

**VILLAGE OF ELBERTA, MICHIGAN**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED FEBRUARY 28, 2014**



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## 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, 2014, 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, 2014, 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.

## ***Emphasis of Matter***

### ***Emphasis of Matter Regarding Uncertainty About Ability to Continue as a Going Concern – Primary Government***

The accompanying financial statements of the Village have been prepared assuming that the Village will continue as a going concern. As discussed in Note 11 to the financial statements, the Village has three funds out of a total of six that are in a deficit position that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11, but the State of Michigan has not accepted them. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

## ***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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2014, 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". The signature is written in dark ink and is positioned above the typed name.

Gabridge & Company, PLC  
Interlochen, MI  
November 7, 2014

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Village of Elberta, Michigan (The "Village" or "government") 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, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements.

### Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$2,540,241 (net position). Of this amount, \$(126,748) represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$(461,388), a decrease of \$99,421 in comparison with the prior year. Approximately \$(673,466) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$(672,315).

### Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Village's net 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 for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the Village include water and sewer services.

The government-wide financial statements can be found on pages 15 – 16 of this report.

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

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

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

The Village maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, major and local street funds, and the park fund, which are considered to be major funds.

The Village adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 17 – 20 of this report.

**Proprietary Funds.** The Village maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprises funds to account for its water and sewer operations.



Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the Village.

The basic proprietary fund financial statements can be found on pages 21 – 23 of this report.

**Notes to the Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 25 – 38 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village's budgetary comparison schedules.

Required supplementary information can be found on pages 40 – 43 of this report.

## Government-wide Overall Financial Analysis

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$2,540,241, at the close of the most recent fiscal year.

**Village of Elberta**  
**Statement of Net Position as of February 28, 2014 and February 28, 2013**

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 127,822	\$ 114,092	\$ -	\$ 529,385	\$ 127,822	\$ 643,477
Receivables (Net)	-	47	25,540	19,534	25,540	19,581
Due from State	17,450	13,046	-	-	17,450	13,046
Prepaid Items	2,355	2,310	-	-	2,355	2,310
<b>Total Current Assets</b>	<b>147,627</b>	<b>129,495</b>	<b>25,540</b>	<b>548,919</b>	<b>173,167</b>	<b>678,414</b>
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	34,013	-	34,013	-
Capital Assets (Net)	667,976	685,016	1,979,921	2,032,838	2,647,897	2,717,854
<b>Total Assets</b>	<b>815,603</b>	<b>814,511</b>	<b>2,039,474</b>	<b>2,581,757</b>	<b>2,821,064</b>	<b>3,396,268</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	76,535	42,443	6,500	16,647	83,035	59,090
Negative Equity in Pooled Cash	-	403,600	-	14,610	-	418,210
Accrued Interest Payable	-	-	4,801	4,664	4,801	4,664
Current Portion of Long-term Debt	-	-	8,500	7,000	8,500	7,000
Internal Balances	532,480	45,419	(532,480)	(45,419)	-	-
<b>Total Current Liabilities</b>	<b>609,015</b>	<b>491,462</b>	<b>(512,679)</b>	<b>(2,498)</b>	<b>96,336</b>	<b>488,964</b>
<i>Noncurrent Liabilities</i>						
Long-term Debt	-	-	218,500	227,000	218,500	227,000
<b>Total Liabilities</b>	<b>609,015</b>	<b>491,462</b>	<b>(294,179)</b>	<b>224,502</b>	<b>314,836</b>	<b>715,964</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	667,976	685,016	1,752,922	1,798,838	2,420,898	2,483,854
Restricted	212,078	195,507	34,013	-	246,091	195,507
Unrestricted	(673,466)	(557,474)	546,718	558,417	(126,748)	943
<b>Total Net Position</b>	<b>\$ 206,588</b>	<b>\$ 323,049</b>	<b>\$ 2,333,653</b>	<b>\$ 2,357,255</b>	<b>\$ 2,540,241</b>	<b>\$ 2,680,304</b>

By far, the largest portion of the Village's net position (\$2,420,898) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position (\$246,091) represents resources that are subject to external restrictions on how they may be used. The remaining *deficit* balance of \$(126,748) is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The Village's overall net position decreased \$140,070 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities.** During the current fiscal year, net position for governmental activities decreased \$116,461 from the prior fiscal year for an ending balance of \$206,588. The decrease in the overall net position of governmental activities in comparison with the previous year is consistent with prior years except for; 1) decreased charges for services in both the general and park funds, 2) decreased operating grants which consisted of a brownfield grant that ended during the year ending February 28, 2013, and 3) overall operating expenses that decreased across most of the Village's functions as a result of decreased revenues.

