

VILLAGE OF MORLEY
Mecosta County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 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 Morley	County Mecosta
Audit Date March 31, 2007	Opinion Date May 9, 2007	Date Accountant Report Submitted to State: May 9, 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

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
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 MORLEY
Mecosta County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

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INDEPENDENT AUDITOR'S REPORT

May 9, 2007

To the Village Council
Village of Morley
Mecosta County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Morley, Mecosta County, Michigan as of and for the year ended March 31, 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 Morley, Mecosta County, Michigan as of March 31, 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.

Campbell, Kusterer & CO., P.C.

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

VILLAGE OF MORLEY
Mecosta County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

The Management's Discussion and Analysis report of the Village of Morley covers the Village's financial performance during the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

Our financial status has improved over the last year. Net assets at March 31, 2007, totaled \$321,764.94 for governmental activities.

Overall revenues were \$217,602.58 from governmental activities. Governmental activities had an increase in net assets of \$23,467.44.

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.

All of the activities of the Village are reported as governmental activities. These include the General Fund, the Major Street Fund, the Local Street Fund, the Capital Fund, the Liquor Law Enforcement Fund, and the Metro Fund.

VILLAGE OF MORLEY
Mecosta County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2007

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, Major and Local Street Funds, Capital Fund, Liquor Law Enforcement Fund and the Metro Fund.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

We paid the fire truck loan balance of \$22,080.90.

Our external debt for the fire truck is paid and has no payments remaining.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

The General Fund pays for most of the Village's governmental services. The most significant are Department of Public Works which incurred expenses of \$35,694.33.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$0.00 in capital assets.

The Village's governmental activities paid \$22,080.90 of principal on the contracts payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is uncertain at this time and represents a significant portion of our income. We continue to grow in taxable values with a growing demand for municipal services.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is intended to provide our taxpayers, creditors, and investors with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenue it receives. If you have any questions concerning this report, please contact the Village Clerk or the Village Treasurer at 189 S. Cass St., P.O. Box 256, Morley, Michigan 49336 or by calling 231-856-4582 between 9:00 AM and 12:00 PM on Monday and/or Wednesday.

VILLAGE OF MORLEY
Mecosta County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2007

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	193 319 94
Due from State of Michigan	<u>18 065 98</u>
Total Current Assets	<u>211 385 92</u>
NONCURRENT ASSETS:	
Capital Assets	263 751 00
Less: Accumulated Depreciation	<u>(153 371 98)</u>
Net Capital assets	<u>110 379 02</u>
TOTAL ASSETS	<u><u>321 764 94</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES	<u>-</u>
Total Noncurrent Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	110 379 02
Unrestricted	<u>211 385 92</u>
Total Net Assets	<u>321 764 94</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>321 764 94</u></u>

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

VILLAGE OF MORLEY
Mecosta County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 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	6 779 09	-	(6 779 09)
General government	29 723 83	-	(29 723 83)
Public safety	19 585 93	-	(19 585 93)
Public works	101 943 42	29 809 20	(72 134 22)
Recreation and culture	12 705 19	-	(12 705 19)
Other functions	22 766 22	-	(22 766 22)
Interest on long-term debt	631 46	-	(631 46)
Total Governmental Activities	<u>194 135 14</u>	<u>29 809 20</u>	<u>(164 325 94)</u>
General Revenues:			
Property taxes			74 475 02
State revenue sharing			98 696 93
Interest			4 343 40
Miscellaneous			<u>10 278 03</u>
Total General Revenues			<u>187 793 38</u>
Change in net assets			23 467 44
Net assets, beginning of year			<u>298 297 50</u>
Net Assets, End of Year			<u>321 764 94</u>

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

VILLAGE OF MORLEY
Mecosta County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital</u>
<u>Assets</u>				
Cash in bank	56 114 43	36 992 97	67 929 89	31 484 66
Due from State of Michigan	<u>6 625 00</u>	<u>7 228 19</u>	<u>4 212 79</u>	<u>-</u>
Total Assets	<u><u>62 739 43</u></u>	<u><u>44 221 16</u></u>	<u><u>72 142 68</u></u>	<u><u>31 484 66</u></u>
<u>Liabilities and Fund Balances</u>				
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	<u>62 739 43</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>31 484 66</u>
Total fund balances	<u>62 739 43</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>31 484 66</u>
Total Liabilities and Fund Balances	<u><u>62 739 43</u></u>	<u><u>44 221 16</u></u>	<u><u>72 142 68</u></u>	<u><u>31 484 66</u></u>

