

VILLAGE OF LUTHER
Lake County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended February 28, 2007

AUDITING PROCEDURES REPORT

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

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Luther	County Lake
Audit Date February 28, 2007	Opinion Date June 15, 2007	Date Accountant Report Submitted to State: June 18, 2007	

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

We affirm that:

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

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

You must check the applicable box for each item below.

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

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

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Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature <i>Campbell, Kusterer & Co., P.C.</i>		Zip 48707	

VILLAGE OF LUTHER
Lake County, Michigan

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INDEPENDENT AUDITOR'S REPORT

June 15, 2007

To the Village Council
Village of Luther
Lake County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Luther, Lake County, Michigan as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Morley's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Village of Luther, Lake County, Michigan as of February 28, 2007, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Campbell Kusterer & Co., P.C.

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

VILLAGE OF LUTHER
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended February 28, 2007

The Management's Discussion and Analysis report of the Village of Luther covers the Village's financial performance during the year ended February 28, 2007.

FINANCIAL HIGHLIGHTS

Our financial status has improved over the last year. Net assets at February 28, 2007, totaled \$322,321.17 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$186,027.92 from governmental activities. Governmental activities had a \$30,096.23 increase in net assets with road expense of \$59,770.22.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

ENTITY-WIDE FINANCIAL STATEMENTS

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

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

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

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

VILLAGE OF LUTHER
Lake County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended February 28, 2007

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

All of the activities of the Village are reported as governmental activities. These include the General Fund, the Major Street Fund, and the Local Street Fund.

FUND FINANCIAL STATEMENTS

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

The Village has the following types of funds:

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

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The Major Street Fund incurred expenses of \$29,753.65. The Local Street incurred expenses of \$30,016.57.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$-0- in capital assets.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow with demand for good roads.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact the Village Clerk or the Village Treasurer at 231-797-5452.

VILLAGE OF LUTHER
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
February 28, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	199 864 03
Taxes receivable	12 125 97
Due from State of Michigan	<u>9 895 45</u>
Total Current Assets	<u>221 885 45</u>
NON-CURRENT ASSETS:	
Capital Assets	154 185 89
Less: Accumulated Depreciation	<u>(53 750 17)</u>
Net Capital assets	<u>100 435 72</u>
TOTAL ASSETS	<u><u>322 321 17</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	100 435 72
Unrestricted	<u>221 885 45</u>
Total Net Assets	<u>322 321 17</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>322 321 17</u></u>

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

VILLAGE OF LUTHER
Lake County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended February 28, 2007

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	4 581 49	-	(4 581 49)
General government	24 466 68	-	(24 466 68)
Public works	100 280 94	28 241 44	(72 039 50)
Recreation and culture	9 361 68	-	(9 361 68)
Other	17 240 90	-	(17 240 90)
Total Governmental Activities	<u>155 931 69</u>	<u>28 241 44</u>	<u>(127 690 25)</u>
General Revenues:			
Property taxes			35 270 13
State revenue sharing			110 342 75
Interest			6 658 69
Miscellaneous			<u>5 514 91</u>
Total General Revenues			<u>157 786 48</u>
Change in net assets			30 096 23
Net assets, beginning of year			<u>292 224 94</u>
Net Assets, End of Year			<u>322 321 17</u>

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

VILLAGE OF LUTHER
Lake County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
February 28, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	139 125 12	39 084 03	21 654 88	199 864 03
Taxes receivable	12 125 97	-	-	12 125 97
Due from State of Michigan	<u>4 683 00</u>	<u>3 347 56</u>	<u>1 864 89</u>	<u>9 895 45</u>
Total Assets	<u>155 934 09</u>	<u>42 431 59</u>	<u>23 519 77</u>	<u>221 885 45</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Unreserved:				
Undesignated	<u>155 934 09</u>	<u>42 431 59</u>	<u>23 519 77</u>	<u>221 885 45</u>
Total fund balances	<u>155 934 09</u>	<u>42 431 59</u>	<u>23 519 77</u>	<u>221 885 45</u>
Total Liabilities and Fund Balances	<u>155 934 09</u>	<u>42 431 59</u>	<u>23 519 77</u>	<u>221 885 45</u>

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

VILLAGE OF LUTHER
Lake County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

February 28, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	221 885 45
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	154 185 89
Accumulated depreciation	<u>(53 750 17)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>322 321 17</u>