**Village of Elberta**  
**Change in Net Position for the Fiscal year Ended February 28, 2014 and February 28, 2013**

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
<b>Revenue</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 101,310	\$ 140,768	\$ 192,168	\$ 173,227	\$ 293,478	\$ 313,995
Operating Grants	70,799	235,000	-	-	70,799	235,000
Total Program Revenues	172,109	375,768	192,168	173,227	364,277	548,995
<b>General Revenues</b>						
Property Taxes & Assessments	107,002	105,916	34,320	34,087	141,322	140,003
State Revenue Sharing	38,650	38,697	-	-	38,650	38,697
Investment Income	81	160	149	231	230	391
Other	22,420	22,097	-	-	22,420	22,097
Total General Revenues	168,153	166,870	34,469	34,318	202,622	201,188
Total Revenues	340,262	542,638	226,637	207,545	566,899	750,183
<b>Expenses</b>						
General Government	57,448	44,444	-	-	57,448	44,444
Public Safety	22,202	25,155	-	-	22,202	25,155
Public Works	173,530	194,325	-	-	173,530	194,325
Recreation & Culture	74,475	167,703	-	-	74,475	167,703
Other	129,068	169,635	-	-	129,068	169,635
Water & Sewer	-	-	250,239	272,855	250,239	272,855
Total Expenses	456,723	601,262	250,239	272,855	706,962	874,117
Increase/Decrease in Net Position	(116,461)	(58,624)	(23,602)	(65,310)	(140,063)	(123,934)
Beginning Net Position	323,049	381,673	2,357,255	2,422,565	2,680,304	2,804,238
Ending Net Position	<u>\$ 206,588</u>	<u>\$ 323,049</u>	<u>\$ 2,333,653</u>	<u>\$ 2,357,255</u>	<u>\$ 2,540,241</u>	<u>\$ 2,680,304</u>

**Business-type Activities.** For the Village's business-type activities, the results for the current fiscal year led to a decrease in overall net position of \$23,602 with an ending balance of \$2,333,653. The decrease in net position for business-type activities is not significantly different than prior year results.

## Financial Analysis of Governmental Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village's Council.

At February 28, 2014, the Village's governmental funds reported combined fund balances of \$(461,388), a decrease of \$99,421 in comparison with the prior year. Of this amount \$(673,466) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is restricted for particular purposes (\$212,078).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$(672,315). The fund balance of the Village's general fund decreased by \$113,819 during the current fiscal year. The decrease in fund balance is primarily attributable to diminished grant revenues from prior years.

The major street fund, a major fund, had a \$10,460 increase in fund balance during the current fiscal year which put the overall fund balance at \$72,559. This change is consistent with what management expected for the current year.

The local street fund, a major fund, had a \$6,109 increase in fund balance during the current fiscal year which put the overall fund balance at \$139,519. This change is what management expected for the current year.

The park fund, a major fund, had a \$2,174 decrease in fund balance during the current fiscal year, which put the overall fund balance at \$(1,151,). The decrease in fund balance is due primarily to decreased revenues for the current year.

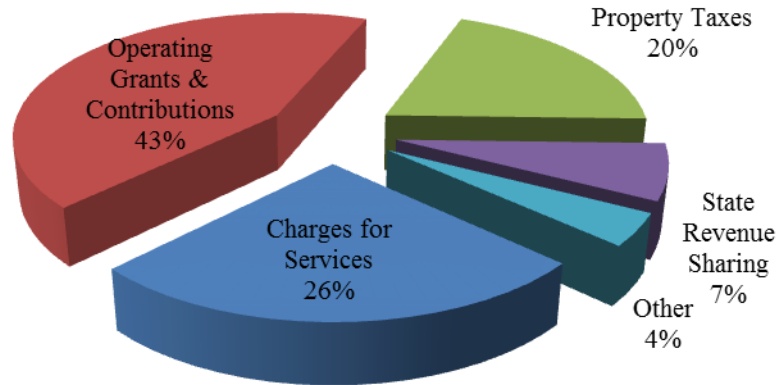
**Proprietary Funds.** The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water fund at the end of the year was \$(15,174) and \$561,892 for the sewer fund. The decrease in net position for the water fund was \$17,251 and the decrease in net position of the sewer fund was \$6,351. The change in net position for both funds was consistent with prior years.

