)</b>
<b>Cash flows provided by investing activities</b>					
Interest received	8,391	1,621	6,431	16,443	523
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(40,750)</b>	<b>214</b>	<b>(203,502)</b>	<b>(244,038)</b>	<b>7,342</b>
Cash and cash equivalents, beginning of year	158,205	1,042	226,847	386,094	186
<b>Cash and cash equivalents, end of year</b>	<b>\$ 117,455</b>	<b>\$ 1,256</b>	<b>\$ 23,345</b>	<b>\$ 142,056</b>	<b>\$ 7,528</b>

Continued ...

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

**VILLAGE OF SUTTONS BAY**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Business-type Activities</u>			<u>Total</u>	<u>Internal Service-Motor Pool</u>
	<u>Enterprise-Sewer</u>	<u>Enterprise-Water</u>	<u>Enterprise-Marina</u>		
<b>Reconciliation of operating income (loss) to net cash provided in (used by) operating activities</b>					
Operating income (loss)	\$ 1,473,190	\$ 82,007	\$ 81,162	\$ 1,636,359	\$ (55,736)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	50,490	21,789	44,571	116,850	95,735
Changes in assets and liabilities					
Receivables	169,289	(145,874)	(9,246)	14,169	29
Due from other funds	(100,000)	-	(244,000)	(344,000)	-
Inventories	-	(12,456)	-	(12,456)	-
Prepaid expenses	373	(27)	-	346	-
Accounts payable	(419,243)	4,749	(253)	(414,747)	(2,173)
Accrued expenses	4,314	(304)	-	4,010	-
Unearned revenue	-	-	(644)	(644)	-
Due to other funds	-	244,000	-	244,000	-
<b>Net cash provided by (used in) operating activities</b>	<b><u>\$ 1,178,413</u></b>	<b><u>\$ 193,884</u></b>	<b><u>\$ (128,410)</u></b>	<b><u>\$ 1,243,887</u></b>	<b><u>\$ 37,855</u></b>

Concluded

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

# VILLAGE OF SUTTONS BAY, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### INDEX

DECEMBER 31, 2006

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	<u>PAGE</u>
<b>I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>	
A. Reporting entity	20
B. Government-wide and fund financial statements	20-21
C. Measurement focus, basis of accounting, and financial statement presentation	21-22
D. Assets, liabilities and net assets or equity	22-24
<b>II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY</b>	
A. Budgetary information	24
B. Excess of expenditures over appropriations	24-25
C. Deficit fund balances	25
<b>III. DETAILED NOTES ON ALL FUNDS</b>	
A. Deposits and investments	25-26
B. Receivables	26
C. Capital assets	27-29
D. Accounts payables and accrued expenses	29
E. Interfund transfers	29-30
F. Long-term debt	30-31
<b>IV. OTHER INFORMATION</b>	
A. Risk management	32
B. Property taxes	32
C. Defined contribution plan	32
D. Subsequent events	32

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

The Village of Suttons Bay is governed by an elected Village President and a six member council not including the Village President. The accompanying financial statement presents the activities of the Village for which it is financially accountable.

**B. 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 nonfiduciary 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.

The Village reports the following major governmental funds:

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

The *Major Streets Fund* accounts for the use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Streets Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The Village reports the following major enterprise funds:

The *Water Fund* accounts for the activities of the Village's water distribution.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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The *Sewer Fund* accounts for the activities of the Village's sewage disposal and treatment system.

The *Marina Fund* accounts for the activities of the Village's harbor system.

Additionally, the Village reports the following fund type:

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the Village on a cost reimbursement basis.

**C. 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*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when liabilities are 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.

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* when they are collectible 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, 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. All other revenue items are considered to be measurable and available only when cash is received by the Village.

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 government has elected not to follow subsequent private-sector guidance.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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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 function, cost of building rent 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.

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. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* 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 Water, Sewer, and Marina Enterprise Funds and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap 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 nonoperating revenues and expenses.

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

**D. Assets, liabilities and net assets or equity**

**1. *Deposits and investments***

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value.