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

VILLAGE OF LUTHER
Lake County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended February 28, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	35 270 13	-	-	35 270 13
State revenue sharing	37 453 23	50 787 23	22 102 29	110 342 75
Charges for services	28 241 44	-	-	28 241 44
Interest	3 892 40	1 493 40	1 272 89	6 658 69
Miscellaneous	<u>5 514 91</u>	<u>-</u>	<u>-</u>	<u>5 514 91</u>
Total revenues	<u>110 372 11</u>	<u>52 280 63</u>	<u>23 375 18</u>	<u>186 027 92</u>
Expenditures:				
Legislative:				
Village Council	4 581 49	-	-	4 581 49
General government:				
Village President	4 215 90	-	-	4 215 90
Legal	1 653 50	-	-	1 653 50
Clerk	7 159 64	-	-	7 159 64
Treasurer	7 082 33	-	-	7 082 33
Building and grounds	4 355 31	-	-	4 355 31
Public works:				
Department of Public Works	22 168 52	-	-	22 168 52
Highways and streets	-	29 753 65	30 016 57	59 770 22
Street lighting	10 981 95	-	-	10 981 95
Recreation and culture:				
Parks and recreation	9 221 68	-	-	9 221 68
Other functions:				
Employee benefits	4 914 65	-	-	4 914 65
Insurance	10 827 00	-	-	10 827 00
Community promotion	<u>1 499 25</u>	<u>-</u>	<u>-</u>	<u>1 499 25</u>
Total expenditures	<u>88 661 22</u>	<u>29 753 65</u>	<u>30 016 57</u>	<u>148 431 44</u>
Excess (deficiency) of revenues over expenditures	21 710 89	22 526 98	(6 641 39)	37 596 48
Fund balances, March 1	<u>134 223 20</u>	<u>19 904 61</u>	<u>30 161 16</u>	<u>184 288 97</u>
Fund Balances, February 28	<u><u>155 934 09</u></u>	<u><u>42 431 59</u></u>	<u><u>23 519 77</u></u>	<u><u>221 885 45</u></u>

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

VILLAGE OF LUTHER
Lake County, Michigan

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

Year ended February 28, 2007

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	37 596 48
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation Expense	(7 500 25)
Capital Outlay	<u>-</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>30 096 23</u></u>

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

VILLAGE OF LUTHER
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Luther, Lake County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Luther. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Joint Venture

During 1983-84, the Village entered into a joint venture agreement with Newkirk Township to build, equip and operate a municipal hall. The project was completed in January of 1985. The building is governed by its own board with representatives of both the Village and the Township serving. The agreement states that all expenses of construction and operation are to be shared equally.

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

VILLAGE OF LUTHER
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

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

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

Governmental Funds

General Fund

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

Special Revenue Funds

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

Assets, Liabilities and Net Assets or Equity

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

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

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

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 14 with the final collection date of March 1 before they are added to the county delinquent tax rolls. The Village 2006 tax roll millage rate was 10.00 mills, and the taxable value was \$3,492,092.00.

VILLAGE OF LUTHER
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2007

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

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

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$2,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	25-75 years
Vehicles and equipment	12-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

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.

Note 2 – Budgets and Budgetary Accounting

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

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.

VILLAGE OF LUTHER
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2007

Note 2 – Budgets and Budgetary Accounting – (continued)

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

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

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

The Village Council has designated two banks 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 all investments authorized by state law as listed above.

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

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

	<u>Carrying Amounts</u>
Total Deposits	<u>199 864 03</u>

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

	<u>Bank Balances</u>
Insured (FDIC)	150 194 32
Uninsured and Uncollateralized	<u>43 423 97</u>
Total Deposits	<u>193 618 29</u>

The Village of Luther did not have any investments as of February 28, 2007.

VILLAGE OF LUTHER
Lake County, Michigan

NOTES TO FINANCIAL STATEMENTS
February 28, 2007

Note 4 – Capital Assets

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

	<u>Balance</u> 3/1/06	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 2/28/07
<u>Governmental Activities:</u>				
Buildings	56 800 00	-	-	56 800 00
Vehicles and equipment	<u>97 385 89</u>	<u>-</u>	<u>-</u>	<u>97 385 89</u>
Total	154 185 89	-	-	154 185 89
Accumulated Depreciation	<u>(46 249 92)</u>	<u>(7 500 25)</u>	<u>-</u>	<u>(53 750 17)</u>
Net Governmental Capital Assets	<u>107 935 97</u>	<u>(7 500 25)</u>	<u>-</u>	<u>100 435 72</u>

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Pension Plan

The Village does not have a pension plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Village of Luther does not issue building permits. Building permits are issued by the County of Lake.