## Governmental Activities

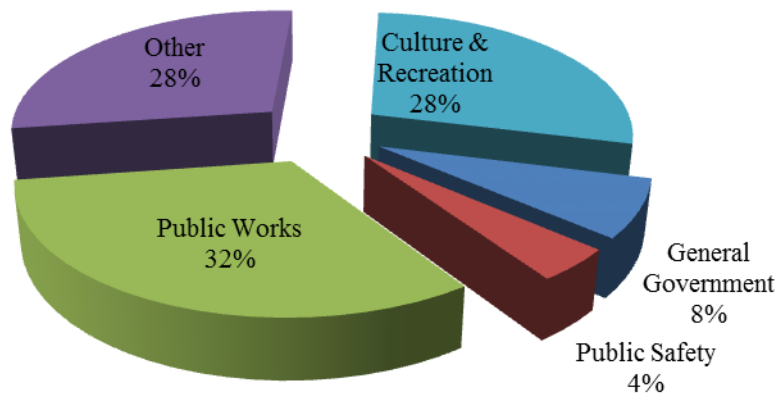
The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.

### Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end.

### Governmental Activities Expenses



## General Fund Budgetary Highlights

*Original budget compared to final budget.* During the year there was a need to adjust expenditures to account for decreased spending related to a state grant that was not received in the current year. Likewise, there was a need to decrease the original budgeted revenues as the same state grant was not received during the year.

*Final budget compared to actual results.* During the current fiscal year the Village had the following significant budget variances between the final amended budget compared to actual results:

<u>Fund</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>General</b>			
Treasurer	\$ 9,500	\$ 11,386	\$ (1,886)
Garage	62,000	74,458	(12,458)
Other Functions	85,294	129,068	(43,774)

## Capital Assets and Debt Administration

**Capital assets.** The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2014, amounts to \$2,647,897 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, and water and sewer infrastructure.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 289,131	\$ -	\$ 289,131
Building & Improvements	378,845	-	378,845
Water System	-	342,298	342,298
Sewer System	-	1,637,623	1,637,623
	<u>\$ 667,976</u>	<u>\$ 1,979,921</u>	<u>\$ 2,647,897</u>

## Long-term Debt

As described in note 6 to the financial statements, the Village had \$227,000 in bonds outstanding at the end of the fiscal year.

## Economic Condition and Outlook

Management estimated that \$180,000 of revenues will be available for appropriation in the general fund in the upcoming year. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2015, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar

levels. Property tax revenues are expected to change minimally reflecting fairly stable property values.

### **Contacting the Village**

This financial report is designed to provide a general overview of the Village's finances to its citizens, customers, investors, and creditors and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The Village of Elberta  
151 Pearson  
Elberta, MI 49628

## **BASIC FINANCIAL STATEMENTS**



**Village of Elberta  
Statement of Net Position  
February 28, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 127,822	\$ --	\$ 127,822
Receivables (Net)	--	25,540	25,540
Due from State	17,450	--	17,450
Prepaid Items	2,355	--	2,355
<b>Total Current Assets</b>	<b>147,627</b>	<b>25,540</b>	<b>173,167</b>
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	289,131	--	289,131
Capital Assets being Depreciated (Net)	378,845	1,979,921	2,358,766
Restricted Cash	--	34,013	34,013
<b>Total Assets</b>	<b>815,603</b>	<b>2,039,474</b>	<b>2,855,077</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	76,507	6,500	83,007
Accrued Payroll & Related Liabilities	28	--	28
Current Portion of Long-term Debt	--	8,500	8,500
Accrued Interest Payable	--	4,801	4,801
Internal Balances	532,480	(532,480)	--
<b>Total Current Liabilities</b>	<b>609,015</b>	<b>(512,679)</b>	<b>96,336</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	218,500	218,500
<b>Total Liabilities</b>	<b>609,015</b>	<b>(294,179)</b>	<b>314,836</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	667,976	1,752,922	2,420,898
<i>Restricted for:</i>			
Major & Local Streets	212,078	--	212,078
Repair, Replacement, & Improvements	--	34,013	34,013
<i>Unrestricted</i>	(673,466)	546,718	(126,748)
<b>Total Net Position</b>	<b>\$ 206,588</b>	<b>\$ 2,333,653</b>	<b>\$ 2,540,241</b>