**2. *Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**3. *Prepaid items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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**4. *Inventory***

Inventory held by the enterprise funds are valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

**5. *Capital assets***

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$1,000 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 assets 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 and component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-50
System infrastructure	20-50
Vehicles	5-10
Equipment	5-20

**6. *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 straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**7. 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.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than December 31st of each year, the Village Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the Village and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the Village Council is the functional level, which is the level at which expenditures may not legally exceed appropriations. The Village Manager may make transfers of appropriations between departments within any funds; however, any supplemental appropriations that amend the total expenditures of any fund require a Village Councils' resolution.

**B. Excess of expenditures over appropriations**

For the year ended December 31, 2006, the General Fund's expenditures exceeded appropriations as follows:

<b>General Government</b>	
Village council	\$ 7,341
<b>Public Works</b>	
Department of public works	1,595

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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**Recreation and culture**

Parks	\$18,501
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For the year ended December 31, 2006, the Special Revenue Fund's expenditures exceeded appropriations as follows:

**Major Streets**

Highway and streets	39,836
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**Local Streets**

Highway and streets	14,611
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**C. Deficit fund balances**

At December 31, 2006, an unrestricted deficit of \$14,857 and \$26,113 existed in the Major Streets and Local Streets Funds, respectively. The deficit was caused by construction costs not covered by state revenues or transfers from other funds. The Village will increase interfund transfers in 2007 to eliminate the deficits.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in 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 obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of 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.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and certificates of deposit but not the remainder of state statutory authority as listed above.

The Village's deposit and investment policy is in accordance with statutory authority.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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Cash and cash equivalents are reported in the financial statement as follows:

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>\$ 44,509</u>	<u>\$ 142,056</u>	<u>\$ 186,565</u>

For the year ended December 31, 2006, the Village's cash and investments were composed entirely of deposits.

**Deposit risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Village's investment policy does not have specific limits in excess of state law on investment credit risk.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end \$60,600 of the Village's bank balance of \$214,677 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit.

**B. Receivables**

Receivables in the Village's governmental-type activities consist entirely of due from other governments. Receivables in the business-type activities consist of 91% due from customers and 9% special assessment receivable.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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**C. Capital assets**

**Primary Government**

Capital assets activity in the governmental and business-type activities was as follows for the year ended December 31, 2006:

	<u>January 1,</u> <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2006</u>
<b>Governmental activities</b>				
Capital assets not being depreciated – land	\$ 1,165,964	\$ -	\$ -	\$ 1,165,964
Capital assets being depreciated				
Land improvements	78,944	426,191	-	505,135
Buildings and structures	370,503	36,816	-	407,319
Equipment	<u>505,116</u>	<u>331,404</u>	<u>-</u>	<u>836,520</u>
Total capital assets being depreciated	<u>954,563</u>	<u>794,411</u>	<u>-</u>	<u>1,748,974</u>
Less accumulated depreciation for				
Land improvements	(883)	(3,666)	-	(4,549)
Buildings and structures	(173,372)	(8,858)	-	(182,230)
Equipment	<u>(325,876)</u>	<u>(96,080)</u>	<u>-</u>	<u>(421,956)</u>
Total accumulated depreciation	<u>(500,131)</u>	<u>(108,604)</u>	<u>-</u>	<u>(608,735)</u>
Total capital assets being depreciated, net	<u>454,432</u>	<u>685,807</u>	<u>-</u>	<u>1,140,239</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 1,620,396</u></b>	<b><u>\$ 685,807</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,306,203</u></b>

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

	<u>January 1,</u> <u>2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2006</u>
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 1,083,886	\$ -	\$ -	\$ 1,083,886
Construction in progress	<u>2,227,716</u>	<u>2,371,302</u>	<u>(4,419,575)</u>	<u>179,443</u>
Total capital assets not being depreciated	<u>3,311,602</u>	<u>2,371,302</u>	<u>(4,419,575)</u>	<u>1,263,329</u>
Capital assets being depreciated				
Land improvements	335,775	-	-	335,775
Buildings	45,878	-	-	45,878
Sewer system	2,145,213	4,442,600	-	6,587,813
Water system	1,018,958	43,916	-	1,062,874
Marina	982,066	6,240	-	988,306
Machinery and equipment	<u>27,627</u>	<u>23,397</u>	-	<u>51,024</u>
Total capital assets being depreciated	<u>4,555,517</u>	<u>4,516,153</u>	-	<u>9,071,670</u>
Less accumulated depreciation for				
Land improvements	(271,233)	(5,826)	-	(277,059)
Buildings	(29,308)	(1,222)	-	(30,530)
Sewer system	(757,056)	(50,490)	-	(807,546)
Water system	(314,412)	(21,789)	-	(336,201)
Marina	(323,771)	(33,972)	-	(357,743)
Machinery and equipment	<u>(19,094)</u>	<u>(3,551)</u>	-	<u>(22,645)</u>
Total accumulated depreciation	<u>(1,714,874)</u>	<u>(116,850)</u>	-	<u>(1,831,724)</u>
Total capital assets being depreciated, net	<u>2,840,643</u>	<u>4,399,303</u>	-	<u>7,239,946</u>
<b>Business-type activities capital assets, net</b>	<u><b>\$ 6,152,245</b></u>	<u><b>\$ 6,770,605</b></u>	<u><b>\$ (4,419,575)</b></u>	<u><b>\$ 8,503,275</b></u>