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

<u>Other Funds</u>	<u>Total</u>
797 99	193 319 94
<u>-</u>	<u>18 065 98</u>
<u>797 99</u>	<u>211 385 92</u>
<u>-</u>	<u>-</u>
<u>797 99</u>	<u>211 385 92</u>
<u>797 99</u>	<u>211 385 92</u>
<u>797 99</u>	<u>211 385 92</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2007

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	211 385 92
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	263 751 00
Accumulated depreciation	<u>(153 371 98)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>321 764 94</u>

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

VILLAGE OF MORLEY
Mecosta County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS
Year ended March 31, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Capital</u>
Revenues:				
Property taxes	74 475 02	-	-	-
State revenue sharing	47 830 00	29 795 96	18 183 58	-
Charges for services	-	-	-	29 809 20
Interest	973 82	739 21	1 906 49	664 85
Miscellaneous	<u>7 772 46</u>	<u>-</u>	<u>2 505 57</u>	<u>-</u>
Total revenues	<u>131 051 30</u>	<u>30 535 17</u>	<u>22 595 64</u>	<u>30 474 05</u>
Expenditures:				
Legislative:				
Village Council	6 779 09	-	-	-
General government:				
Clerk	10 158 92	-	-	-
Treasurer	5 317 28	-	-	-
Village hall and grounds	13 417 63	-	-	-
Public safety:				
Police protection	8 420 26	-	-	-
Fire protection	8 213 31	-	-	-
Public works:				
Department of Public works	35 694 33	-	-	10 188 72
Highways and streets	-	12 921 36	21 137 71	-
Street lights	9 682 08	-	-	-
Recreation and culture:				
Parks and recreation	11 201 86	-	-	-
Other functions:				
Insurance	18 839 71	-	-	-
Payroll taxes	3 926 50	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>22 712 36</u>
Total expenditures	<u>131 650 98</u>	<u>12 921 36</u>	<u>21 137 71</u>	<u>32 901 08</u>
Excess (deficiency) of revenues over expenditures	<u>(599 68)</u>	<u>17 613 81</u>	<u>1 457 93</u>	<u>(2 427 03)</u>
Other financing sources (uses):				
Operating transfers in	-	-	14 235 79	-
Operating transfers out	<u>-</u>	<u>(14 235 79)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>(14 235 79)</u>	<u>14 235 79</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(599 68)	3 378 02	15 693 72	(2 427 03)
Fund balances, April 1	<u>63 339 11</u>	<u>40 843 14</u>	<u>56 448 96</u>	<u>33 911 69</u>
Fund Balances, March 31	<u><u>62 739 43</u></u>	<u><u>44 221 16</u></u>	<u><u>72 142 68</u></u>	<u><u>31 484 66</u></u>

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

<u>Other Funds</u>	<u>Total</u>
-	74 475 02
2 887 39	98 696 93
-	29 809 20
59 03	4 343 40
<u>-</u>	<u>10 278 03</u>
<u>2 946 42</u>	<u>217 602 58</u>
∴	6 779 09
-	10 158 92
-	5 317 28
-	13 417 63
824 03	9 244 29
-	8 213 31
-	45 883 05
3 893 82	37 952 89
-	9 682 08
-	11 201 86
-	18 839 71
-	3 926 51
<u>-</u>	<u>22 712 36</u>
<u>4 717 85</u>	<u>203 328 98</u>
<u>(1 771 43)</u>	<u>14 273 60</u>
-	14 235 79
<u>-</u>	<u>(14 235 79)</u>
<u>-</u>	<u>-</u>
(1 771 43)	14 273 60
<u>2 569 42</u>	<u>197 112 32</u>
<u>797 99</u>	<u>211 385 92</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

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

Year ended March 31, 2007

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS	14 273 60
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	(12 887 06)
Capital Outlay	-
Repayment of debt principal is an expenditure in the governmental funds, the repayment does not have an effect in the statement of activities but does reduce the debt balance in the statement of net assets.	
Principal payments on long-term debt	<u>22 080 90</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>23 467 44</u></u>

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

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Morley, Mecosta 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 Township's executive or legislative branches.

The reporting entity is the Village of Morley. 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

The Village of Morley and the Townships of Aetna and Deerfield have formed the Morley Area Fire Department Inc. The Fire Department operates as a separate entity. For the year ended March 31, 2007, the Village paid \$7,600.00 to the Fire Department. Financial statements of the Fire Department may be obtained from them at 201 South Cass Street in Morley, Michigan.