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, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental Activities:</b>							
General Government	\$ 57,448	\$ 39,359	\$ --	\$ --	\$ (18,089)	\$ --	\$ (18,089)
Public Safety	22,202	--	--	--	(22,202)	--	(22,202)
Public Works	173,530	--	63,087	--	(110,443)	--	(110,443)
Recreation & Culture	74,475	61,951	7,712	--	(4,812)	--	(4,812)
Other Functions	129,068	--	--	--	(129,068)	--	(129,068)
<i>Total Governmental Activities</i>	<u>456,723</u>	<u>101,310</u>	<u>70,799</u>	<u>--</u>	<u>(284,614)</u>	<u>--</u>	<u>(284,614)</u>
<b>Business-type Activities:</b>							
Sewer Fund	187,821	147,003	--	--	--	(40,818)	(40,818)
Water Fund	62,418	45,165	--	--	--	(17,253)	(17,253)
<i>Total Business-type Activities</i>	<u>250,239</u>	<u>192,168</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(58,071)</u>	<u>(58,071)</u>
<i>Total Primary Government</i>	<u>\$ 706,962</u>	<u>\$ 293,478</u>	<u>\$ 70,799</u>	<u>\$ --</u>	<u>\$ (284,614)</u>	<u>\$ (58,071)</u>	<u>\$ (342,685)</u>

**General Purpose Revenues and Transfers:**

**Revenues**

Taxes	107,002	34,320	141,322
State Revenue Sharing	38,650	--	38,650
Other	22,420	--	22,420
Interest Income	81	149	223

**Transfers**

<i>Total General Revenues and Transfers</i>	<u>168,153</u>	<u>34,469</u>	<u>202,615</u>
<i>Change in Net Position</i>	<u>(116,461)</u>	<u>(23,602)</u>	<u>(140,063)</u>
<i>Net Position at Beginning of Period</i>	323,049	2,357,255	2,680,304
<i>Net Position at End of Period</i>	<u>\$ 206,588</u>	<u>\$ 2,333,653</u>	<u>\$ 2,540,241</u>

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

**Village of Elberta  
Balance Sheet  
Governmental Funds  
February 28, 2014**

	<u>Special Revenue</u>				<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Park Fund</u>	
<b>ASSETS</b>					
Cash & Cash Equivalents	\$ 100	\$ 32,295	\$ 95,427	\$ --	\$ 127,822
Due from State	5,911	5,148	6,391	--	17,450
Prepaid Items	2,355	--	--	--	2,355
Due from Other Funds	--	36,059	38,644	--	74,703
<i>Total Assets</i>	<u>8,366</u>	<u>73,502</u>	<u>140,462</u>	<u>--</u>	<u>222,330</u>
<b>LIABILITIES</b>					
Accounts Payable	\$ 74,429	\$ 943	\$ 943	\$ 192	\$ 76,507
Accrued Payroll & Related Liabilities	28	--	--	--	28
Due to Other Funds	606,224	--	--	959	607,183
<i>Total Liabilities</i>	<u>680,681</u>	<u>943</u>	<u>943</u>	<u>1,151</u>	<u>683,718</u>
<b>FUND BALANCE</b>					
Restricted	--	72,559	139,519	--	212,078
Unassigned	(672,315)	--	--	(1,151)	(673,466)
<i>Total Fund Balance</i>	<u>(672,315)</u>	<u>72,559</u>	<u>139,519</u>	<u>(1,151)</u>	<u>(461,388)</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 8,366</u>	<u>\$ 73,502</u>	<u>\$ 140,462</u>	<u>\$ --</u>	<u>\$ 222,330</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, 2014**

Total Fund Balance - Governmental Funds	\$ (461,388)
General government capital assets of \$1,127,439, net of accumulated depreciation of \$459,463, are not financial resources and, accordingly, are not reported in the funds	667,976
<b>Total Net Position - Governmental Funds</b>	<b>\$ <u>206,588</u></b>

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, 2014**

	Special Revenue				Total Governmental Funds
	General	Major Streets	Local Streets	Park Fund	
<b>Revenues</b>					
Taxes	\$ 78,812	\$ --	\$ 28,190	\$ --	\$ 107,002
State Grants	613	--	--	--	613
State Revenue Sharing	38,650	43,050	20,037	--	101,737
Charges for Services	360	--	--	23,110	23,470
Rental Income	--	--	--	38,841	38,841
Contributions	--	--	--	7,099	7,099
Other	61,419	--	--	--	61,419
Interest Income	45	12	13	11	81
<b>Total Revenues</b>	179,899	43,062	48,240	69,061	340,262
<b>Expenditures</b>					
General Government	40,408	--	--	--	40,408
Public Safety	22,202	--	--	--	22,202
Public Works	98,799	32,602	42,129	--	173,530
Recreation & Culture	3,241	--	--	71,234	74,475
Other Functions	129,068	--	--	--	129,068
<b>Total Expenditures</b>	293,718	32,602	42,129	71,234	439,683
<b>Net Change in Fund Balance</b>	<b>(113,819)</b>	<b>10,460</b>	<b>6,111</b>	<b>(2,173)</b>	<b>(99,421)</b>
<i>Fund Balance at Beginning of Period</i>	(558,496)	62,099	133,408	1,022	(361,967)
<b>Fund Balance at End of Period</b>	<b>\$ (672,315)</b>	<b>\$ 72,559</b>	<b>\$ 139,519</b>	<b>\$ (1,151)</b>	<b>\$ (461,388)</b>

