

VILLAGE OF ELBERTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Year Ended February 28, 2013

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS	
<hr/>	
Government-wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds	
Balance Sheet	13
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	14
Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities	16
Proprietary Funds	
Statement of Net Position	17
Statement of Revenues, Expenses and Changes in Net Position	18
Statement of Cash Flows	19
Notes to the Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	
<hr/>	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	31
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Park Fund	32
OTHER SUPPLEMENTARY INFORMATION	
<hr/>	
Nonmajor Governmental Funds	
Combining Balance Sheet	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	34

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Elberta, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Elberta, Michigan, as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Elberta, Michigan, as of February 28, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Elberta, Michigan's basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2013, on our consideration of the Village of Elberta, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village of Elberta, Michigan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Grand Rapids, MI
August 7, 2013

Management's Discussion and Analysis

As management of the Village of Elberta, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,680,304. Of this amount, \$943 is unrestricted and may be used to meet the Village's ongoing obligations to citizens and creditors.
- The Village's net position decreased by \$123,934.
- At the end of the current fiscal year, fund balance in the General Fund was a deficit of \$558,496 and unassigned fund balance was a deficit of \$560,806.
- Total long-term debt decreased by \$37,000, with \$234,000 outstanding at year end.

Overview of the Financial Statements

The Village of Elberta'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.

Government-wide Financial Statements The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Position* presents information on all of the Village's assets and liabilities, the difference between the two being reported as the net position of the Village. Over time, increases or decreases in net position can 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying 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 future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

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 safety, public works, culture and recreation. Business-type activities of the Village include water and sewer utility services.

Focus on Funds

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 Elberta uses fund accounting to ensure compliance with finance-related legal requirements. The Village has two basic types of funds: governmental funds and proprietary funds.

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 system 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 government fund balance as expenditures. 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 Park Fund.

Proprietary Funds The Village maintains one type of proprietary fund, which is an enterprise fund. Enterprise funds are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village has two enterprise funds - the Water and Sewer Funds.

Notes to the Financial Statements

The Notes to the 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.

Other information

In addition to the basic financial statements and accompanying notes, this report further presents required supplementary information (RSI) that explains the information presented in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village of Elberta, assets exceeded liabilities by \$2,680,304 at the close of the most recent fiscal year. The following table illustrates the varying results of

the governmental activities and business-type activities that combine to capture the Village's total net position.

Village of Elberta
Statement of Net Position as of February 28, 2013 and February 29, 2012

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 114,092	\$ 249,408	\$ 529,385	\$ 572,644	\$ 643,477	\$ 822,052
Receivables (Net)	47	84	19,534	30,227	19,581	30,311
Due from State	13,046	10,778	-	-	13,046	10,778
Taxes Receivable	-	14,363	-	-	-	14,363
Prepaid Expenditures	2,310	2,710	-	-	2,310	2,710
Total Current Assets	<u>129,495</u>	<u>277,343</u>	<u>548,919</u>	<u>602,871</u>	<u>678,414</u>	<u>880,214</u>
<i>Noncurrent Assets</i>						
Capital Assets (Net)	685,016	705,914	2,032,838	2,085,756	2,717,854	2,791,670
Total Assets	<u>814,511</u>	<u>983,257</u>	<u>2,581,757</u>	<u>2,688,627</u>	<u>3,396,268</u>	<u>3,671,884</u>
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	42,443	6,518	16,647	682	59,090	7,200
Negative Equity in Pooled Cash	403,600	579,115	14,610	1,413	418,210	580,528
Accrued Expenses	-	168	4,664	2,412	4,664	2,580
Unearned Revenue	-	2,364	-	3,974	-	6,338
Current Portion of Long-term Debt	-	-	7,000	7,000	7,000	7,000
Due to Other Funds	45,419	13,419	(45,419)	(13,419)	-	-
Total Current Liabilities	<u>491,462</u>	<u>601,584</u>	<u>(2,498)</u>	<u>2,062</u>	<u>488,964</u>	<u>603,646</u>
<i>Noncurrent Liabilities</i>						
Long-term Debt	-	-	294,134	264,000	294,134	264,000
Total Liabilities	<u>-</u>	<u>-</u>	<u>294,134</u>	<u>264,000</u>	<u>294,134</u>	<u>264,000</u>
NET POSITION						
Net Investments in Capital Assets	685,016	705,914	1,798,838	1,844,756	2,483,854	2,550,670
<i>Restricted for:</i>						
Major & Local Streets	195,507	199,002	-	-	195,507	199,002
<i>Unrestricted</i>	(557,474)	(523,243)	558,417	577,809	943	54,566
Total Net Position	<u>\$ 323,049</u>	<u>\$ 381,673</u>	<u>\$ 2,357,255</u>	<u>\$ 2,422,565</u>	<u>\$ 2,680,304</u>	<u>\$ 2,804,238</u>

The most significant portion of the Village's net position is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the Village used to acquire or construct the asset. The Village has \$943 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by the Village policies regarding their use.

