

### 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 Rothbury	County Oceana
Fiscal Year End 03/31/07	Opinion Date 6/20/07	Date Audit Report Submitted to State 6/25/07	

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. (See instructions for further detail.)</b> |
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"/>	No single audit	
Certified Public Accountant (Firm Name) BRICKLEY DELONG, PLC		Telephone Number 231-726-5800	
Street Address 316 MORRIS AVENUE		City MUSKEGON	State   Zip MI   49443
Authorizing CPA Signature <i>Timothy D. Arter, CPA</i> for Brickley DeLong, P.C.		Printed Name TIMOTHY D. ARTER	License Number 10253

Village of Rothbury  
Oceana County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended March 31, 2007



Village of Rothbury

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As management of the Village of Rothbury, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village for the fiscal year ended March 31, 2007. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

### FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the Village had total assets of \$700,459 and total liabilities of \$18,082 leaving net assets of \$682,377, a decrease of 7% in the Village's overall net assets.
- The General Fund fund balance decreased \$7,811.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development and cultural and recreational activities. The Village does not currently have any business-type activities.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village are governmental funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the two.

The Village maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets Fund, and Local Streets Fund, which are considered to be major funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund, Major Streets Fund, and Local Streets Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide Statement of Net Assets for the Village. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of March 31, 2007, the Village's net assets from governmental activities totaled \$682,377.

The decrease in current assets reflects additional funds spent on road preservation and capital assets. Correspondingly, capital assets increased and net assets restricted for streets decreased. Current liabilities increased at the end of the current fiscal year because of higher winter maintenance expenses which were paid after year end.

In examining the composition of these net assets, the reader should note that a portion of governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental activities actually depict a balance of \$87,127. This represents the amount of discretionary resources that can be used for general governmental operations.

**Net Assets**

	Governmental Activities	
	2007	2006
Current assets	\$ 372,165	\$ 418,519
Capital assets	<u>328,294</u>	<u>319,659</u>
Total assets	700,459	738,178
Current liabilities	<u>18,082</u>	<u>4,908</u>
Net assets		
Invested in capital assets	328,294	319,659
Restricted	266,956	318,673
Unrestricted	<u>87,127</u>	<u>94,938</u>
Total net assets	<u>\$ 682,377</u>	<u>\$ 733,270</u>

# VILLAGE OF ROTHBURY

## Management's Discussion and Analysis

### Governmental Activities

Governmental activities net assets decreased by \$50,893 (7%) during the 2007 fiscal year. Revenues were very comparable to the previous year. General government expenses increased because the Village had its biannual audit done and also because of tree removal around the Village hall. Public works expenditures increased because the Village hired a consultant to evaluate the Village's streets. Based on the consultant's recommendations, the Village chip sealed several of its streets. Community and economic development expenses decreased because the Village completed a new zoning master plan and recreation master plan in the previous year. Culture and recreation expenses decreased due to fewer repairs and improvements being made at the Rothbury Community Center. The following table depicts these occurrences.

### Change in Net Assets

	Governmental Activities	
	2007	2006
<b>Revenues:</b>		
Program revenues		
Charges for services	\$ 35,931	\$ 34,650
Operating grants	54,634	53,932
General revenues		
Property taxes	88,120	86,142
Franchise fees	1,084	1,172
Grants and contributions not restricted	32,114	32,855
Unrestricted investment earning	2,604	1,955
Miscellaneous	1,273	1,404
<b>Total revenues</b>	<u>215,760</u>	<u>212,110</u>
<b>Expenses:</b>		
General government	77,819	65,055
Public safety	46,049	49,750
Public works	125,832	52,395
Community and economic development	872	6,268
Culture and recreation	16,081	23,900
<b>Total expenses</b>	<u>266,653</u>	<u>197,368</u>
Change in net assets	(50,893)	14,742
Net assets - Beginning	<u>733,270</u>	<u>718,528</u>
<b>Net assets - Ending</b>	<u>\$ 682,377</u>	<u>\$ 733,270</u>

### Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the Village's governmental funds reported a combined unreserved fund balance of \$354,083. This number represents the unreserved fund balance of \$87,127 in the General Fund, \$117,201 in the Major Streets Fund, and \$149,755 in the Local Streets Fund.

The fund balance in the General Fund decreased by \$7,811 as the Village purchased a new police car and made several capital improvements to Village hall such as a new furnace and well improvements. The fund balance in the Major Streets and Local Streets funds decreased by \$18,288 and \$33,429, respectively as the Village chip sealed several of its streets.