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 MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 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 July 1. These taxes are due on September 15 with the final collection date of September 30 before they are added to the county tax rolls. The Village 2006 tax roll millage rate was 10.3817 mills, and the taxable value was \$7,103,179.00.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 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 \$1,000.00 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, additions and improvements	25-50 years
Equipment	10-25 years

Compensated Absences (Vacation and Sick Leave)

The estimated current portion of the liability for vacation and sick leave benefits attributable to the Village's governmental funds is recorded as an expenditure and liability in the respective funds. Employees may accumulate vacation and sick leave and are paid for half of unused sick leave upon termination of employment.

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.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 2 – Budgets and Budgetary Accounting – (continued)

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

Note 3 – Deposits and Investments

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

The Village Council has designated 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>193 319 94</u>

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

	<u>Bank Balances</u>
Insured (FDIC)	110 000 00
Uninsured and Uncollateralized	<u>84 431 45</u>
Total Deposits	<u>194 431 45</u>

The Village of Morley did not have any investments as of March 31, 2007.

VILLAGE OF MORLEY
Mecosta County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2007

Note 4 – Capital Assets

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

	<u>Balance 4/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/07</u>
<u>Governmental Activities:</u>				
Land	1 500 00	-	-	1 500 00
Buildings	84 300 00	-	-	84 300 00
Equipment	177 951 00	-	-	177 951 00
Total	263 751 00	-	-	263 751 00
Accumulated Depreciation	<u>(140 484 92)</u>	<u>(12 887 06)</u>	<u>-</u>	<u>(153 371 98)</u>
Net Governmental Capital Assets	<u>123 266 08</u>	<u>(12 887 06)</u>	<u>-</u>	<u>110 379 02</u>

Note 5 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 4/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/07</u>
Contract payable – fire truck	22 080 90	-	22 080 90	-
Total	<u>22 080 90</u>	<u>-</u>	<u>22 080 90</u>	<u>-</u>

Note 6 – Contract Payable – Fire Truck

On September 23, 2004, the Village purchased a fire truck for \$25,100.00. The truck is being paid for in fifty-nine monthly payments of \$274.18, with interest at 5.5% per annum and a balloon of \$14,498.02 on September 22, 2009. The principal balance outstanding was paid off during fiscal year 2006-2007.

Note 7 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 8 – Pension Plan

The Village does not have a pension plan.

Note 9 – 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 10 – Building Permits

The Village of Morley does not issue building permits. Building permits are issued by the County of Mecosta

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	75 000 00	75 000 00	74 475 02	(524 98)
State revenue sharing	30 000 00	30 000 00	47 830 00	17 830 00
Interest	900 00	900 00	973 82	73 82
Miscellaneous	2 200 00	2 200 00	7 772 46	5 572 46
Total revenues	108 100 00	108 100 00	131 051 30	22 951 30
Expenditures:				
Legislative:				
Elections	800 00	-	-	-
Village Council	6 500 00	8 009 41	6 779 09	(1 230 32)
General government:				
Attorney	300 00	-	-	-
Clerk	11 000 00	10 158 92	10 158 92	-
Treasurer	5 500 00	5 317 28	5 317 28	-
Village hall and grounds	7 500 00	13 417 67	13 417 63	(04)
Public safety:				
Police protection	7 100 00	8 420 76	8 420 26	(50)
Fire protection	7 600 00	8 213 31	8 213 31	-
Public works:				
Department of Public Works	20 200 00	35 694 33	35 694 33	-
Street lighting	9 800 00	9 682 08	9 682 08	-
Sidewalks	200 00	-	-	-
Recreation and culture:				
Parks and recreation	9 000 00	11 216 06	11 201 86	(14 20)
Other functions:				
Insurance	19 000 00	18 839 71	18 839 71	-
Payroll taxes	3 500 00	3 926 51	3 926 51	-
Total expenditures	108 000 00	132 896 04	131 650 98	(1 245 06)
Excess (deficiency) of revenues over expenditures	100 00	(24 796 04)	(599 68)	24 196 36
Fund balance, April 1	35 273 13	35 273 13	63 339 11	28 065 98
Fund Balance, March 31	35 373 13	10 477 09	62 739 43	52 262 34