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, 2014**

Total Net Change in Fund Balances - Governmental Funds	\$ (99,421)
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 of \$17,040	(17,040)
<b>Changes in Net Position - Governmental Funds</b>	<b>\$ <u>(116,461)</u></b>

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, 2014**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Receivables (Net)	\$ 17,291	\$ 8,249	\$ 25,540
Due from Other Funds	555,283	4,568	559,851
<b>Total Current Assets</b>	<b>572,574</b>	<b>12,817</b>	<b>585,391</b>
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated, net	1,637,622	342,299	1,979,921
Restricted Cash	34,013	--	34,013
<b>Total Assets</b>	<b>2,244,209</b>	<b>355,116</b>	<b>2,599,325</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	5,881	619	6,500
Current Portion of Long-term Debt	8,500	--	8,500
Accrued Interest Payable	4,801	--	4,801
Due to Other Funds	--	27,371	27,371
<b>Total Current Liabilities</b>	<b>19,182</b>	<b>27,990</b>	<b>47,172</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	218,500	--	218,500
<b>Total Liabilities</b>	<b>237,682</b>	<b>27,990</b>	<b>265,672</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	1,410,622	342,300	1,752,922
<i>Restricted for:</i>			
Repair, Replacement, & Improvements	34,013	--	34,013
<i>Unrestricted</i>	561,892	(15,174)	546,718
<b>Total Net Position</b>	<b>\$ 2,006,527</b>	<b>\$ 327,126</b>	<b>\$ 2,333,653</b>

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, 2014**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total Enterprise Funds</b>
<b>Operating Revenues</b>			
Charges for Services	\$ 147,003	\$ 45,165	\$ 192,168
<b>Total Operating Revenues</b>	147,003	45,165	192,168
<b>Operating Expenses</b>			
Public Works	136,601	51,675	188,276
Depreciation Expense	42,175	10,743	52,918
<b>Total Operating Expenses</b>	178,776	62,418	241,194
<b>Operating Income (Loss)</b>	(31,773)	(17,253)	(49,026)
<b>Non-Operating Revenues (Expenses)</b>			
Debt Service Fee	34,320	--	34,320
Interest Income	147	2	149
Interest Expense	(9,045)	--	(9,045)
<b>Net Non-Operating Revenues (Expenses)</b>	25,422	2	25,424
<b>Income Before Contributions and Transfers</b>	(6,351)	(17,251)	(23,602)
Transfers from Other Funds	--	--	--
Transfers to Other Funds	--	--	--
<b>Change In Net Position</b>	(6,351)	(17,251)	(23,602)
<i>Net Position at Beginning of Period</i>	2,012,878	344,377	2,357,255
<b>Net Position at End of Period</b>	\$ 2,006,527	\$ 327,126	\$ 2,333,653

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, 2014**

**Business-type Activities - Enterprise Funds**

	<b>Sewer Fund</b>	<b>Water Fund</b>	<b>Total Enterprise Funds</b>
<b>Cash Flows From Operating Activities</b>			
Cash Received from Charges for Services	\$ 145,017	\$ 41,145	\$ 186,162
Cash Payments to Suppliers for Goods and Services	(144,516)	(53,907)	(198,423)
<b>Total Cash Flows from Operating Activities</b>	<u>501</u>	<u>(12,762)</u>	<u>(12,261)</u>
<b>Cash Flows From Non-capital Financing Activities</b>			
Decrease (Increase) in Due from Other Funds	(514,431)	27,372	(487,059)
<b>Total Cash Flows from Non-capital Financing Activities</b>	<u>(514,431)</u>	<u>27,372</u>	<u>(487,059)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Debt Service Fee	34,320	-	34,320
Interest Payments on Bonds	(8,908)	-	(8,908)
Principal Payments on Bonds	(7,000)	-	(7,000)
<b>Total Cash Flows from Capital and Related Financing Activities</b>	<u>18,412</u>	<u>-</u>	<u>18,412</u>
<b>Cash Flows From Investing Activities</b>			
Interest on Investments	146	-	146
<b>Total Cash Flows from Investing Activities</b>	<u>146</u>	<u>-</u>	<u>146</u>
Net Increase (Decrease) in Cash and Equivalents	(495,372)	14,610	(480,762)
<i>Cash and Equivalents - Beginning of Year</i>	529,385	(14,610)	514,775
<b>Cash and Equivalents - End of Year</b>	<u>\$ 34,013</u>	<u>\$ -</u>	<u>\$ 34,013</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
<b>Operating Income (Loss)</b>	\$ (31,773)	\$ (17,253)	\$ (49,026)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
Depreciation and Amortization Expense	42,175	10,743	52,918
<b>Changes in Assets &amp; Liabilities</b>			
Receivables (Net)	(1,986)	(4,020)	(6,006)
Accounts Payable	(7,915)	(2,232)	(10,147)
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 501</u>	<u>\$ (12,762)</u>	<u>\$ (12,261)</u>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