### General Fund Budget

During the current fiscal year, the Village only made one significant amendment to its original budget. The budget for Village hall was increased from \$39,700 to \$48,700 to pay for a new furnace and well improvements.

The following comments summarize the major variations from the final budget to actual revenues and expenditures.

- Village Council expenditures were under budget by \$10,598 because of lower than expected professional fees.
- Village hall expenditures were under budget by \$10,633 because expected capital purchases were lower than anticipated.
- Police expenditures were under budget by \$19,682 because of employee vacancies.
- Rothbury Community Center expenditures were under budget by \$10,989 because of lower than expected capital expenditures.

# VILLAGE OF ROTHBURY

## Management's Discussion and Analysis

### Capital Assets

The Village investment in capital assets for its governmental activities as of March 31, 2007 totaled \$328,294 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, infrastructure, and furniture and equipment.

The only significant capital asset additions during the current year were the purchase of a new police car, a new furnace at Village hall, and well improvements at both the Village hall and Rothbury Community Center.

### Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities	
	2007	2006
Land	\$ 39,701	\$ 39,701
Land improvements	1,723	2,322
Buildings and improvements	158,241	150,333
Furniture and equipment	25,148	30,799
Vehicles	28,176	12,606
Infrastructure	75,305	83,898
Total	<u>\$ 328,294</u>	<u>\$ 319,659</u>

Additional information on the Village's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

### General Economic Overview

The Village's General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised 75% of the General Fund's revenue sources. In fiscal 2008, the Village expects property tax revenue to increase by approximately 3% and state revenue sharing to remain flat. As the State of Michigan struggles to balance its budget, a decrease in state revenue sharing is possible.

The Village expects General Fund operating expenditures in fiscal 2008 to be approximately the same as 2007 expenditures. The Council does not currently plan to have any significant capital outlays or unusual transactions other than spending \$12,000 for a fishing dock on the Little Wildcat Lake and expects fund balance to increase slightly in the General Fund.

In the Major Streets and Local Streets funds, the Village intends to continue its street preservation and improvement projects in fiscal 2008. The Village also intends to spend \$31,000 for sidewalk improvements.

### Requests for Information

This financial report is designed to provide a general overview of the Village of Rothbury's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Rothbury, 7804 S. Michigan Avenue, Rothbury, Michigan 49452 (231) 894-2385.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

June 21, 2007

To the Village Council  
Village of Rothbury  
Rothbury, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Rothbury 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 the Village of Rothbury'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 opinions.

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 Rothbury, 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 on pages i - vi and 17 - 19 are not a required part of the basic financial statement 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.



Village of Rothbury  
**STATEMENT OF NET ASSETS**  
 March 31, 2007

ASSETS

	Governmental activities
<b>CURRENT ASSETS</b>	
Cash and investments	\$ 354,127
Receivables	5,226
Due from other governmental units	12,812
Total current assets	372,165
 <b>NONCURRENT ASSETS</b>	
Capital assets, net	
Nondepreciable	39,701
Depreciable	288,593
Total noncurrent assets	328,294
Total assets	700,459
 <b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable and accrued liabilities	15,282
Deferred revenue	2,800
Total current liabilities	18,082
 <b>NET ASSETS</b>	
Invested in capital assets	328,294
Restricted for streets	266,956
Unrestricted	87,127
Total net assets	\$ 682,377

The accompanying notes are an integral part of this statement.

Village of Rothbury  
**STATEMENT OF ACTIVITIES**  
For the year ended March 31, 2007

<i><b>Functions/Programs</b></i>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Governmental activities</u>
Governmental activities				
General government	\$ 77,819	\$ 17,357	\$ -	\$ (60,462)
Public safety	46,049	8,674	-	(37,375)
Public works	125,832	-	54,634	(71,198)
Community and economic development	872	-	-	(872)
Culture and recreation	<u>16,081</u>	<u>9,900</u>	<u>-</u>	<u>(6,181)</u>
Total governmental activities	<u>\$ 266,653</u>	<u>\$ 35,931</u>	<u>\$ 54,634</u>	(176,088)
General revenues				
Property taxes				88,120
Franchise fees				1,084
Grants and contributions not restricted to specific programs				32,114
Unrestricted investment earnings				2,604
Miscellaneous				<u>1,273</u>
Total general revenues				<u>125,195</u>
Change in net assets				(50,893)
Net assets at April 1, 2006				<u>733,270</u>
Net assets at March 31, 2007				<u>\$ 682,377</u>

The accompanying notes are an integral part of this statement.