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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

<b>Governmental activities</b>	
General government	\$ 9,202
Public works	3,667
Capital assets held by the Village's internal service funds charged to the various functions based on their usage of the assets	95,735
<b>Total depreciation expense – governmental activities</b>	<b><u>\$ 108,604</u></b>
 <b>Business-type activities</b>	
Sewer	\$ 50,490
Water	21,789
Marina	44,571
<b>Total depreciation expense – business-type activities</b>	<b><u>\$ 116,850</u></b>

**D. Account payables and accrued expenses**

Accounts payable and accrued expenses in the governmental activities consist of 69% vendor payables and 31% accrued liabilities. Business-type activities payables consist of 65% vendor payables and 35% accrued interest.

**E. Interfund receivables, payables and transfers**

The composition of interfund balances is as follows:

<b>Due to other funds</b>	<b>Due from other funds</b>				<b>Total</b>
	General	Local Streets	Sewer	Marina	
General	\$ -	\$ -	\$ 100,000	\$ -	\$ 100,000
Major Streets	-	32,000	-	-	32,000
Local Streets	40,000	-	49,000	-	89,000
Water	50,000	-	2,360	244,000	296,360
Internal Service	15,000	-	-	-	15,000
<b>Total</b>	<b><u>\$ 105,000</u></b>	<b><u>\$ 32,000</u></b>	<b><u>\$ 151,360</u></b>	<b><u>\$244,000</u></b>	<b><u>\$ 532,360</u></b>

Interfund receivables and payables are established to cover cash deficits, short-term financing of certain operations, and expenditures/expenses paid from one fund on behalf of another fund.

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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The composition of interfund transfers is as follows:

	<u><b>Transfers Out</b></u>
<b>Transfers in</b>	<u><b>General Fund</b></u>
Major Streets Fund	\$ 276,590
Local Streets Fund	188,000
Internal Service Fund	<u>46,000</u>
<b>Total</b>	<b><u>\$ 510,590</u></b>

Interfund 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 and 2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**F. Long-term liabilities**

	<u><b>Final Maturity Date</b></u>	<u><b>Interest Rates</b></u>	<u><b>Outstanding Balance</b></u>
<b>Governmental activities</b>			
<b>Internal service funds</b>			
Vactor Truck Note Payable	2011	4.50%	\$ 160,409
Plow Truck Note Payable	2011	4.66%	<u>115,554</u>
<b>Total governmental activities</b>			<b><u>275,963</u></b>
<b>Business-type activities</b>			
Sewer Supply System Revolving Fund			
Bond, Series 2005	2026	1.625%	2,200,000
Sewer Supply System General Obligation			
Bond, Series 2004	2009	3.46%	187,500
Water Supply System Revenue Bond,			
Series 1997	2017	5.79%	209,000
Marina Floating Dock Note Payable,			
2001	2007	4.50%	<u>203,154</u>
<b>Total Business-type activities</b>			<b><u>2,799,654</u></b>
<b>Total Primary Government</b>			<b><u>\$ 3,075,617</u></b>

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

**Bond refunding**

On October 8, 2004, the County issued general obligation bonds of \$293,500. Proceeds from this bond issue were used to refund \$280,000 of revenue bonds obligated by Leelanau County. The balance of the defeased debt outstanding at December 31, 2006 was \$175,000.