## Village of Elberta

### Notes to the Financial Statements

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#### **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.

#### **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.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity*," these financial statements present the Township. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

The following entities are not included in the Township's financial statements but do represent an ongoing financial interest or responsibility:

#### **Jointly Governed Organization**

The Village formed a utility authority with the City of Frankfurt to own and operate a wastewater treatment plant that serves both communities. The Betsie Lake Utilities Authority (BLUA) is governed by a 5-member commission with representatives from each constituent municipality. The Authority is legally separate and not fiscally dependent on the Village of Elberta. It is therefore not a component unit of the Village but rather a related organization. The Utility Authority, not being a part of the reporting entity, is audited under a separate contract; therefore it is not included in these financial statements. Complete financial statements can be obtained from the Betsie Lake Utilities Authority, Frankfort, Michigan.

#### **Government-wide and Fund 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.

## Village of Elberta

### Notes to the Financial Statements

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The statement of activities demonstrates the degree to which the direct expenses of a given function or segments 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.

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.

#### **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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the 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.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The *general 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.

The *park fund* is used to account for the financial activity of the Village's recreational

## Village of Elberta

### Notes to the Financial Statements

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activities, including the rental of the Life Saving Station and the funds raised from the annual Elberta Solstice Festival.

The *major streets fund* accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as major streets in Village.

The *local streets fund* accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as local streets in Village.

The Village reports the following major proprietary funds:

The *water fund* accounts for the cost of providing water services to Village residents. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs.

The *sewer fund* accounts for the cost of collecting and treating wastewater. Revenues are primarily from service charges to customers. These revenues are also used to pay principal and interest on general obligation bonds which were used to finance improvements to the system.

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

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues 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 revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

### **Assets, Liabilities, and Fund Equity**

#### ***Cash and Cash Equivalents***

The Village's cash and cash equivalents include amounts in demand deposit accounts, certificates of deposit and short-term investments with original maturities of three months or less from the date of acquisition. Certificates of deposit are carried at cost plus accrued interest, since the original maturity dates are less than one year.

## Village of Elberta

### Notes to the Financial Statements

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#### ***Restricted Assets***

Assets which are restricted for specified uses by bond debt requirements are classified as restricted assets. Liabilities payable for such restricted assets are separately classified.

#### ***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amounts outstanding at February 28, 2014 were identified by as being uncollectible.

#### ***Prepaid Items***

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

#### ***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with n initials, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays of capital assets and improvement are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

## Village of Elberta

### Notes to the Financial Statements

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Depreciation on capital, assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

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

The Village reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

#### ***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the 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 position. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recognized as an expense in the period that the bond was issued.

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### ***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

## Village of Elberta

### Notes to the Financial Statements

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#### ***Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

#### ***Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Village Council has authorized the Village Manager, or the Village Manager's designee, to assign fund balance. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

*Unassigned fund balance* is the residual classification for the Village's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council.



## Village of Elberta

### Notes to the Financial Statements

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#### ***Property Tax Revenue Recognition***

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 typically collected prior to the end of the fiscal year. Accordingly, taxes receivable are not included in these financial statements.

#### ***Interfund Transactions***

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the Village.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

#### ***Budgetary and Budgetary Accounting***

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of a resolution.

## Village of Elberta

### Notes to the Financial Statements

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4. The legal level of budgetary control is at the activity level.
5. The Village Manager is authorized to transfer budget amounts between line items within the department. Supplemental appropriations that amend total expenditures for any department require Village Council resolution.
6. Budget appropriations lapse at year-end.
7. Adoption and amendments of all budgets used by the Village are governed by Public Act 621, which was followed for the year ended February 28, 2014. Expenditures may not exceed appropriations.