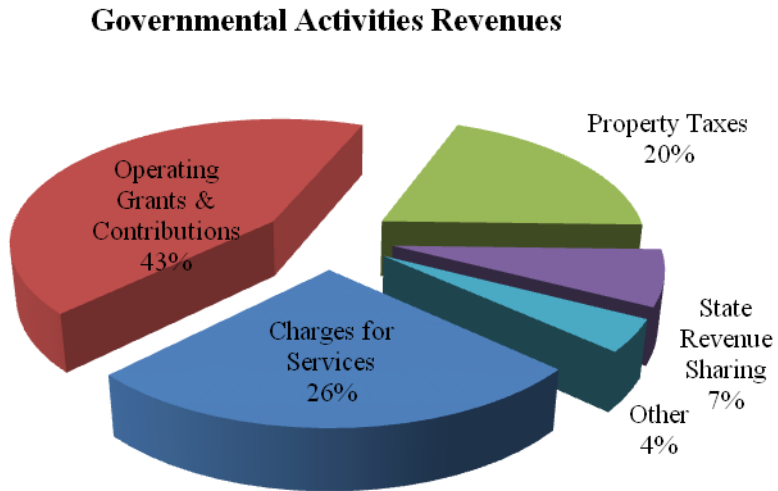
The total net position of the Village decreased by \$123,934 in the current fiscal year. The following table illustrates and summarizes the results of the changes in the net position for the Village. The condensed information was derived from the government-wide statement of activities.

Village of Elberta
Change in Net Position for the Fiscal year Ended February 28, 2013 and February 29, 2012

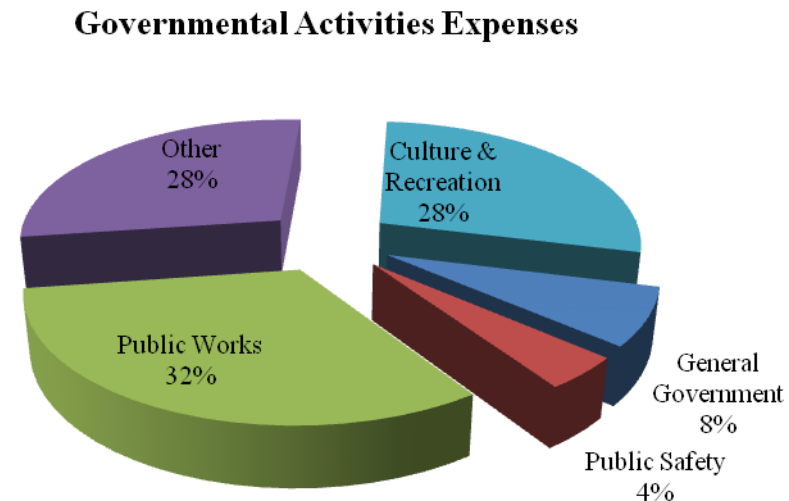
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue						
Program Revenues						
Charges for Services	\$ 140,768	\$ 124,209	\$ 173,227	\$ 176,167	\$ 313,995	\$ 300,376
Operating Grants	235,000	1,062,402	-	-	235,000	1,062,402
Capital Grants	-	-	-	5,000	-	5,000
Total Program Revenues	<u>375,768</u>	<u>1,186,611</u>	<u>173,227</u>	<u>181,167</u>	<u>548,995</u>	<u>1,367,778</u>
General Revenues						
Property Taxes & Assessments	105,916	97,988	34,087	33,201	140,003	131,189
State Revenue Sharing	38,697	37,725	-	-	38,697	37,725
Investment Income	160	160	231	311	391	471
Other	22,097	23,603	-	-	22,097	23,603
Total General Revenues	<u>166,870</u>	<u>159,476</u>	<u>34,318</u>	<u>33,512</u>	<u>201,188</u>	<u>192,988</u>
Total Revenues	<u>542,638</u>	<u>1,346,087</u>	<u>207,545</u>	<u>214,679</u>	<u>750,183</u>	<u>1,560,766</u>
Expenses						
General Government	44,444	101,638	-	-	44,444	101,638
Public Safety	25,155	84,717	-	-	25,155	84,717
Public Works	194,325	125,469	-	-	194,325	125,469
Health & Welfare	-	3,170	-	-	-	3,170
Recreation & Culture	167,703	1,127,674	-	-	167,703	1,127,674
Other	169,635	3,082	-	-	169,635	3,082
Water & Sewer	-	-	272,855	213,728	272,855	213,728
Total Expenses	<u>601,262</u>	<u>1,445,750</u>	<u>272,855</u>	<u>213,728</u>	<u>874,117</u>	<u>1,659,478</u>
Increase/Decrease in Net Position	<u>(58,624)</u>	<u>(99,663)</u>	<u>(65,310)</u>	<u>951</u>	<u>(123,934)</u>	<u>(98,712)</u>
Beginning Net Position	381,673	481,336	2,422,565	2,421,614	2,804,238	2,902,950
Ending Net Position	<u>\$ 323,049</u>	<u>\$ 381,673</u>	<u>\$ 2,357,255</u>	<u>\$ 2,422,565</u>	<u>\$ 2,680,304</u>	<u>\$ 2,804,238</u>

Governmental Activities

The following chart details the revenue sources for the governmental activities of the Village for the most recent fiscal year end:



The following chart details the expense categories for the governmental activities of the Village for the most recent fiscal year end:



Financial Analysis of the Government's Funds

The Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities At the completion of the Village's fiscal year, its governmental funds reported fund balances of (\$361,967). Of this amount, (\$560,806) is unassigned.

