

# 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 LeRoy	County Osceola
Fiscal Year End December 31, 2007	Opinion Date May 1, 2008	Date Audit Report Submitted to State June 6, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 Letter; SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 W. Harris Street		City Cadillac	State MI
Authorizing CPA Signature 		License Number 1101023146	
Printed Name Michael D. Cool, C.P.A.			

**VILLAGE OF LEROY, MICHIGAN**

**DECEMBER 31, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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VILLAGE OF LEROY, MICHIGAN

DECEMBER 31, 2007

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# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

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PHONE: 231-775-9789 FAX: 231-775-9749  
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May 1, 2008

### INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of LeRoy, Michigan

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the Village of LeRoy, Michigan as of and for the year ended December 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. 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 basic 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 LeRoy, Michigan as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 17 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of LeRoy, Michigan's basic financial statements. The individual fund financial statements and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

**Management's Discussion and Analysis**

The management of the Village of LeRoy, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the year ended December 31, 2007, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Government-Wide**

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$339,705 (shown as *Net Assets*), representing a decrease of \$14,079 over the previous fiscal year.

**Fund Level Financial Highlights**

- ❖ As of December 31, 2007, the governmental funds of the Village of LeRoy reported combined ending fund balances of \$208,003, of which \$79,528 is unreserved and undesignated.

**Overview of the Financial Statements**

The Village of LeRoy's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* (Page 1) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

The *Statement of Activities* (Page 2) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public works, other functions and debt service.

**Focus on Funds**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, Local Street Fund, and Farmers Market Fund.

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. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of LeRoy uses fund accounting to ensure compliance with finance-related legal requirements.

**Governmental Funds** Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the Special Revenue funds.

**Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 7 of this report.

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

**Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$340,719 at December 31, 2007, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

*Village of LeRoy  
Net Assets  
As of December 31, 2007*

	<b><u>Governmental Activities</u></b>
Current Assets	\$ 212,245
Capital Assets, Net of Accumulated Depreciation	128,474
<b>Total Assets</b>	<b><u>340,719</u></b>
Current Liabilities	<u>1,014</u>
Net Assets	
Invested in capital assets	128,474
Unrestricted	211,231
<b>Total Net Assets</b>	<b><u><u>\$ 339,705</u></u></b>

The most significant portion of the Village's Net Assets is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others). The Village has \$211,231 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Village policies regarding their use.

The total net assets of the Village decreased \$14,079 in this year, which is an indicator that the Village experienced negative financial growth during the year.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

*Village of LeRoy  
Change in Net Assets  
For the Year Ended December 31, 2007*

	<u>Governmental Activities</u>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 17,253
Operating Grants and Contributions	46,052
<b>General Revenues</b>	
Taxes	27,304
State Grants	23,932
Interest Earnings	3,488
Other	3,690
<b>Total Revenue</b>	<u>121,719</u>
<b><u>Expenses</u></b>	
Legislative	8,630
General Government	20,284
Community and Economic Development	1
Public Works	89,275
Recreation and Culture	2,546
Other Functions	15,062
<b>Total Expenses</b>	<u>135,798</u>
Increase (Decrease) in Net Assets	(14,079)
Beginning Net Assets	353,784
Ending Net Assets	<u>\$ 339,705</u>

**Governmental Activities**

The most significant portion of the revenue for all governmental activities of the Village of LeRoy comes from Operating Grants and Contributions.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Village's governmental activities expenses are dominated by the Public Works and General Government expenses that represent 65.74% and 14.94% of total expenses respectively.

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

**Financial Analysis of the Government's Funds**

**Governmental Activities** At the completion of the Village's year ended December 31, 2007, its governmental funds reported fund balances of \$208,003.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this year by \$15,771, bringing the balance to \$90,820.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$49,243. This was a decrease of \$5,265 from the previous year.

**Local Street Fund** – The fund balance of this fund is at \$66,118, a decrease of \$18,060, during the year. The Local Street Fund completed a small road improvement project during the year.

**Farmers Market Fund** – The fund balance of the Farmers Market fund ended the year at \$1,822. This was an increase of \$727 over the prior year.