Following is a summary of bond and note payable transactions of the for the year ending December 31, 2006:

	<u>Governmental Activities Note Payable</u>	<u>General Obligation Bonds</u>	<u>Business-Type Revenue Bonds</u>	<u>Business-Type Note Payable</u>
Balance payable January 1, 2006	\$ 22,065	\$ 1,317,848	\$ 222,000	\$ 236,718
Bond and note proceeds	286,713	1,122,652	-	-
Bonds and notes retired	<u>(32,815)</u>	<u>(53,000)</u>	<u>(13,000)</u>	<u>(33,564)</u>
<b>Balances payable</b>				
<b>December 31, 2006</b>	<b><u>\$ 275,963</u></b>	<b><u>\$ 2,387,500</u></b>	<b><u>\$ 209,000</u></b>	<b><u>\$ 203,154</u></b>
<b>Principal requirements</b>				
<b>due in one year</b>	<b><u>\$ 53,178</u></b>	<b><u>\$ 155,000</u></b>	<b><u>\$ 14,000</u></b>	<b><u>\$ 203,154</u></b>

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

<b>Fiscal Year</b>	<u>Governmental Activities Note Payable</u>		<u>Business-Type General Obligation Bond</u>		<u>Business-Type Revenue Bond</u>		<u>Business-Type Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 53,178	\$ 12,160	\$ 155,000	\$ 42,301	\$ 14,000	\$ 11,088	\$ 203,154	\$ 2,976
2008	55,799	9,539	157,500	39,621	15,000	10,088	-	-
2009	58,550	6,788	160,000	37,074	16,000	9,088	-	-
2010	61,436	3,902	100,000	31,119	17,000	8,088	-	-
2011	47,000	1,012	100,000	29,494	18,000	7,088	-	-
2012-16	-	-	525,000	122,606	105,000	20,438	-	-
2017-21	-	-	570,000	78,567	24,000	1,088	-	-
2022-26	-	-	<u>620,000</u>	<u>30,631</u>	-	-	-	-
	<b><u>\$ 275,963</u></b>	<b><u>\$ 33,401</u></b>	<b><u>\$ 2,387,500</u></b>	<b><u>\$ 411,413</u></b>	<b><u>\$ 209,000</u></b>	<b><u>\$ 66,966</u></b>	<b><u>\$ 203,154</u></b>	<b><u>\$ 2,976</u></b>

**VILLAGE OF SUTTONS BAY**  
**NOTES TO FINANCIAL STATEMENTS**

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**IV. OTHER INFORMATION**

**A. Risk management**

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. During the year ended December 31, 2006, the Village carried commercial insurance through various commercial carriers, to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**B. Property taxes**

The Village'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 14; as of February 28 of the succeeding year, unpaid real property taxes are sold to and collected by Leelanau County.

Assessed values as established annually by the Village, 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 the 2005 levy were assessed and equalized at \$66,546,023 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2006 was 9.5 mills.

**C. Defined contribution plan**

The Village sponsors the "Village of Suttons Bay Retirement Plan," a self-administered defined contribution plan created in accordance with Internal Revenue Code Section 401(k). The plan covers substantially all employees with the exception of seasonal employees. Employer contributions are based upon 5% percentage of annual payroll. Employees are vested 100% immediately in employee contributions and vest 20% for at least two but no more than three, 40% for at least three but no more than four, 60% for at least four but no more than five, and 80% for at least five but no more than six and 100% at six or more years of service. During 2006, employer contributions amounted to \$15,830.

Plan provisions and contributions requirements are established and may be amended by the Village of Suttons Bay.

**D. Subsequent events/construction commitments**

The Village entered into a contract subsequent to year-end for the building of a floating dockage addition to the Suttons Bay Marina for a total amount of \$101,042. A \$15,000 deposit was made in April 2007.