General Fund The General Fund is the main operating fund of the Village. The General Fund decreased its balance in this fiscal year by \$6,421, bringing the balance to (\$558,496).

Park Fund The fund balance of the Park Fund at the most recent fiscal year end was \$1,022. This was a decrease of \$27,810 from the previous fiscal year end.

Business-type Activities

The Village's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net position of the Water Fund at the end of the year amounted to \$(8,664). The Water Fund had a decrease in net position for the year of \$26,053.

Unrestricted net position of the Sewer Fund at the end of the year amounted to \$567,081. The Water Fund had a decrease in net position for the year of \$39,257.

General Fund Budgetary Highlights

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

Capital Asset and Debt Administration

Capital Assets The Village's investment in capital assets for the governmental and business-type activities at year end amounted to \$2,717,854 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$500 and have an expected useful life of over two years. The Village has invested in a broad range of capital assets. More detailed information can be found in the Notes to the Financial Statements section of this report.

Long-term Debt At the end of the current fiscal year, the Village had total debt outstanding, exclusive of compensated absences, of \$234,000. State statutes limit the amount of general obligation debt a government entity may issue to 10% of its total assessed valuation. The Village's general obligation debt is well under its debt limitation.

More information on the Village's long-term debt is available in the Notes to the Financial Statements section of this report.

Economic Factors and Next Year's Budgets and Rates

While state revenue sharing has been trending lower in recent years, it has, at a minimum, leveled off. Property tax values have also seen a very similar pattern over the past five years, and have recently stabilized, and will hopefully improve. If any further decreases are made there could be decreased service.

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 Elberta
Village Clerk
P.O. Box 223
1276 Michigan Ave
Elberta, MI 49616

**Village of Elberta
Statement of Net Position
February 28, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 114,092	\$ 529,385	\$ 643,477
Receivables (Net)	47	19,534	19,581
Due from State	13,046	--	13,046
Prepaid Expenditures	2,310	--	2,310
Total Current Assets	129,495	548,919	678,414
<i>Noncurrent Assets</i>			
Capital Assets (Net)	685,016	2,032,838	2,717,854
Total Assets	814,511	2,581,757	3,396,268
LIABILITIES			
<i>Current Liabilities</i>			
Negative Equity in Pooled Cash	403,600	14,610	418,210
Accounts Payable	42,443	16,647	59,090
Current Portion of Long-term Debt	--	7,000	7,000
Accrued Interest Payable	--	4,664	4,664
<i>Internal Balances</i>	45,419	(45,419)	--
Total Current Liabilities	491,462	(2,498)	488,964
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	227,000	227,000
Total Liabilities	491,462	224,502	715,964
NET POSITION			
Net Investment in Capital Assets	685,016	1,798,838	2,483,854
<i>Restricted for Major & Local Streets</i>	195,507	--	195,507
<i>Unrestricted</i>	(557,474)	558,417	943
Total Net Position	\$ 323,049	\$ 2,357,255	\$ 2,680,304

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Elberta
Statement of Activities
For the Year Ended February 28, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 44,444	\$ 64,942	\$ --	\$ --	\$ 20,498	\$ --	\$ 20,498
Public Safety	25,155	--	--	--	(25,155)	--	(25,155)
Public Works	194,325	7,035	52,616	--	(134,674)	--	(134,674)
Recreation & Culture	167,703	68,791	182,384	--	83,472	--	83,472
Other Functions	169,635	--	--	--	(169,635)	--	(169,635)
Total Governmental Activities	601,262	140,768	235,000	--	(225,494)	--	(225,494)
Business-type Activities:							
Sewer Fund	201,178	127,603	--	--	--	(73,575)	(73,575)
Water Fund	71,677	45,624	--	--	--	(26,053)	(26,053)
Total Business-type Activities	272,855	173,227	--	--	--	(99,628)	(99,628)
Total Primary Government	\$ 874,117	\$ 313,995	\$ 235,000	\$ --	\$ (225,494)	\$ (99,628)	\$ (325,122)

General Purpose Revenues and Transfers:

Revenues

Taxes	105,916	34,087	140,003
State Revenue Sharing	38,697	--	38,697
Interest Income	160	231	391
Other	22,097	--	22,097

Transfers

	--	--	--
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Total General Revenues and Transfers

	166,870	34,318	201,188
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Change in Net Position

Net Position at Beginning of Period	381,673	2,488,797	2,870,470
Prior Period Adjustment (See Note 11)	--	(66,232)	(66,232)
Net Position at Beginning of Period - Restated	381,673	2,422,565	2,804,238
Net Position at End of Period	\$ 323,049	\$ 2,357,255	\$ 2,680,304

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Elberta
Balance Sheet
Governmental Funds
February 28, 2013**