**Capital Asset and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for the governmental activities as of December 31, 2007, amounted to \$128,474 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

*Village of LeRoy  
Capital Assets as of December 31, 2007*

	<b><u>Governmental Activities</u></b>
Land	\$ 5,000
Equipment	74,174
Streets	<u>123,774</u>
<b>Subtotal</b>	202,948
Accumulated Depreciation	<u>74,474</u>
<b>Net Capital Assets</b>	<b><u><u>\$ 128,474</u></u></b>

VILLAGE OF LEROY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

**Long-Term Debt.** As of December 31, 2007, the Village had no debt outstanding.

**Economic Condition and Outlook**

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Village's budgets for the 2008 year.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of LeRoy, 103 Main Street, P.O. Box 58, LeRoy, Michigan 49655.

VILLAGE OF LEROY, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

<u>ASSETS</u>	<u>GOVERNMENTAL ACTIVITIES</u>
<u>CURRENT ASSETS</u>	
Cash	\$ 178,897
Receivables	
Taxes	3,228
Due from Other Governments	21,823
Prepaid Expenditures	8,297
	<hr/>
Total Current Assets	212,245
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	5,000
Equipment	74,174
Infrastructure	123,774
	<hr/>
	202,948
Less Accumulated Depreciation	74,474
Net Capital Assets	128,474
	<hr/>
TOTAL ASSETS	\$ 340,719
	<hr/> <hr/>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	\$ 617
Payroll Withholdings Payable	397
	<hr/>
Total Current Liabilities	1,014
	<hr/>
<u>NET ASSETS</u>	
Invested in Capital Assets	128,474
Unrestricted	211,231
	<hr/>
TOTAL NET ASSETS	339,705
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 340,719
	<hr/> <hr/>

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

VILLAGE OF LEROY, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>PRIMARY GOVERNMENT</u>					
<u>GOVERNMENTAL ACTIVITIES</u>					
Legislative	\$ 8,630	\$ 0	\$ 0	\$ 0	\$ (8,630)
General Government	20,284	0	0	0	(20,284)
Community and Economic Development	1	20	0	0	19
Public Works	89,275	17,233	46,052	0	(25,990)
Recreation and Culture	2,546	0	0	0	(2,546)
Other Functions	15,062	0	0	0	(15,062)
Total Governmental Activities	\$ 135,798	\$ 17,253	\$ 46,052	\$ 0	(72,493)
<u>GENERAL REVENUES</u>					
Taxes					27,304
State Grants					23,932
Interest Earnings					3,488
Other					3,690
Total General Revenues					58,414
Change in Net Assets					(14,079)
NET ASSETS - Beginning of Year					353,784
NET ASSETS - End of Year					\$ 339,705

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

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
DECEMBER 31, 2007

	<u>GENERAL</u> <u>FUND</u>	<u>MAJOR</u> <u>STREET</u> <u>FUND</u>	<u>LOCAL</u> <u>STREET</u> <u>FUND</u>	<u>FARMERS</u> <u>MARKET</u> <u>FUND</u>	<u>TOTALS</u>
 <u>ASSETS</u>					
Cash	\$ 42,338	\$ 59,297	\$ 74,623	\$ 2,639	\$ 178,897
Receivables					
Taxes	3,228	0	0	0	3,228
Prepaid Expenditures	8,297	0	0	0	8,297
Due from Other Funds	33,020	0	0	0	33,020
Due from Other Governments	7,562	10,920	3,341	0	21,823
<b>TOTAL ASSETS</b>	<b>\$ 94,445</b>	<b>\$ 70,217</b>	<b>\$ 77,964</b>	<b>\$ 2,639</b>	<b>\$ 245,265</b>
 <u>LIABILITIES AND FUND BALANCE</u>					
 <u>LIABILITIES</u>					
Accounts Payable	\$ 0	\$ 0	\$ 0	\$ 617	\$ 617
Payroll Withholdings Payable	397	0	0	0	397
Deferred Revenue	3,228	0	0	0	3,228
Due to Other Funds	0	20,974	11,846	200	33,020
<b>Total Liabilities</b>	<b>3,625</b>	<b>20,974</b>	<b>11,846</b>	<b>817</b>	<b>37,262</b>
 <u>FUND BALANCE</u>					
Reserved					
Prepaid Expenditures	8,297	0	0	0	8,297
Telecommunications Right-Of-Way	4,817	0	0	0	4,817
Unreserved:					
Designated for:					
Street Improvements	0	49,243	66,118	0	115,361
Undesignated	77,706	0	0	1,822	79,528
<b>Total Fund Balance</b>	<b>90,820</b>	<b>49,243</b>	<b>66,118</b>	<b>1,822</b>	<b>208,003</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <b>\$ 94,445</b>	 <b>\$ 70,217</b>	 <b>\$ 77,964</b>	 <b>\$ 2,639</b>	 <b>\$ 245,265</b>

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

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
DECEMBER 31, 2007

Total Fund Balances for Governmental Funds \$ 208,003

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 funds.