Village of Rothbury  
**BALANCE SHEET**  
 Governmental Funds  
 March 31, 2007

	<u>General Fund</u>	<u>Major Streets Fund</u>	<u>Local Streets Fund</u>	<u>Total governmental funds</u>
<b>ASSETS</b>				
Cash and investments	\$ 81,653	\$ 124,022	\$ 148,452	\$ 354,127
Receivables				
Accounts	1,103	-	-	1,103
Property taxes	4,123	-	-	4,123
Due from other governmental units	<u>4,937</u>	<u>5,410</u>	<u>2,465</u>	<u>12,812</u>
Total assets	<u><u>\$ 91,816</u></u>	<u><u>\$ 129,432</u></u>	<u><u>\$ 150,917</u></u>	<u><u>\$ 372,165</u></u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 210	\$ 12,231	\$ 1,162	\$ 13,603
Accrued liabilities	1,679	-	-	1,679
Deferred revenue	<u>2,800</u>	<u>-</u>	<u>-</u>	<u>2,800</u>
Total liabilities	4,689	12,231	1,162	18,082
Fund balances				
Unreserved				
General Fund	87,127	-	-	87,127
Special revenue funds	<u>-</u>	<u>117,201</u>	<u>149,755</u>	<u>266,956</u>
Total fund balances	<u>87,127</u>	<u>117,201</u>	<u>149,755</u>	<u>354,083</u>
Total liabilities and fund balances	<u><u>\$ 91,816</u></u>	<u><u>\$ 129,432</u></u>	<u><u>\$ 150,917</u></u>	<u><u>\$ 372,165</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS**  
 March 31, 2007

Total fund balances—governmental funds	\$	354,083
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$	708,144
Accumulated depreciation		<u>(379,850)</u>
		<u>328,294</u>
Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>682,377</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended March 31, 2007

	General Fund	Major Streets Fund	Local Streets Fund	Total governmental funds
<b>REVENUES</b>				
Property taxes	\$ 88,120	\$ -	\$ -	\$ 88,120
Licenses and permits	4,166	-	-	4,166
Intergovernmental revenues - State	32,114	32,270	13,779	78,163
Charges for services	31,711	-	-	31,711
Fines and forfeitures	1,138	-	-	1,138
Investment earnings	2,604	3,853	4,733	11,190
Other	1,273	-	-	1,273
Total revenues	161,126	36,123	18,512	215,761
<b>EXPENDITURES</b>				
Current				
General government	82,932	-	-	82,932
Public safety	60,418	-	-	60,418
Public works	8,033	43,576	62,776	114,385
Community and economic development	872	-	-	872
Culture and recreation	16,682	-	-	16,682
Total expenditures	168,937	43,576	62,776	275,289
Excess of revenues over (under) expenditures	(7,811)	(7,453)	(44,264)	(59,528)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	10,835	10,835
Transfers out	-	(10,835)	-	(10,835)
Total other financing sources (uses)	-	(10,835)	10,835	-
Net change in fund balances	(7,811)	(18,288)	(33,429)	(59,528)
Fund balances at April 1, 2006	94,938	135,489	183,184	413,611
Fund balances at March 31, 2007	\$ 87,127	\$ 117,201	\$ 149,755	\$ 354,083

The accompanying notes are an integral part of this statement.

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

For the year ended March 31, 2007

Net change in fund balances—total governmental funds		\$ (59,528)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (24,863)	
Capital outlay	<u>33,498</u>	<u>8,635</u>
Change in net assets of governmental activities		\$ <u><u>(50,893)</u></u>

The accompanying notes are an integral part of this statement.

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Rothbury (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

***Reporting Entity***

The Village is a municipal corporation governed by an elected seven-member Village Council.

Generally accepted accounting principles require that if the Village has certain oversight responsibilities over other organizations, those organizations should be included in the Village's financial statements. Since no organizations met this criteria, none are included in the financial statements.

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. 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 Village has no business-type activities.

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 requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The Village does not allocate indirect costs.

Separate financial statements are provided for governmental funds. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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.

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

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

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

The Village reports the following major governmental funds:

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

The Major Street Fund and Local Street Fund account for money distributed by the State of Michigan for street maintenance.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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.

*Assets, Liabilities and Net Assets or Equity*

**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.

The Village reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Village intends to hold the investment until maturity.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

Village of Rothbury  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Receivables and Payables**

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Village bills and collects its own property taxes. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of September 14 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the Village totaled approximately \$11,309,000. The ad valorem taxes levied consisted of 6.9974 mills for the Village's operating purposes. These amounts are recognized in the General Fund.