	<u>Special Revenue</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Park Fund</u>		
ASSETS				
Cash & Cash Equivalents	\$ --	\$ 120	\$ 113,972	\$ 114,092
Receivables (Net)	47	--	--	47
Due from State	5,972	--	7,074	13,046
Prepaid Expenditures	2,310	--	--	2,310
Due from Other Funds	--	4,600	74,703	79,303
<i>Total Assets</i>	<u>8,329</u>	<u>4,720</u>	<u>195,749</u>	<u>208,798</u>
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	--	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 8,329</u>	<u>\$ 4,720</u>	<u>\$ 195,749</u>	<u>\$ 208,798</u>
LIABILITIES				
Negative Equity in Pooled Cash	\$ 403,600	\$ --	\$ --	\$ 403,600
Accounts Payable	38,503	3,698	242	42,443
Due to Other Funds	124,722	--	--	124,722
<i>Total Liabilities</i>	<u>566,825</u>	<u>3,698</u>	<u>242</u>	<u>570,765</u>
DEFERRED INFLOWS OF RESOURCES				
Aggregated deferred inflows	--	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>566,825</u>	<u>3,698</u>	<u>242</u>	<u>570,765</u>
FUND BALANCE				
Nonspendable	2,310	--	--	2,310
Restricted	--	--	195,507	195,507
Committed	--	1,022	--	1,022
Unassigned	(560,806)	--	--	(560,806)
<i>Total Fund Balance</i>	<u>(558,496)</u>	<u>1,022</u>	<u>195,507</u>	<u>(361,967)</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 8,329</u>	<u>\$ 4,720</u>	<u>\$ 195,749</u>	<u>\$ 208,798</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
February 28, 2013

Total Fund Balance - Governmental Funds	\$ (361,967)
General government capital assets of \$1,127,439, net of accumulated depreciation of \$442,423, are not financial resources and, accordingly, are not reported in the funds	685,016
Total Net Position - Governmental Funds	\$ <u>323,049</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended February 28, 2013

	<u>Special Revenue</u>		Other Governmental Funds	Total Governmental Funds
	General	Park Fund		
Revenues				
Taxes	\$ 73,006	\$ --	\$ 32,910	\$ 105,916
State Grants	173,519	--	--	173,519
State Revenue Sharing	38,697	--	52,616	91,313
Charges for Services	7,995	25,721	--	33,716
Rental Income	--	43,070	--	43,070
Interest Income	111	9	40	160
Contributions	--	8,865	--	8,865
Other	86,079	--	--	86,079
Total Revenues	379,407	77,665	85,566	542,638
Expenditures				
General Government	27,404	--	--	27,404
Public Safety	23,226	--	--	23,226
Public Works	103,335	--	89,061	192,396
Recreation & Culture	62,228	105,475	--	167,703
Other Functions	169,635	--	--	169,635
Total Expenditures	385,828	105,475	89,061	580,364
Excess of Revenues Over (Under) Expenditures	(6,421)	(27,810)	(3,495)	(37,726)
Net Change in Fund Balance	(6,421)	(27,810)	(3,495)	(37,726)
<i>Fund Balance at Beginning of Period</i>	(552,075)	28,832	199,002	(324,241)
Fund Balance at End of Period	\$ (558,496)	\$ 1,022	\$ 195,507	\$ (361,967)

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended February 28, 2013

Total Net Change in Fund Balances - Governmental Funds	\$ (37,726)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. This amount represents depreciation expense during the year of \$20,898.	(20,898)
Changes in Net Position - Governmental Funds	<u>\$ (58,624)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Elberta
Statement of Net Position
Proprietary Funds
February 28, 2013**

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 529,385	\$ --	\$ 529,385
Receivables (Net)	15,305	4,229	19,534
Due from Other Funds	40,851	4,568	45,419
Total Current Assets	585,541	8,797	594,338
<i>Noncurrent Assets</i>			
Capital Assets (Net)	1,679,797	353,041	2,032,838
Total Assets	2,265,338	361,838	2,627,176
LIABILITIES			
<i>Current Liabilities</i>			
Negative Equity in Pooled Cash	--	14,610	14,610
Accounts Payable	13,796	2,851	16,647
Current Portion of Long-term Debt	7,000	--	7,000
Accrued Interest Payable	4,664	--	4,664
Total Current Liabilities	25,460	17,461	42,921
<i>Noncurrent Liabilities</i>			
Long-term Debt	227,000	--	227,000
Total Liabilities	252,460	17,461	269,921
NET POSITION			
Net Investment in Capital Assets	1,445,797	353,041	1,798,838
<i>Unrestricted</i>	567,081	(8,664)	558,417
Total Net Position	\$ 2,012,878	\$ 344,377	\$ 2,357,255