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## **SINGLE AUDIT SECTION**

**VILLAGE OF SUTTONS BAY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Federal Grantor/Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures</u>
<u>Environmental Protection Agency</u>			
Passed Through Michigan Department Of Environmental Quality			
Capitalization Grant Drinking Water Revolving Fund			
Expended Through December 31, 2005	66.468	N/A	\$ 225,399
Expended Through December 31, 2006	66.468	N/A	<u>387,438</u>
Total Federal Awards			<u><u>\$ 612,837</u></u>

**Note:**

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



**REHMANN ROBSON**

*Certified Public Accountants*

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**INDEPENDENT AUDITORS' 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**

June 28, 2007

To the Village Council  
Village of Suttons Bay  
Suttons Bay, Michigan

We have audited the financial statements of the governmental activities, business-type activities and each major fund of the Village of Suttons Bay, as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated June 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Village of Suttons Bay'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 Suttons Bay's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Suttons Bay's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2006-1 to be a significant deficiency in internal control over financial reporting.

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 entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not consider the deficiency described in the above to be a material weakness.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to the management of the Village of Suttons Bay in a separate letter dated June 28, 2007.

The Village's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and the board members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Lehmann Johnson".



**REHMANN ROBSON**

*Certified Public Accountants*

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

June 28, 2007

To the Village Council  
Village of Suttons Bay  
Suttons Bay, Michigan

**Compliance**

We have audited the compliance of the Village of Suttons Bay with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended December 31, 2005 and 2006. The Village of Suttons Bay's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Village of Suttons Bay's management. Our responsibility is to express an opinion on the Village of Suttons Bay's compliance based on our audit.

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

In our opinion, the Village of Suttons Bay complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended December 31, 2005 and 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2006-2.

### *Internal Control Over Compliance*

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

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2006-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The Village's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Village's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, others within the organization, Village Council, 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.



VILLAGE OF SUTTONS BAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SECTION I - SUMMARY OF AUDITOR'S RESULTS

**Financial Statements**

Type of auditor's report issued: *Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified not considered to be material weaknesses?  X  yes \_\_\_\_\_ none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes  X  no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes  X  no

Significant deficiencies identified not considered to be material weaknesses?  X  yes \_\_\_\_\_ none reported

Type of auditor's report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

X  yes \_\_\_\_\_ no

Identification of Major Programs:

**CFDA Number/Name of Federal Program or Cluster**

66.468 Capitalization Grant Drinking Water Revolving Fund

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes  X  no

VILLAGE OF SUTTONS BAY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SECTION II – FINANCIAL STATEMENT FINDINGS

**Finding 2006-1 – Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government’s management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)

**Condition:** As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government’s ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government’s *internal* controls.

**Cause:** This condition was caused by the government’s decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

**Effect:** As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

**View of Responsible Officials:** The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**2006-2** Support for and Approval of Expenditures

**Grantor:** Environmental Protection Agency CFDA #: 66.468

**Award Name:** Capitalization Grant Drinking Water Revolving Fund

## VILLAGE OF SUTTONS BAY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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**Criteria:** Office of Management and Budget Circular No. A-87, *Cost Principles for State, Local and Indian Tribal Governments*, indicates that for expenditures to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards and be adequately documented. In addition, Village internal control procedures require that there be proper support, documentation and approval of expenditures.

**Condition:** The Village undertook a construction project for the new wastewater treatment plant during the years ended December 31, 2005 and 2006. Prior to commencement of the construction, the Village Council approved the project and contracts were entered into with various contractors. However, during the payment process for this project, the internal control process was not consistently followed for all disbursements. There were several construction contractor invoices and/or certificates for payment filed that did not have evidence of management approval, such as management signature or initials. See below for specific check numbers that did not show evidence of management approval.

Check #	Vendor
33780	Grand Traverse Construction
33816	Grand Traverse Construction
33885	Grand Traverse Construction
33947	Grand Traverse Construction
33946	Gosling Czubak
34082	Gosling Czubak
34091	Kal Excavating Co.
34144	Grand Traverse Construction
34150	Kal Excavating Co.
34214	Kal Excavating Co.
34282	Kal Excavating Co.
34359	Grand Traverse Construction
34368	Kal Excavating Co.
34427	Grand Traverse Construction
34617	Grand Traverse Construction
34729	Grand Traverse Construction

**Questioned Costs:** None.

**Effect:** Certain construction contractor disbursements were made without evidence of management's approval, such as management signature or initials.

**Cause:** Management did not sign or initial all construction contractor invoices and/or certificates for payment prior to disbursement.

**Recommendation:** We recommend that the Village implement procedures to ensure that supporting documentation that includes written evidence of management approval is maintained for all future construction project disbursements.