**Capital Assets**

Capital assets, which include property, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government 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 market 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.

In the case of the initial capitalization of general infrastructure (i.e., those reported by governmental activities) the Village chose to include all such items regardless of their acquisition date or amount. The Village was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

*Assets, Liabilities and Net Assets or Equity—Continued*

**Capital Assets—Continued**

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	20-50
Furniture and equipment	5-20
Vehicles	8
Infrastructure	10-20

**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.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. In March, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Not later than March 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**Budgetary Information—Continued**

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level. The Village Council made several supplemental budgetary appropriations throughout the year.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk.** The Village does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The Village's investment policy does not authorize it to invest in commercial paper or corporate bonds.

**Concentration of credit risk.** The Village does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Village investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The Village does not have any investments exposed to concentration of credit risk.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2007, \$3,723 of the Village's bank balance of \$357,600 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk – investments.** The Village does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have any investments exposed to custodial credit risk.

**Foreign currency risk.** The Village is not authorized to invest in investments which have this type of risk.

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
 March 31, 2007

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2007 was as follows:

	Balance April 1, 2006	Additions	Deductions	Balance March 31, 2007
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 39,701	\$ -	\$ -	\$ 39,701
<b>Capital assets, being depreciated:</b>				
Land improvements	52,818	-	-	52,818
Buildings and improvements	320,229	13,210	-	333,439
Furniture and equipment	63,481	-	2,740	60,741
Vehicles	29,293	20,288	-	49,581
Infrastructure	171,864	-	-	171,864
Total capital assets, being depreciated	637,685	33,498	2,740	668,443
<b>Less accumulated depreciation:</b>				
Land improvements	50,496	599	-	51,095
Buildings and improvements	169,896	5,302	-	175,198
Furniture and equipment	32,682	5,651	2,740	35,593
Vehicles	16,687	4,718	-	21,405
Infrastructure	87,966	8,593	-	96,559
Total accumulated depreciation	357,727	24,863	2,740	379,850
Total capital assets, being depreciated, net	279,958	8,635	-	288,593
Capital assets, net	\$ 319,659	\$ 8,635	\$ -	\$ 328,294

Depreciation expense has been charged to functions as follows:

<b>Government activities:</b>	
General government	\$ 3,528
Public safety	5,919
Public works	11,448
Culture and recreation	3,968
	<u>\$ 24,863</u>

Village of Rothbury  
NOTES TO FINANCIAL STATEMENTS—CONTINUED  
March 31, 2007

**NOTE E—INTERFUND TRANSFERS**

The Major Streets Fund transferred \$10,835 to the Local Streets Fund for road improvements.

**NOTE F—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the General Fund reported \$2,800 in deferred revenue which was comprised of unearned deposits and rent for the Rothbury Community Center.

**NOTE G—OTHER INFORMATION**

**Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**NOTE H—PENSION PLANS**

**Defined Contribution Plan**

The Village provides pension benefits for all of its employees and elected officials through a defined contribution plan. In a defined contributions plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees who have attained the age of 18 shall be eligible to participate in the plan. The plan requires the Village to contribute an amount equal to 7.5 percent of the employee's annual compensation each plan year. Employees are not required to contribute. All employees are immediately vested in the Village's contribution.

For fiscal year 2007, the Village's total contribution to the defined contribution plan was \$4,606, and the employee contributions were \$3,521.

Village of Rothbury  
**NOTES TO FINANCIAL STATEMENTS—CONTINUED**  
March 31, 2007

**NOTE I—ECONOMIC DEPENDENCY**

The Village's General Fund has a significant economic dependence on a local corporation. During the year ended March 31, 2007, the corporation's billings for property taxes approximated 48 percent of total property taxes in the General Fund.

**NOTE J—SUBSEQUENT EVENT**

Subsequent to year end, the Village entered into contracts of \$51,000 for sidewalk improvements and a new dock.