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Operating Revenues			
Charges for Services	\$ 127,603	\$ 45,624	\$ 173,227
Total Operating Revenues	<u>127,603</u>	<u>45,624</u>	<u>173,227</u>
Operating Expenses			
Public Works	94,256	60,934	155,190
Depreciation Expense	42,175	10,743	52,918
Total Operating Expenses	<u>136,431</u>	<u>71,677</u>	<u>208,108</u>
Operating Income (Loss)	<u>(8,828)</u>	<u>(26,053)</u>	<u>(34,881)</u>
Non-Operating Revenues (Expenses)			
Interest Expense	(64,747)	--	(64,747)
Debt Service Fee	34,087	--	34,087
Interest Income	231	--	231
Net Non-Operating Revenues (Expenses)	<u>(30,429)</u>	<u>--</u>	<u>(30,429)</u>
Income Before Contributions and Transfers	<u>(39,257)</u>	<u>(26,053)</u>	<u>(65,310)</u>
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
Change In Net Position	<u>(39,257)</u>	<u>(26,053)</u>	<u>(65,310)</u>
<i>Net Position at Beginning of Period</i>	2,094,810	393,987	2,488,797
<i>Prior Period Adjustment (See Note 11)</i>	(42,675)	(23,557)	(66,232)
<i>Net Position at Beginning of Period - Restated</i>	2,052,135	370,430	2,422,565
Net Position at End of Period	<u>\$ 2,012,878</u>	<u>\$ 344,377</u>	<u>\$ 2,357,255</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total Enterprise Funds
Cash flows from operating activities			
Cash Received from Charges for Services	\$ 138,520	\$ 45,400	\$ 183,920
Cash Payments to Suppliers for Goods and Services	(83,040)	(58,597)	(141,637)
Total cash flows from operating activities	<u>55,480</u>	<u>(13,197)</u>	<u>42,283</u>
Cash flows from non-capital financing activities			
Decrease (Increase) in Due from Other Funds	(32,000)	-	(32,000)
Total cash flows from non-capital financing activities	<u>(32,000)</u>	<u>-</u>	<u>(32,000)</u>
Cash flows from capital and related financing activities			
Debt Service Fee	30,140	-	30,140
Interest Payments on Bonds	(60,110)	-	(60,110)
Principal Payments on Bonds	(37,000)	-	(37,000)
Total cash flows from capital and related financing activities	<u>(66,970)</u>	<u>-</u>	<u>(66,970)</u>
Cash flows from investing activities			
Interest on Investments	231	-	231
Total cash flows from investing activities	<u>231</u>	<u>-</u>	<u>231</u>
Net Increase (Decrease) in Cash and Equivalents	(43,259)	(13,197)	(56,456)
<i>Cash and Equivalents - Beginning of Year</i>	<u>572,644</u>	<u>(1,413)</u>	<u>571,231</u>
Cash and Equivalents - End of Year	<u>\$ 529,385</u>	<u>\$ (14,610)</u>	<u>\$ 514,775</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating Income	\$ (8,828)	\$ (26,053)	\$ (34,881)
Adjustments to Reconcile Operating Income to Net Cash			
Provided (Used) by Operating Activities			
Depreciation and Amortization Expense	42,175	10,743	52,918
Changes in Assets & Liabilities			
Receivables (Net)	10,917	(224)	10,693
Accounts Payable	11,216	2,337	13,553
Net Cash Provided by Operating Activities	<u>\$ 55,480</u>	<u>\$ (13,197)</u>	<u>\$ 42,283</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Elberta

Notes to the Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Elberta have been prepared in accordance with generally accepted accounting principles. 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.

A. Reporting Entity

The Village of Elberta was incorporated in 1894 and covers an area of approximately 3.5 square miles. The Village operates under an elected Village Council of 7 members and provides services to its 372 residents in many areas including fire protection, water and sewer services, community enrichment and development, and human services.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Village.

B. Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by

Village of Elberta

Notes to the Financial Statements

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

Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. The Village collects property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect. Delinquent real property taxes receivable are offset by a deferred inflow on the Village's balance sheet, as these accounts are not normally received within sixty days of year-end, and are therefore not available to finance operations.

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current period. All other revenue items are considered to be available only when the cash is received by the Village.

The local unit reports the following major governmental funds:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other intergovernmental revenues.

Park Fund - This fund is used to account for the financial activity of the Village's recreational activities, including the rental of the Life Saving Station and the funds raised from the annual Elberta Solstice Festival.

The Village reports the following major proprietary funds:

Water Fund - This fund accounts for the cost of providing water distribution services to the Village residents. Revenues are primarily from charges to customers for water usage. These revenues are used primarily to pay operating costs.

Sewer Fund - This fund accounts for the cost of providing sewer collection services to the Village residents. Revenues are primarily from charges to customers for sewer usage and a millage. These

Village of Elberta

Notes to the Financial Statements

revenues are used primarily to pay operating costs and annual principal and interest payments on the bonds used to finance the sewer system infrastructure improvements.

In addition, the Village reports the following governmental fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds maintained by the Village are the Major Streets Fund, Local Streets Fund and the Park Fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer functions and the various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue 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 revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services, including such items as tap fees intended to recover current costs such as labor and material to hook up new customers. The portion of charges intended to recover the cost of the infrastructure is recognized as non-operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

D. Assets, Liabilities, and Net Position or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Accounts Receivable - Accounts Receivable are recorded in the Water and Sewer Funds at the time customers are billed for current services. Uncollected accounts are placed on the customer's tax bill in the summer and any amounts not collected by the Village are turned over to the County.

Vacation and Sick Leave - Village employees can accumulate six sick days annually. Vacation leave is accumulated by Village employees at the rate of one week per year for one through five years of service with the Village, two weeks per year for six through ten years of service and three week per year for employees with more than then year of service with the Village. Village employees are

Village of Elberta

Notes to the Financial Statements

eligible for vacation leave after 100 days of service with the Village. The Vacation time is to be used within the current fiscal year. Accordingly, no accrual for compensated absences has been included in the financial statements.

Capital Assets - Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$500 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.

Depreciation has been provided on these fixed assets using the straight line method over their estimated useful lives, as follows:

<u>Description</u>	<u>Life</u>
Office Equipment	5 Years
Computer Equipment	5 Years
Vehicle & Grounds Equipment	5 - 10 Years
Buildings & Improvements	20 - 40 Years
Infrastructure	30 - 50 Years

Fund Equity

In the fund financial statements, fund balance is presented in five possible categories, each of which identifies the extent to which the Village is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly.