Land	5,000	
Equipment	74,174	
Infrastructure	123,774	
Accumulated Depreciation	<u>(74,474)</u>	128,474

Other long-term assets are not available to pay for current period expenditures  
and therefore reported as deferred revenue.

Deferred Revenue - End of Year - Property Taxes Receivable	<u>3,228</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 339,705</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2007

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	FARMERS MARKET FUND	TOTALS
<u>REVENUES</u>					
Taxes	\$ 25,939	\$ 0	\$ 0	\$ 0	\$ 25,939
Licenses and Permits	20	0	0	0	20
State Grants	23,932	35,263	10,789	0	69,984
Charges for Services	15,227	0	0	2,006	17,233
Interest and Rents	233	1,014	2,241	0	3,488
Other Revenues	3,080	0	0	610	3,690
 Total Revenues	 68,431	 36,277	 13,030	 2,616	 120,354
<u>EXPENDITURES</u>					
Legislative	8,630	0	0	0	8,630
General Government	20,284	0	0	0	20,284
Community and Economic Development	1	0	0	0	1
Public Works	8,026	41,542	31,090	0	80,658
Recreation and Culture	2,546	0	0	0	2,546
Other Functions	13,173	0	0	1,889	15,062
 Total Expenditures	 52,660	 41,542	 31,090	 1,889	 127,181
 Net Change in Fund Balance	 15,771	 (5,265)	 (18,060)	 727	 (6,827)
<u>FUND BALANCES</u> - Beginning of Year	75,049	54,508	84,178	1,095	214,830
<u>FUND BALANCES</u> - End of Year	\$ 90,820	\$49,243	\$66,118	\$ 1,822	\$ 208,003

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

VILLAGE OF LEROY, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ (6,827)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.	
Depreciation Expense	(8,617)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in personal property tax revenue deferred using the modified accrual method	<u>1,365</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (14,079)</u></u>

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

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Village of LeRoy, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

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 non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

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

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

**C. Measurement Focus, Basis of Accounting and Basis of 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 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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, 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 period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

The Village of LeRoy 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* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

The *Farmers Market Fund* accounts for all activity of the Village sponsored Farmers Market.

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

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 who purchase, use, or directly benefit from 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 the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

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

The Village has authorized the Village Treasurer to invest in bank savings accounts, bank certificates of deposit, securities of the U.S. Government, and repurchase agreements from banks. The State also permits local units of government to invest funds in commercial paper (unsecured notes of businesses and corporations). Such obligations must be rated in one of the three highest classifications by two of the national rating services in order to qualify for local government investment. Other statutory limits are that commercial obligations may not extend for more than 270 days, and not more than one half of the total investments may be invested in commercial paper.

***2. Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the 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."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of July 1. Village taxes are levied January 1, become a lien on July 1, and become delinquent after September 15. Village property tax revenues are recognized when they become both measurable and available for use to finance Village

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2007 taxable valuation of the Village of LeRoy totaled \$4,044,627, on which ad valorem taxes levied consisted of 6.750 mills for the Village of LeRoy operating purposes.

**3. *Inventories and Prepaid Items***

Inventories are not significant and are expensed when acquired. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. 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 date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Infrastructure	20
Land Improvements	20
Equipment	10-20
Vehicles	10

The Village qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Village began to capitalize and depreciate infrastructure beginning January 1, 2004, in accordance with the Township's capitalization policy.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

**5. *Long-term Obligations***

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

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

**6. *Fund Balance***

In the fund financial statements, governmental funds report reserves 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.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 “The Uniform Budgeting and Accounting Act”. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on December 13, 2006.