**REQUIRED SUPPLEMENTARY INFORMATION**

Village of Rothbury  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 84,100	\$ 84,100	\$ 88,120	\$ 4,020
Licenses and permits	4,200	4,200	4,166	(34)
Intergovernmental revenues - State	32,000	32,000	32,114	114
Charges for services	37,000	37,000	31,711	(5,289)
Fines and forfeitures	1,500	1,500	1,138	(362)
Investment earnings	1,500	1,500	2,604	1,104
Other	3,500	3,500	1,273	(2,227)
Total revenues	163,800	163,800	161,126	(2,674)
EXPENDITURES				
Current				
General government				
Village Council	39,400	39,400	28,802	10,598
Elections	500	500	-	500
Clerk	10,200	10,200	8,298	1,902
Treasurer	9,700	9,700	7,765	1,935
Village hall	39,700	48,700	38,067	10,633
Unallocated	20,900	10,400	-	10,400
Public safety				
Police	78,600	80,100	60,418	19,682
Public works				
Street lighting	10,000	10,000	8,033	1,967
Roads	1,000	1,000	-	1,000
Community and economic development				
Planning	6,100	6,100	872	5,228
Culture and recreation				
Rothbury Community Center	23,300	23,300	12,311	10,989
Recreation	8,600	8,600	4,371	4,229
Total expenditures	248,000	248,000	168,937	79,063
Net change in fund balance	\$ (84,200)	\$ (84,200)	(7,811)	\$ 76,389
Fund balance at April 1, 2006			94,938	
Fund balance at March 31, 2007			\$ 87,127	

Village of Rothbury  
Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
Major Streets Fund  
For the year ended March 31, 2007

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental revenues - State	\$ 31,000	\$ 33,031	\$ 32,270	\$ (761)
Investment earnings	<u>2,000</u>	<u>2,000</u>	<u>3,853</u>	<u>1,853</u>
Total revenues	33,000	35,031	36,123	1,092
<b>EXPENDITURES</b>				
Current				
Public works				
Construction	50,000	50,000	-	50,000
Routine maintenance	55,420	55,420	27,259	28,161
Winter maintenance	15,000	15,000	14,737	263
Administration	<u>1,580</u>	<u>1,580</u>	<u>1,580</u>	<u>-</u>
Total expenditures	<u>122,000</u>	<u>122,000</u>	<u>43,576</u>	<u>78,424</u>
Excess of revenues over (under) expenditures	(89,000)	(86,969)	(7,453)	79,516
<b>OTHER FINANCING USES</b>				
Transfers out	<u>(7,500)</u>	<u>(7,500)</u>	<u>(10,835)</u>	<u>(3,335)</u>
Net change in fund balance	\$ <u>(96,500)</u>	\$ <u>(94,469)</u>	(18,288)	\$ <u>76,181</u>
Fund balance at April 1, 2006			<u>135,489</u>	
Fund balance at March 31, 2007			\$ <u><u>117,201</u></u>	

Village of Rothbury  
 Required Supplementary Information  
**BUDGETARY COMPARISON SCHEDULE**  
 Local Streets Fund  
 For the year ended March 31, 2007

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental revenues - State	\$ 13,500	\$ 13,500	\$ 13,779	\$ 279
Investment earnings	2,500	2,500	4,733	2,233
Total revenues	16,000	16,000	18,512	2,512
 <b>EXPENDITURES</b>				
Current				
Public works				
Construction	50,000	50,000	-	50,000
Routine maintenance	77,920	82,920	59,911	23,009
Winter maintenance	15,000	15,000	1,285	13,715
Administration	1,580	1,580	1,580	-
Total expenditures	144,500	149,500	62,776	86,724
Excess of revenues over (under) expenditures	(128,500)	(133,500)	(44,264)	89,236
 <b>OTHER FINANCING SOURCES</b>				
Transfers in	7,500	7,500	10,835	3,335
Net change in fund balance	\$ (121,000)	\$ (126,000)	(33,429)	\$ 92,571
Fund balance at April 1, 2006			183,184	
Fund balance at March 31, 2007			\$ 149,755	

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2007

Village Council  
Village of Rothbury  
Rothbury, Michigan

In planning and performing our audit of the governmental activities and each major fund of the Village of Rothbury as of and for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Rothbury's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Rothbury's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Rothbury's internal control.

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 a 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.

A material weakness is a significant deficiency, or a 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 internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified and we have attached a deficiency in internal control that we consider to be a significant deficiency.

This communication is intended solely for the information and use of management, the Village Council, others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



## **SIGNIFICANT DEFICIENCIES**

Recommendation 1: The internal controls surrounding the preparation of formal year end financial statements should be improved.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year end financial statements.

The Organization should review its procedures surrounding the preparation of year end financial statements to include the appointment of an individual with the requisite technical skills and experience to review the formal year end financial statements and accompanying footnotes, in relation to required disclosures in accordance with generally accepted accounting principles.