Restricted – amounts that have constraints placed on their use by an external party, constitutional provisions or enabling legislation (e.g. grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Council, as the Village's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Council removes or changes the specific use through the same type of formal action taken to establish the commitment.

Assigned – amounts that are constrained by management of the Village's written intent to be used for

Village of Elberta

Notes to the Financial Statements

specific purposes, but are neither restricted nor committed.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the Village's policy to first use restricted resources when both restricted and unrestricted fund equity amounts are available.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

The General Fund and special revenue fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis. It is used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the Village.

In the body of the financial statements the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown at the activity level. The approved budgets of the Village for these budgetary funds were also adopted at the activity level.

Management prepares the budget for Council approval at a public hearing prior to February 28 of each year. Encumbrance accounting is not used and appropriations lapse at year-end. Budget amendments are authorized by council during the year to prevent expenditures in excess of appropriations.

B. Budget Compliance

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Village expenditures were within the amounts appropriated for activities during the current year.

C. Deficit Equity Position

As of February 28, 2013 the Village reported a deficit fund balance in the General Fund of \$558,496, which arose from a variety of significant expenditures in prior periods that have yet to generate revenue as the Village intended. The Village also has a deficit unrestricted net position balance in its governmental activities on the government-wide Statement of Net Position in the amount of \$557,474. This deficit balance was created by the same series of events that led to the deficit fund balance in the General Fund. Lastly, the Water Fund in the proprietary fund financial statement has a deficit unrestricted net position of \$8,664. This deficit balance is a result of cumulative losses from

Village of Elberta

Notes to the Financial Statements

operations in the Water Fund. The Village Council is in the process of long-term planning to resolve all deficit equity balances.

C. Interfund Transfers & Interfund Balances

The Village had no interfund transfers during the year.

The Village had the following interfund balances as of February 28, 2013:

		Due from Other Funds					Total
		Major Street Fund	Local Street Fund	Park Fund	Sewer Fund	Water Fund	
Due to Other Funds	General Fund	\$ 36,059	\$ 38,644	\$ 4,600	\$ 40,851	\$ 4,568	\$ 124,722

All of the Village’s interfund balances result 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.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. Legal or Contractual Provisions for Deposits and Investments

Credit Risk – State statutes and the Village’s investment policy authorize the Village to make deposits and invest in:

- The accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan.
- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Bankers’ acceptances of United States Banks.
- Commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase.
- Obligations of the State of Michigan or any of its political subdivisions that, at the time of

Village of Elberta

Notes to the Financial Statements

purchase, are rated as investment grade by at least one standard rating service.

- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Concentration of Credit Risk - The Village has no policy that would limit the amount that may be issued in any one issuer.

Cash Equivalents - As of February 28, 2013, the Village of Elberta's cash and cash equivalents were reported in the basic financial statements in the following categories:

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
<u>\$ (289,508)</u>	<u>\$ 514,775</u>	<u>\$ 225,267</u>

Restricted cash is set aside for bond covenants.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. State law does not require, and the Village does not have, a deposit policy for custodial credit risk. The Village's cash was fully insured as of February 28, 2013.

Village of Elberta

Notes to the Financial Statements

NOTE 4 - SUMMARY OF CAPITAL ASSETS

Capital asset activity of the governmental activities for the current year is summarized as follows:

Governmental Activities

	Balance at 2/29/2012	Additions	Disposals	Balance at 2/28/2013
Capital Assets not being depreciated				
Land	\$ 289,131	\$ -	\$ -	\$ 289,131
Capital Assets being depreciated:				
Buildings & Improvements	681,597	-	-	681,597
Office Equipment	156,711	-	-	156,711
Total Capital Assets being depreciated	<u>838,308</u>	<u>-</u>	<u>-</u>	<u>838,308</u>
Less accumulated depreciation:				
Buildings & Improvements	268,672	17,040	-	285,712
Office Equipment	152,853	3,858	-	156,711
Total accumulated depreciation	<u>421,525</u>	<u>20,898</u>	<u>-</u>	<u>442,423</u>
Net Capital Assets, Governmental	<u>\$ 705,914</u>	<u>\$ (20,898)</u>	<u>\$ -</u>	<u>\$ 685,016</u>

Capital asset activity of the business-type activities for the current year is summarized as follows:

	Balance at 2/29/2012	Additions	Disposals	Balance at 2/28/2013
Business-type Activities				
Capital Assets being depreciated:				
Sewer System	\$ 2,108,752	\$ -	\$ -	\$ 2,108,752
Water System	537,127	-	-	537,127
Total Capital Assets being depreciated	<u>2,645,879</u>	<u>-</u>	<u>-</u>	<u>2,645,879</u>
Less accumulated depreciation:				
Sewer System	386,780	42,175	-	428,955
Water System	173,343	10,743	-	184,086
Total accumulated depreciation	<u>529,859</u>	<u>52,918</u>	<u>-</u>	<u>613,041</u>
Net Capital Assets, Business-type	<u>\$ 2,116,020</u>	<u>\$ (52,918)</u>	<u>\$ -</u>	<u>\$ 2,032,838</u>