VILLAGE OF LUTHER
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended February 28, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	35 000 00	35 000 00	35 270 13	270 13
State revenue sharing	37 500 00	37 500 00	37 453 23	(46 77)
Charges for services	25 350 00	25 350 00	28 241 44	2 891 44
Interest	1 850 00	1 850 00	3 892 40	2 042 40
Miscellaneous	<u>104 00</u>	<u>104 00</u>	<u>5 514 91</u>	<u>5 410 91</u>
Total revenues	<u>99 804 00</u>	<u>99 804 00</u>	<u>110 372 11</u>	<u>10 568 11</u>
Expenditures:				
Legislative:				
Village Council	6 900 00	6 900 00	4 581 49	(2 318 51)
General government:				
Village President	4 365 00	4 365 00	4 215 90	(149 10)
Legal	2 000 00	2 000 00	1 653 50	(346 50)
Clerk	8 075 00	8 075 00	7 159 64	(915 36)
Treasurer	8 500 00	8 500 00	7 082 33	(1 417 67)
Building and grounds	5 825 00	5 825 00	4 355 31	(1 469 69)
Public works:				
Department of Public Works	33 400 00	33 400 00	22 168 52	(11 231 48)
Street lighting	12 000 00	12 000 00	10 981 95	(1 018 05)
Recreation and culture:				
Parks and recreation	42 500 00	42 500 00	9 221 68	(33 278 32)
Other functions:				
Employee benefits	5 200 00	5 200 00	4 914 65	(285 35)
Insurance	12 000 00	12 000 00	10 827 00	(1 173 00)
Community promotions	1 750 00	1 750 00	1 499 25	(250 75)
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>142 515 00</u>	<u>142 515 00</u>	<u>88 661 22</u>	<u>(53 853 78)</u>
Excess (deficiency) of revenues over expenditures	<u>(42 711 00)</u>	<u>(42 711 00)</u>	<u>21 710 89</u>	<u>64 421 89</u>
Fund balance, March 1	<u>42 711 00</u>	<u>42 711 00</u>	<u>134 223 20</u>	<u>91 512 20</u>
Fund Balance, February 28	<u>-</u>	<u>-</u>	<u>155 934 09</u>	<u>155 934 09</u>

VILLAGE OF LUTHER
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended February 28, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	34 700 00	34 700 00	50 787 23	16 087 23
Interest	<u>500 00</u>	<u>500 00</u>	<u>1 493 40</u>	<u>993 40</u>
Total revenues	<u>35 200 00</u>	<u>35 200 00</u>	<u>52 280 63</u>	<u>17 080 63</u>
Expenditures:				
Public works:				
Highways and streets	<u>50 476 00</u>	<u>50 476 00</u>	<u>29 753 65</u>	<u>(20 722 35)</u>
Total expenditures	<u>50 476 00</u>	<u>50 476 00</u>	<u>29 753 65</u>	<u>(20 722 35)</u>
Excess (deficiency) of revenues over expenditures	(15 276 00)	(15 276 00)	22 526 98	37 802 98
Fund balance, March 1	<u>15 276 00</u>	<u>15 276 00</u>	<u>19 904 61</u>	<u>4 628 61</u>
Fund Balance, February 28	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>42 431 59</u></u>	<u><u>42 431 59</u></u>

VILLAGE OF LUTHER
Lake County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended February 28, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	18 720 00	18 720 00	22 102 29	3 382 29
Interest	<u>500 00</u>	<u>500 00</u>	<u>1 272 89</u>	<u>772 89</u>
Total revenues	<u>19 220 00</u>	<u>19 220 00</u>	<u>23 375 18</u>	<u>4 155 18</u>
Expenditures:				
Public works:				
Highways and streets	<u>31 176 00</u>	<u>36 126 00</u>	<u>30 016 57</u>	<u>(6 109 43)</u>
Total expenditures	<u>31 176 00</u>	<u>36 126 00</u>	<u>30 016 57</u>	<u>(6 109 43)</u>
Excess (deficiency) of revenues over expenditures	(11 956 00)	(16 906 00)	(6 641 39)	10 264 61
Fund balance, March 1	<u>11 956 00</u>	<u>16 906 00</u>	<u>30 161 16</u>	<u>13 255 16</u>
Fund Balance, February 28	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>23 519 77</u></u>	<u><u>23 519 77</u></u>