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**B. Funds with Expenditures in Excess of Appropriations were as follows:**

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund	\$ 50,560	\$	52,660
Major Street Fund	24,632		41,542
Local Street Fund	21,230		31,090
Farmers Market Fund	0		1,889

These overages were funded by available fund balance and greater-than anticipated revenues.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Village's deposits are owned by the Village's funds. At year-end, the carrying amount of the Village's deposits was \$178,709 and the bank balance was \$178,709. All of the bank balance was covered by Federal depository insurance.

*Investment rate risk.* The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

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

*Credit risk.* The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

*Concentration of credit risk.* The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's 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.

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2007, none of the Village's funds were exposed to custodial credit risk.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government 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's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Total
Receivables				
Taxes	\$ 3,228	\$ 0	\$ 0	\$ 3,228
Due from Other Governments	7,562	10,920	3,341	21,823
Total	<u>\$ 10,790</u>	<u>\$ 10,920</u>	<u>\$ 3,341</u>	<u>\$ 25,051</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

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.

	<u>Unearned</u>	<u>Unavailable</u>
General Fund Taxes Receivable	<u>\$ 0</u>	<u>\$ 3,228</u>

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Government activities:</u>				
Capital assets, not being depreciated				
Land	\$ 5,000	\$ 0	\$ 0	\$ 5,000
Capital assets, being depreciated				
Equipment	74,174	0	0	74,174
Infrastructure	123,774	0	0	123,774
Total capital assets, being depreciated	197,948	0	0	197,948
Less accumulated depreciation for:				
Equipment	58,793	2,429	0	61,222
Infrastructure	7,063	6,189	0	13,252
Total accumulated depreciation	65,856	8,618	0	74,474
Total capital assets, being depreciated, net	132,092	(8,618)	0	123,474
Governmental activities capital assets, net	\$ 137,092	\$ (8,618)	\$ 0	\$ 128,474

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

Governmental activities:

General Government	\$ 2,429
Public Works	6,189
	\$ 8,618

VILLAGE OF LEROY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at December 31, 2007, were:

<u>Fund</u>	<u>INTERFUND RECEIVABLES DUE FROM'S</u>	<u>INTERFUND PAYABLES DUE TO'S</u>
Primary Government Only Due From/To Other Funds:		
General Fund		
Major Streets	\$ 20,974	\$ 0
Local Streets	11,846	0
Farmers Market Fund	200	0
Major Streets		
General Fund	0	20,974
Local Streets		
General Fund	0	11,846
Farmers Market		
General Fund	0	200
Total Primary Government	<u>\$ 33,020</u>	<u>\$ 33,020</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the year, no transfers were made.

**E. Fund Balance Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has designated unreserved portions of certain fund balances/retained earnings in various funds for intended future uses. These designations are detailed in the following schedule:

VILLAGE OF LEROY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

FUND BALANCE/NET ASSETS

Unreserved-Designated	
Special Revenue Funds	
Major Street Fund	
Major Streets	\$ 49,243
Local Street Fund	
Local Streets	<u>66,118</u>
TOTAL FUND BALANCE DESIGNATIONS	<u><u>\$115,361</u></u>
Reserved	
General Fund	
Prepaid Expenditures	\$ 8,297
Telecommunications Right-of-Way	<u>4,817</u>
TOTAL FUND BALANCE RESERVES	<u><u>\$ 13,114</u></u>

**IV. OTHER INFORMATION**

**A. 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; and natural disasters. The Village participates in pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Village pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

The Village continues to carry insurance for other risks of loss, including fidelity bonds.