Village of Elberta

Notes to the Financial Statements

NOTE 5 – LONG-TERM DEBT

The following is a summary of transactions that occurred in long-term debt during the year ended February 28, 2013:

	Interest Rate	Maturity	2/29/2012	Additions	Reductions	2/28/2013	Due Within One Year
Business-type Activities:							
1989 General Obligation Bonds	6.00%	2029	\$ 117,000	\$ -	\$ 34,000	\$ 83,000	\$ 4,000
2005 General Obligation Bonds	4.25%	2045	154,000	-	3,000	151,000	3,000
Total Business-type Activities			<u>\$ 271,000</u>	<u>\$ -</u>	<u>\$ 37,000</u>	<u>\$ 234,000</u>	<u>\$ 7,000</u>

On October 4, 1989, the Village Council approved the sale of \$164,000 General Obligation Unlimited Tax Sewage Disposal System Bonds series 1989. The bonds are to be repaid with principal payments due on October 1 of each year and interest at 6% to be paid semi-annually.

	Business-type Activities		
	Principal	Interest	Total
2013	\$ 4,000	\$ 6,780	\$ 10,780
2014	5,000	6,540	11,540
2015	5,000	6,240	11,240
2016	5,000	5,940	10,940
2017	6,000	5,640	11,640
2018-2022	33,000	22,620	55,620
2023-2027	25,000	11,940	36,940
Totals:	<u>\$ 83,000</u>	<u>\$ 65,700</u>	<u>\$ 148,700</u>

Village of Elberta

Notes to the Financial Statements

On November 15, 2005, the Village Council approved the sale of \$172,000 General Obligation Limited Tax Bonds series 2005. The bonds are to be repaid annually with interest at 4.25% and principal.

	Business-type Activities		
	Principal	Interest	Total
2013	\$ 3,000	\$ 6,418	\$ 9,418
2014	3,500	6,290	9,790
2015	3,500	6,141	9,641
2016	3,500	5,993	9,493
2017	3,500	5,844	9,344
2018-2022	18,000	26,987	44,987
2023-2027	20,000	22,946	42,946
2028-2032	22,500	18,487	40,987
2033-2037	25,500	13,494	38,994
2038-2042	29,500	7,735	37,235
2043-2045	18,500	1,594	20,094
Totals:	<u>\$ 151,000</u>	<u>\$ 121,929</u>	<u>\$ 272,929</u>

NOTE 6 - RETIREMENT PLANS

The Village does not provide a pension plan for employees or council members but contributes to an IRS Code Section 457 plan which is maintained by ICMA Retirement Corporation. There are no additional post retirement benefits.

NOTE 7 - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal League Liability and Property Pool for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - USE OF ESTIMATES

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Village of Elberta

Notes to the Financial Statements

NOTE 9 – CONTINGENT LIABILITIES

As of August 7, 2013, management is not aware of any contingent liabilities that would have a significant impact on the financial condition of the Village.

NOTE 10 – CONTRIBUTIONS TO OTHER GOVERNMENTS

The Village of Elberta has entered into a long-term agreement with the Betsie Lake Utility Authority for the provision by the Authority to the Village of sewage treatment facilities. The Village's Sewer Fund is obligated to pay 30.30% of the required annual debt and reserve payments. The debt and debt structure are contained with the Betsie Lake Utility Authority which is audited annually under a separate report.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

A restatement was made to beginning equity balances at March 1, 2012 in the amount of \$66,232 to correctly state inflated accounts receivable balances in the Water and Sewer Funds from previous reporting periods.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Elberta
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended February 28, 2013

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Taxes	\$ 74,520	\$ 74,520	\$ 73,006	\$ (1,514)
State Grants	370,000	370,000	173,519	(196,481)
State Revenue Sharing	40,000	40,000	38,697	(1,303)
Charges for Services	11,000	11,000	7,995	(3,005)
Rental Income	102	102	111	9
Other	20,140	20,140	86,079	65,939
Total Revenues	515,762	515,762	379,407	(136,355)
Other Financing Sources				
Transfers from other funds	40,000	40,000	--	(40,000)
Total Revenues and Other Financing Sources	555,762	555,762	379,407	(176,355)
Expenditures				
General Government				
Trustees	6,700	8,044	7,669	375
Clerk	7,250	6,758	5,163	1,595
Treasurer	9,350	8,158	5,412	2,746
Office	8,600	8,997	6,738	2,259
Community Building	1,980	2,222	2,199	23
Total General Government	33,880	34,179	27,181	6,998
Public Safety				
Fire Department	18,000	23,317	23,226	91
Total Public Safety	18,000	23,317	23,226	91
Public Works				
Garage	55,000	75,389	74,931	458
Street Lighting	13,000	15,647	15,647	--
Refuse Collection	11,000	12,757	12,757	--
Total Public Works	79,000	103,793	103,335	458
Other Functions	424,882	432,736	232,086	200,650
Total Expenditures	555,762	594,025	385,828	208,197
Other Financing Uses				
Total Expenditures and Other Financing Uses	555,762	594,025	385,828	208,197
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	--	(38,263)	(6,421)	31,842
Net Change in Fund Balance	--	(38,263)	(6,421)	31,842
Fund Balance at Beginning of Period	(552,075)	(552,075)	(552,075)	--
Fund Balance at End of Period	\$ (552,075)	\$ (590,338)	\$ (558,496)	\$ 31,842