VILLAGE OF LUTHER
Lake County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended February 28, 2007

Village Council:	
Salaries and wages	3 630 00
Dues	507 00
Printing and publishing	419 49
Miscellaneous	25 00
	<u>4 581 49</u>
Village President:	
Salary	4 200 00
Office supplies	15 90
	<u>4 215 90</u>
Legal	<u>1 653 50</u>
Clerk:	
Salary	6 000 00
Office supplies	1 159 64
	<u>7 159 64</u>
Treasurer:	
Salary	6 096 00
Office supplies	625 25
Miscellaneous	361 08
	<u>7 082 33</u>
Building and grounds:	
Aid to other governments	1 384 54
Utilities	2 268 59
Telephone	537 18
Maintenance	165 00
	<u>4 355 31</u>
Department of Public Works:	
Wages	9 750 00
Supplies	738 86
Gas and oil	3 268 36
Repairs and maintenance	8 411 30
	<u>22 168 52</u>
Street lighting:	
Utilities	10 981 95
	<u>10 981 95</u>
Parks and recreation:	
Contracted services	8 654 68
Recreation	567 00
	<u>9 221 68</u>
Other functions:	
Employee benefits	4 914 65
Insurance	10 827 00
Community promotion	1 499 25
	<u>17 240 90</u>
Total Expenditures	<u><u>88 661 22</u></u>

VILLAGE OF LUTHER
 Lake County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
 February 28, 2007

	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	39 084 03	21 654 88	60 738 91
Due from State of Michigan	<u>3 347 56</u>	<u>1 864 89</u>	<u>5 212 45</u>
Total Assets	<u><u>42 431 59</u></u>	<u><u>23 519 77</u></u>	<u><u>65 951 36</u></u>
<u>Liabilities and Fund Balances</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	<u>42 431 59</u>	<u>23 519 77</u>	<u>65 951 36</u>
Total Liabilities and Fund Balances	<u><u>42 431 59</u></u>	<u><u>23 519 77</u></u>	<u><u>65 951 36</u></u>

VILLAGE OF LUTHER
Lake County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended February 28, 2007

	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:			
State revenue sharing	50 787 23	22 102 29	72 889 52
Interest	<u>1 493 40</u>	<u>1 272 89</u>	<u>2 766 29</u>
Total revenues	<u>52 280 63</u>	<u>23 375 18</u>	<u>75 655 81</u>
Expenditures:			
Public works:			
Highways and streets:			
Administration:			
Wages	1 176 00	1 176 00	2 352 00
Supplies	174 72	-	174 72
Routine maintenance:			
Wages	4 882 50	2 755 00	7 637 50
Equipment rental	13 334 53	8 714 27	22 048 80
Supplies	219 05	-	219 05
Contracted services	1 357 68	13 017 08	14 374 76
Winter maintenance:			
Wages	3 425 00	2 025 00	5 450 00
Equipment rental	3 064 03	2 239 22	5 303 25
Contracted services	305 00	90 00	395 00
Traffic services:			
Contracted services	580 75	-	580 75
Roadside parks:			
Wages	345 00	-	345 00
Equipment rental	<u>889 39</u>	<u>-</u>	<u>889 39</u>
Total expenditures	<u>29 753 65</u>	<u>30 016 57</u>	<u>59 770 22</u>
Excess (deficiency) of revenues over expenditures	22 526 98	(6 641 39)	15 885 59
Fund balances, March 1	<u>19 904 61</u>	<u>30 161 16</u>	<u>50 065 77</u>
Fund Balances, February 28	<u><u>42 431 59</u></u>	<u><u>23 519 77</u></u>	<u><u>65 951 36</u></u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

June 15, 2007

To the Village Council
Village of Luther
Lake County, Michigan

We have audited the financial statements of the Village of Luther for the year ended February 28, 2007. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

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

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

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

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

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

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

To the Village Council
Village of Luther
Lake County, Michigan

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

SIGNIFICANT ACCOUNTING POLICIES

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

OTHER COMMUNICATIONS

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

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

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

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

SEGREGATION OF DUTIES

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

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

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

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated February 28, 2007.

SUMMARY

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

Sincerely,



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