VILLAGE OF LEROY, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2007

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>			<u>FARMERS MARKET FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<b><u>REVENUES</u></b>												
Taxes	\$ 23,100	\$ 39,540	\$ 25,939	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	0	0	20	0	0	0	0	0	0	0	0	0
State Grants	18,450	11,753	23,932	36,000	36,000	35,263	10,000	10,000	10,789	0	0	0
Contributions From Local Units	1,600	0	0	0	0	0	0	0	0	0	0	0
Charges for Services	0	0	15,227	0	0	0	0	0	0	0	0	2,006
Interest and Rents	300	233	233	250	250	1,014	250	250	2,241	0	0	0
Other Revenues	11,366	2,337	3,080	0	0	0	3,000	3,000	0	0	0	610
<b>Total Revenues</b>	<b>54,816</b>	<b>53,863</b>	<b>68,431</b>	<b>36,250</b>	<b>36,250</b>	<b>36,277</b>	<b>13,250</b>	<b>13,250</b>	<b>13,030</b>	<b>0</b>	<b>0</b>	<b>2,616</b>
<b><u>EXPENDITURES</u></b>												
Legislative												
Village Council	9,570	23,769	8,630	0	0	0	0	0	0	0	0	0
General Government												
Village President	1,200	1,818	1,688	0	0	0	0	0	0	0	0	0
Assessor	850	350	350	0	0	0	0	0	0	0	0	0
Clerk	5,600	5,742	4,696	0	0	0	0	0	0	0	0	0
Treasurer	3,300	2,832	2,272	0	0	0	0	0	0	0	0	0
Building and Grounds	20,200	8,765	11,278	0	0	0	0	0	0	0	0	0
Community and Economic Development												
Planning and Zoning	1,500	1	1	0	0	0	0	0	0	0	0	0
Public Works												
Public Works	11,500	2,101	8,026	0	0	0	0	0	0	0	0	0
Streets	0	0	0	24,632	24,632	41,542	21,230	21,230	31,090	0	0	0
Recreation and Culture												
Parks and Recreation	3,200	2,783	2,546	0	0	0	0	0	0	0	0	0
Other Functions	6,200	2,399	13,173	0	0	0	0	0	0	0	0	1,889
<b>Total Expenditures</b>	<b>63,120</b>	<b>50,560</b>	<b>52,660</b>	<b>24,632</b>	<b>24,632</b>	<b>41,542</b>	<b>21,230</b>	<b>21,230</b>	<b>31,090</b>	<b>0</b>	<b>0</b>	<b>1,889</b>
Net Change in Fund Balance	(8,304)	3,303	15,771	11,618	11,618	(5,265)	(7,980)	(7,980)	(18,060)	0	0	727
<b><u>FUND BALANCE</u></b> - Beginning of Year	<b>75,049</b>	<b>75,049</b>	<b>75,049</b>	<b>54,508</b>	<b>54,508</b>	<b>54,508</b>	<b>84,178</b>	<b>84,178</b>	<b>84,178</b>	<b>0</b>	<b>0</b>	<b>1,095</b>
<b><u>FUND BALANCE</u></b> - End of Year	<b>\$ 66,745</b>	<b>\$ 78,352</b>	<b>\$ 90,820</b>	<b>\$ 66,126</b>	<b>\$ 66,126</b>	<b>\$ 49,243</b>	<b>\$ 76,198</b>	<b>\$ 76,198</b>	<b>\$ 66,118</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,822</b>

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

May 1, 2008

To the Village Council  
Village of LeRoy  
LeRoy, Michigan

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

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

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. We consider the following deficiencies to be significant deficiencies in internal control:

### 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

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

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

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

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

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. We believe that the deficiencies described above are material weaknesses.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
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May 1, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Village Council  
Village of LeRoy  
LeRoy, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of LeRoy for the year ended December 31, 2007, and have issued our report thereon dated May 1, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 29, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of LeRoy are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### *Difficulties Encountered in Performing the Audit*

We encountered some difficulties in dealing with management in performing and completing our audit. The computer records for December of 2007 were incomplete due to some technical issues. We had to assist with getting this corrected. We also had delays in the audit process due to the timeliness of receiving equipment rental numbers for the street funds. Both of these issues caused the audit to be finished later than expected.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We prepared several adjusting entries which were accepted and recorded by management.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated May 1, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of the Village of LeRoy for the year ended December 31, 2007, we noted the following list of items which we feel deserve comment:

#### Expenditures

During our audit we discovered an unlawful expenditure in the amount of \$53. According to the State of Michigan it is unlawful to purchase flowers for the sick or departed because it is not specifically authorized.

We also noted two invoices which were paid twice. Invoices should be stamped "paid" or otherwise marked to avoid this. According to the clerk the Village has since been credited for both of these items.

#### Budget

The board minutes indicated that the budget was amended on January 9, 2008. Such amendments need to be made before the expenditure occurs which by default, would have to be before the end of the fiscal year. Although amendments were made expenditures still exceeded appropriations.

#### Telecommunications Right-of-Way State Funding

The Village receives money from the state related to Telecommunications Right-of-Way. The state has specific guidelines on the use of those funds, most allowable uses relate to Road Right-of-Way expenditures. The Village has a list of allowable uses of these funds. At December 31, 2007 the amount reserved was \$7,029.

This communication is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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