Village of Elberta
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Park Fund
For the Year Ended February 28, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Charges for Services	\$ 19,470	\$ 19,470	\$ 25,721	\$ 6,251
Rental Income	52,745	52,475	43,070	(9,405)
Other	2,505	2,505	8,874	6,369
Total Revenues	<u>74,720</u>	<u>74,450</u>	<u>77,665</u>	<u>3,215</u>
Other Financing Sources				
Total Revenues and Other Financing Sources	<u>74,720</u>	<u>74,450</u>	<u>77,665</u>	<u>3,215</u>
Expenditures				
Recreation & Culture	74,720	116,060	105,475	10,585
Total Expenditures	<u>74,720</u>	<u>116,060</u>	<u>105,475</u>	<u>10,585</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>74,720</u>	<u>116,060</u>	<u>105,475</u>	<u>10,585</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>--</u>	<u>(41,610)</u>	<u>(27,810)</u>	<u>13,800</u>
Net Change in Fund Balance	<u>--</u>	<u>(41,610)</u>	<u>(27,810)</u>	<u>13,800</u>
Fund Balance at Beginning of Period	28,832	28,832	28,832	--
Fund Balance at End of Period	<u>\$ 28,832</u>	<u>\$ (12,778)</u>	<u>\$ 1,022</u>	<u>\$ 13,800</u>

OTHER SUPPLEMENTARY INFORMATION

**Village of Elberta
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2013**

	<u>Special Revenue</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Local Streets</u>	
ASSETS			
Cash & Cash Equivalents	\$ 21,120	\$ 92,852	\$ 113,972
Due from State	5,041	2,033	7,074
Due from Other Funds	36,059	38,644	74,703
<i>Total Assets</i>	<u>62,220</u>	<u>133,529</u>	<u>195,749</u>
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	--	--	--
<i>Total Assets and Deferred Outflows of Resources</i>	<u>\$ 62,220</u>	<u>\$ 133,529</u>	<u>\$ 195,749</u>
LIABILITIES			
Accounts Payable	\$ 121	\$ 121	\$ 242
<i>Total Liabilities</i>	<u>121</u>	<u>121</u>	<u>242</u>
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	--	--	--
<i>Total Liabilities and Deferred Inflows of Resources</i>	<u>121</u>	<u>121</u>	<u>242</u>
FUND BALANCE			
Restricted	62,099	133,408	195,507
Unassigned	--	--	--
<i>Total Fund Balance</i>	<u>62,099</u>	<u>133,408</u>	<u>195,507</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	<u>\$ 62,220</u>	<u>\$ 133,529</u>	<u>\$ 195,749</u>

Village of Elberta
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended February 28, 2013

	Special Revenue		Total Nonmajor Governmental Funds
	Major Streets	Local Streets	
Revenues			
Taxes	\$ --	\$ 32,910	\$ 32,910
State Revenue Sharing	41,701	10,915	52,616
Interest Income	20	20	40
Total Revenues	41,721	43,845	85,566
Expenditures			
Public Works	36,579	52,482	89,061
Total Expenditures	36,579	52,482	89,061
Excess of Revenues Over (Under) Expenditures	5,142	(8,637)	(3,495)
Other Financing Sources (Uses)			
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
Net Other Financing Sources (Uses)	--	--	--
Net Change in Fund Balance	5,142	(8,637)	(3,495)
<i>Fund Balance at Beginning of Period</i>	56,957	142,045	199,002
Fund Balance at End of Period	\$ 62,099	\$ 133,408	\$ 195,507

August 7, 2013

To the Village Council
Village of Elberta, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Elberta for the year ended February 28, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 28, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Elberta are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended February 28, 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Difficulties Encountered in Performing the Audit

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

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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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 August 7, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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



Gabridge & Company, PLC
Grand Rapids, MI

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

August 7, 2013

To the Village Council
Village of Elberta, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Elberta, Michigan as of and for the year ended February 28, 2013, which collectively comprise the Village of Elberta, Michigan's basic financial statements and have issued our report thereon dated August 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented,

or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be a material weakness – 2013-1.

Compliance and Other Matters

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

The Village of Elberta, Michigan's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Village of Elberta, Michigan's responses and, accordingly, we express no opinion on it.

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

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC

Village of Elberta

Schedule of Findings and Responses

Material Weaknesses

2013-1 – Preparation of Governmental Financial Statements

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

Condition/Finding: As is the case with many smaller and medium sized entities, the Village 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 Village's ability to prepare financial statements in accordance with GAAP is based, at least in part, on its reliance on its external auditors, who cannot by definition be considered a part of the Village's internal controls. In addition, we proposed, and management approved, material journal entries to properly record debt service, accounts payable, and accounts receivable balances in the proprietary and governmental funds.

Cause: This condition was caused by the Village'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 Village to perform this task internally.

Effect: As a result of this condition, the Village lacks complete internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, at least in part, on its external auditors for assistance with this task. In addition, the Village's records were initially misstated by an amount material to the financial statements requiring a prior period adjustment to restate beginning fund equity and significant adjustments to current year activity.

View of Responsible Officials: It is the Village's intent to improve upon the internal controls so that the financial statements are prepared in accordance with GAAP. The Village is working with the auditor to enable the Village to prepare GAAP financial statements internally.