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – CAPITAL FUND
Year ended March 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Charges for services	26 809 00	26 809 00	29 809 20	3 000 20
Interest	<u>93 00</u>	<u>93 00</u>	<u>664 85</u>	<u>571 85</u>
Total revenues	<u>26 902 00</u>	<u>26 902 00</u>	<u>30 474 05</u>	<u>3 572 05</u>
Expenditures:				
Public works:				
Department of Public Works	15 550 00	15 550 00	10 188 72	(5 361 28)
Debt service	<u>8 000 00</u>	<u>22 712 36</u>	<u>22 712 36</u>	<u>-</u>
Total expenditures	<u>23 550 00</u>	<u>38 262 36</u>	<u>32 901 08</u>	<u>(5 361 28)</u>
Excess (deficiency) of revenues over expenditures	3 352 00	(11 360 36)	(2 427 03)	8 933 33
Fund balance, April 1	<u>33 911 69</u>	<u>19 199 33</u>	<u>33 911 69</u>	<u>14 712 36</u>
Fund Balance, March 31	<u><u>37 263 69</u></u>	<u><u>7 838 97</u></u>	<u><u>31 484 66</u></u>	<u><u>23 645 69</u></u>

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended March 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	25 840 00	25 840 00	29 795 96	3 955 96
Interest	<u>360 00</u>	<u>360 00</u>	<u>739 21</u>	<u>379 21</u>
Total revenues	<u>26 200 00</u>	<u>26 200 00</u>	<u>30 535 17</u>	<u>4 335 17</u>
Expenditures:				
Public works:				
Highways and streets	<u>14 100 00</u>	<u>14 100 00</u>	<u>12 921 36</u>	<u>(1 178 64)</u>
Total expenditures	<u>14 100 00</u>	<u>14 100 00</u>	<u>12 921 36</u>	<u>(1 178 64)</u>
Excess (deficiency) of revenues over expenditures	<u>12 100 00</u>	<u>12 100 00</u>	<u>17 613 81</u>	<u>5 513 81</u>
Other financing sources (uses):				
Operating transfers out	<u>(6 500 00)</u>	<u>(6 500 00)</u>	<u>(14 235 79)</u>	<u>(7 735 79)</u>
Total other financing sources (uses)	<u>(6 500 00)</u>	<u>(6 500 00)</u>	<u>(14 235 79)</u>	<u>(7 735 79)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	5 600 00	5 600 00	3 378 02	(2 221 98)
Fund balance, April 1	<u>35 612 69</u>	<u>28 072 45</u>	<u>40 843 14</u>	<u>12 770 69</u>
Fund Balance, March 31	<u><u>41 212 69</u></u>	<u><u>33 672 45</u></u>	<u><u>44 221 16</u></u>	<u><u>10 548 71</u></u>

VILLAGE OF MORLEY
Mecosta County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended March 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	16 644 00	16 644 00	18 183 58	1 539 58
Interest	386 00	386 00	1 906 49	1 520 49
Miscellaneous	-	-	2 505 57	2 505 57
Total revenues	<u>17 030 00</u>	<u>17 030 00</u>	<u>22 595 64</u>	<u>5 565 64</u>
Expenditures:				
Public works:				
Highways and streets	<u>23 700 00</u>	<u>23 700 00</u>	<u>21 137 71</u>	<u>(2 562 29)</u>
Total expenditures	<u>23 700 00</u>	<u>23 700 00</u>	<u>21 137 71</u>	<u>(2 562 29)</u>
Excess (deficiency) of revenues over expenditures	<u>(6 670 00)</u>	<u>(6 670 00)</u>	<u>(1 457 93)</u>	<u>8 127 93</u>
Other financing sources (uses):				
Operating transfers in	<u>6 500 00</u>	<u>6 500 00</u>	<u>14 235 79</u>	<u>7 735 79</u>
Total other financing sources (uses)	<u>6 500 00</u>	<u>6 500 00</u>	<u>14 235 79</u>	<u>7 735 79</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(170 00)	(170 00)	15 693 72	15 863 72
Fund balance, April 1	<u>43 367 20</u>	<u>50 907 44</u>	<u>56 448 96</u>	<u>5 541 52</u>
Fund Balance, March 31	<u><u>43 197 20</u></u>	<u><u>50 737 44</u></u>	<u><u>72 142 68</u></u>	<u><u>21 405 24</u></u>

VILLAGE OF MORLEY
Mecosta County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year Ended March 31, 2007