**VILLAGE OF SUTTONS BAY**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

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There were no audit findings reported for the fiscal year ended December 31, 2004.



**REHMANN ROBSON**

*Certified Public Accountants*

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June 28, 2007

To the Village Council  
Village of Suttons Bay  
Suttons Bay, Michigan

We have audited the financial statements of the Village of Suttons Bay for the year ended December 31, 2006, and have issued our report thereon dated June 28, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated March 19, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Village of Suttons Bay's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Village of Suttons Bay's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB)*

*Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Village of Suttons Bay's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Village of Suttons Bay's compliance with those requirements.

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Suttons Bay are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Village of Suttons Bay during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village's financial reporting process (that is, cause future financial statements to be materially misstated). The following audit adjustment(s), in our judgment, indicate matters that could have a significant effect on the Village of Suttons Bay's financial reporting process:

All audit entries that were posted to convert financial statements from cash basis to modified accrual basis and from modified accrual basis to full accrual basis. In other words, audit entries are required to properly account for receivables, payables, capital assets, etc.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### Issues Discussed Prior to Retention of Independent Auditors


We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Suttons Bay's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Village Council, and if considered appropriate, management of the Village and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



**Village of Suttons Bay**  
**Comments and Recommendations**  
**December 31, 2006**

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In planning and performing our audit of the financial statements of the *Village of Suttons Bay* as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated June 28, 2007, contains our report on significant deficiencies in the Village's internal control. This letter does not affect our report dated June 28, 2007, on the financial statements of the *Village of Suttons Bay*.

We will review the status of these comments and suggestions during our next audit engagement. We have already discussed these comments and suggestions with various Village personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

### **1) Journal entries**

General journal entries are prepared by the Bookkeeper to record various transactions in the general ledger, such as non-proprietary (water and sewer) receipts, interest earned, electronic funds transfer of payroll taxes, depreciation expense, and accruals for receivables and payables at year end. If one individual prepares and posts journal entries with no review process, the possibility of journal entries being entered that are inaccurate or fraudulent is increased.

We recommend each journal entry be reviewed and approved by someone other than the person who prepared the journal entry. The reviewer should have an appropriate level of responsibility and knowledge of the accounting system. This would prevent intentional or unintentional errors from occurring. (For example, recording a wire transfer or a credit memorandum on a receivable that did not occur.) In addition, we recommend that these journal entries be printed or a file maintained that evidences the review and approval of journal entries.

### **2) Bank Reconciliation**

The Village Bookkeeper records the cash receipts, prepares the utility billings and payables, initiates the payroll tax wire transfers and reconciles the bank accounts. Performing all of these functions increases the risk of misappropriation of assets, such as issuing credit memorandums for receipts received, making an unauthorized wire transfer, or preparing unauthorized checks.

To mitigate the possibility of Village funds being misappropriated, we recommend the Village Treasurer review each bank account reconciliation looking for unusual or unexpected wire transfers and review the canceled checks to assure proper signatures. In addition, we recommend that the bank reconciliations are marked to indicate that this review took place.

### **3) Reconciliations of subsidiary ledgers**

Reconciliations between the utility receivable subsidiary ledger to the general ledger control account, as well as the accounts payable subsidiary ledger to the general ledger control account, are currently not being done. This allows for errors (incorrect postings to the general ledger) that may not be caught in a timely manner.

We recommend reconciliations for utility receivables be performed on a monthly basis to assure all postings are included in the general ledger which supports the Village's financial statements to assure accurate financial reporting.

**4) Annual audit**

In 2005, the Village received proceeds from the State of Michigan's Sewer Revolving Loan Fund to upgrade the Village's wastewater treatment system. One of the grant/bond requirements is the Village must have an annual audit. The Village will no longer be able to follow the State statutory biannual audit (based on population).

**5) Current Year Deficit Fund Balances**

The Village's Major and Local Streets Special Revenue Funds ended the year with deficits of \$14,857 and \$26,113 respectively. According to the State Revenue Sharing Act of 1971, the Village is required to have a deficit elimination plan approved by the State Department of Treasury for any fund that ends the year in a fund deficit situation.

We recommend that the Village investigate the cause of the deficits, develop a plan for reducing the deficit, and submit the plan to the State Department of Treasury for approval.

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