Village Council:	
Wages	4 950 00
Dues	575 00
Miscellaneous	1 254 09
	<u>6 779 09</u>
Clerk:	
Wages	9 600 24
Office supplies	558 68
	<u>10 158 92</u>
Treasurer:	
Wages	4 800 00
Supplies	517 28
	<u>5 317 28</u>
Village hall and grounds:	
Equipment rental	3 352 52
Contracted services	900 50
Supplies	4 918 95
Utilities	4 245 66
	<u>13 417 63</u>
Police protection:	
Wages	4 990 25
Repairs and maintenance	3 430 01
	<u>8 420 26</u>
Fire protection:	
Contracted services	7 600 00
Supplies	15 00
Equipment rental	598 31
	<u>8 213 31</u>
Department of Public Works:	
Wages	27 340 70
Supplies	591 52
Utilities	3 175 01
Miscellaneous	849 60
Equipment rental	3 415 88
Deye dam	321 62
	<u>35 694 33</u>
Street lighting	<u>9 682 08</u>
Parks and recreation:	
Contracted services	2 244 89
Utilities	178 19
Equipment rentals	1 864 18
Miscellaneous	6 914 60
	<u>11 201 86</u>
Insurance	<u>18 839 71</u>
Payroll taxes	<u>3 926 51</u>
Total Expenditures	<u>131 650 98</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS
March 31, 2007

	<u>Capital</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Liquor Law Enforcement</u>
<u>Assets</u>				
Cash in bank	31 484 66	36 992 97	67 929 89	-
Due from State of Michigan	-	7 228 19	4 212 79	-
Total Assets	<u>31 484 66</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>-</u>
<u>Liabilities and Fund Balances</u>				
Liabilities	-	-	-	-
Fund balances:				
Fund balances:				
Unreserved:				
Undesignated	31 484 66	44 221 16	72 142 68	-
Total fund balances	<u>31 484 66</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>31 484 66</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>-</u>

<u>Metro</u>	<u>Total</u>
797 99	137 205 51
<u>-</u>	<u>11 440 98</u>
<u>797 99</u>	<u>148 646 49</u>
<u>-</u>	<u>-</u>
<u>797 99</u>	<u>148 646 49</u>
<u>797 99</u>	<u>148 646 49</u>
<u>797 99</u>	<u>148 646 49</u>

VILLAGE OF MORLEY
Mecosta County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2007

	Capital	Major Street	Local Street	Liquor Law Enforcement
Revenues:				
State revenue sharing	-	29 795 96	18 183 58	807 95
Charges for services	29 809 20	-	-	-
Interest	664 85	739 21	1 906 49	16 08
Miscellaneous	-	-	2 505 57	-
	<u>30 474 05</u>	<u>30 535 17</u>	<u>22 595 64</u>	<u>824 03</u>
Total revenues				
Expenditures:				
Police protection:				
Wages	-	-	-	824 03
Department of Public Works:				
Wages	778 09	-	-	-
Supplies	9 410 63	-	-	-
Highways and streets:				
Wages	-	3 922 10	7 419 62	-
Contracted services	-	-	-	-
Supplies	-	2 482 94	3 833 70	-
Repairs and maintenance	-	116 31	-	-
Equipment rental	-	6 400 01	9 884 39	-
Debt service	22 712 36	-	-	-
	<u>32 901 08</u>	<u>12 921 36</u>	<u>21 137 71</u>	<u>824 03</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>(2 427 03)</u>	<u>17 613 81</u>	<u>1 457 93</u>	<u>-</u>
Other financing sources (uses):				
Operating transfers in	-	-	14 235 79	-
Operating transfers out	-	(14 235 79)	-	-
Total other financing sources (uses)	<u>-</u>	<u>(14 235 79)</u>	<u>14 235 79</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(2 427 03)</u>	<u>3 378 02</u>	<u>15 693 72</u>	<u>-</u>
Fund balances, April 1	<u>33 911 69</u>	<u>40 843 14</u>	<u>56 448 96</u>	<u>-</u>
Fund Balances, March 31	<u>31 484 66</u>	<u>44 221 16</u>	<u>72 142 68</u>	<u>-</u>

<u>Metro</u>	<u>Total</u>
2 079 44	50 866 93
-	29 809 20
42 95	3 369 58
-	2 505 57
<u>2 122 39</u>	<u>86 551 28</u>
-	824 03
-	778 09
-	9 410 63
800 87	12 142 59
2 042 86	2 042 86
-	6 316 64
-	116 31
1 050 09	17 334 49
-	22 712 36
<u>3 893 82</u>	<u>71 678 00</u>
<u>(1 771 43)</u>	<u>14 873 28</u>
-	14 235 79
-	<u>(14 235 79)</u>
-	-
(1 771 43)	14 873 28
<u>2 569 42</u>	<u>133 773 21</u>
<u>797 99</u>	<u>148 646 49</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

May 9, 2007

To the Village Council
Village of Morley
Mecosta County, Michigan

We have audited the financial statements of the Village of Morley for the year ended March 31, 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 Morley 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 Morley
Mecosta 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 March 31, 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