#### **Note 2 – Excess of Expenditures over Budget**

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

During the year ended February 28, 2014, the Village exceeded its General Fund appropriation by \$56,518 and its Local Streets appropriation by \$398.

#### ***Deficit Equity Position***

As of February 28, 2014 the Village reported a deficit fund balance in the general fund of \$672,315, which arose from a variety of significant expenditures in prior periods that have yet to generate revenue as the Village intended. The Park Fund is also in a deficit position at February 28, 2014 with a balance of \$1,151. 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 \$673,466. 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 \$15,174. This deficit balance is a result of cumulative losses from operations in the water fund. The Village Council is in the process of long-term planning to resolve all deficit equity balances.

**Village of Elberta**

Notes to the Financial Statements

**Note 3 – Cash and Investments**

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	Governmental Activities	Business-type Activities	Total Primary Government
Statement of Net Position			
Cash and Cash Equivalents	\$ 127,822	\$ -	\$ 127,822
Restricted Cash	-	34,013	34,013
<b>Total Cash and Cash Equivalents</b>	<b>\$ 127,822</b>	<b>\$ 34,013</b>	<b>\$ 161,835</b>

These deposits are held in two (2) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer’s investing options as described in detail below. All accounts are in the name of the Village and a specific fund or common account. Deposits and investments are recorded in Village records at fair value. Interest is recorded when earned.

Deposits and Investments	
Checking and Savings Accounts	\$ 161,735
Cash on hand	100
<b>Total Cash and Cash Equivalents</b>	<b>\$ 161,835</b>

***Custodial Credit Risk - Deposits.*** Custodial credit risk is the risk that, in the event of a bank failure, the Village’s deposits might not be returned. State law does not require, and the Village does not have, a policy for deposit custodial credit risk. As of year-end, \$0 of the Villages bank balance of \$184,523 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

***Statutory Authority***

State statutes authorize the Village to invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States of America, or an agency or instrumentality of the United States of America.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

## Village of Elberta

### Notes to the Financial Statements

- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. 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.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

#### **Note 4 - Capital Assets**

Capital asset activities for governmental activities for the year ended February 28, 2014 are as follows:

<b>Governmental Activities</b>	Balance at 2/28/2013	Additions	Disposals	Balance at 2/28/2014
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	838,308	-	-	838,308
Less accumulated depreciation:				
Buildings & Improvements	285,712	17,040	-	302,752
Office Equipment	156,711	-	-	156,711
Total accumulated depreciation	442,423	17,040	-	442,423
<b>Net Capital Assets, Governmental</b>	<b>\$ 685,016</b>	<b>\$ (17,040)</b>	<b>\$ -</b>	<b>\$ 667,976</b>

## Village of Elberta

### Notes to the Financial Statements

Capital asset activities for business-type activities for the year ended February 28, 2014 are as follows:

<b>Business-type Activities</b>	<u>Balance at 2/28/2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 2/28/2014</u>
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	428,954	42,175	-	471,129
Water System	184,086	10,743	-	194,829
Total accumulated depreciation	<u>529,859</u>	<u>52,918</u>	<u>-</u>	<u>665,958</u>
<b>Net Capital Assets, Business-type</b>	<u>\$ 2,116,020</u>	<u>\$ (52,918)</u>	<u>\$ -</u>	<u>\$ 1,979,921</u>

Depreciation expense was charged to governmental functions of the Village as follows:

<b>Governmental Activities</b>	
General Government	<u>\$ 17,040</u>
<b>Total Governmental Activities</b>	<u>\$ 17,040</u>
 <b>Business-type Activities:</b>	
Water Fund	\$ 10,743
Sewer Fund	<u>42,175</u>
<b>Total Business-type Activities</b>	<u>\$ 52,918</u>

#### Note 5 - Interfund Transfers & Interfund Balances

The Village had no interfund transfers during the year.

The Village had the following interfund balances as of February 28, 2014:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Streets	General	\$ 36,059
Local Streets	General	38,644
Sewer	General	526,953
Water	General	4,568
Sewer	Park	959
Sewer	Water	27,371

## Village of Elberta

### Notes to the Financial Statements

#### Note 6 – Long-Term Debt

The following is a summary of transactions that occurred in long-term debt during the year ended February 28, 2014:

	Interest Rate	Maturity	2/28/2013	Additions	Reductions	2/28/2014	Due Within One Year
Business-type Activities:							
1989 General Obligation Bonds	6.00%	2029	\$ 83,000	\$ -	\$ 4,000	\$ 79,000	\$ 5,000
2005 General Obligation Bonds	4.25%	2045	151,000	-	3,000	148,000	3,500
Total Business-type Activities			<u>\$ 234,000</u>	<u>\$ -</u>	<u>\$ 7,000</u>	<u>\$ 227,000</u>	<u>\$ 8,500</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
2015	\$ 5,000	\$ 6,540	\$ 11,540
2016	5,000	6,240	11,240
2017	5,000	5,940	10,940
2018	6,000	5,640	11,640
2019	6,000	5,280	11,280
2020-2024	34,000	20,640	54,640
2025-2028	18,000	7,200	25,200
Totals:	<u>\$ 79,000</u>	<u>\$ 57,480</u>	<u>\$ 136,480</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
2015	\$ 3,500	\$ 6,290	\$ 9,790
2016	3,500	6,141	9,641
2017	3,500	5,993	9,493
2018	3,500	5,844	9,344
2019	3,500	5,695	9,195
2020-2024	18,500	26,223	44,723
2025-2029	20,500	22,100	42,600
2030-2034	23,000	17,532	40,532
2035-2039	26,000	12,410	38,410
2040-2044	30,000	6,480	36,480
2045-2048	12,500	1,107	13,607
Totals:	<u>\$ 148,000</u>	<u>\$ 115,815</u>	<u>\$ 263,815</u>

#### Note 7 – Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees (workers' compensation); and natural disasters. During the year ended February 28, 2014, the Village carried commercial insurance to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

#### Note 8 – 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 9 – Related Parties

The Betsie Lake Utility Authority was created by the City of Frankfort and the Village of Elberta to provide sewer services for the two municipalities. The two units bill and collect charges to the public for the private use of the system. The Authority in turn bills the two municipalities for use and debt service fees. During 2014, the Village was billed for sewer services and debt service in the amount of \$98,164.

# Village of Elberta

## Notes to the Financial Statements

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### Note 10 - Restricted Assets

Restricted cash consisted of the following:

	<u>February 28, 2014</u>		<u>2/28/2013</u>
	<u>Required</u>	<u>Actual</u>	<u>Actual</u>
	<u>Balances</u>	<u>Balances</u>	<u>Balances</u>
<b>Sewer Fund</b>			
Repair, Replacement and Improvement Accounts			
2005 G.O. Bonds, \$5,000 per year	\$ 50,000	\$ 34,013	\$ 50,000
1989 G.O. Bonds, \$12,000 total	12,000	-	12,000
	<u>\$ 62,000</u>	<u>\$ 34,013</u>	<u>\$ 62,000</u>

### Note 11 – Going Concern

The Village ended the year with a \$672,315 Deficit in its General Fund, a \$1,151 Deficit in its Park Fund and an Unrestricted Net Position Deficit of \$15,174 in its Water Fund.

Management of the Village plans to address the General Fund Deficit by selling the Library property for \$60,000 and the MiniPond property for \$180,000; reducing Administrative Costs by over \$60,000 per year; reducing the cost of operating the Garage by over \$55,000 per year; and levying a tax generating nearly \$20,000 a year to support public safety efforts.

The Park Fund Deficit will be addressed by increasing revenue through increased fees and rentals and keeping expenses nearly constant with historical averages for the next five years.

Management is addressing the Water Fund Deficit by raising user charges and keeping expenses constant with historical averages for the next five years.



**REQUIRED SUPPLEMENTARY INFORMATION**

**Village of Elberta**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**General Fund**  
**For the Year Ended February 28, 2014**

	Budgeted Amounts		Actual	Variance
	Original	Final		Positive (Negative) Final to Actual
<b>Revenues</b>				
Taxes	\$ 80,000	\$ 73,100	\$ 71,834	\$ (1,266)
State Grants	310,000	600	613	13
State Revenue Sharing	40,000	40,000	38,650	(1,350)
Charges for Services	11,000	9,900	7,338	(2,562)
Rental Income	102	50	45	(5)
Other	57,960	60,350	61,419	1,069
<b>Total Revenues</b>	<u>499,062</u>	<u>184,000</u>	<u>179,899</u>	<u>(4,101)</u>
<b>Other Financing Sources</b>				
Transfers In	33,600	--	--	--
<b>Total Revenues and Other Financing Sources</b>	<u>532,662</u>	<u>184,000</u>	<u>179,899</u>	<u>(4,101)</u>
<b>Expenditures</b>				
<b>General Government</b>				
Trustees	6,700	17,000	12,918	4,082
Clerk	7,250	6,000	6,013	(13)
Treasurer	9,350	9,500	11,386	(1,886)
Office	9,100	6,700	6,781	(81)
Community Building	2,180	2,700	2,645	55
Other General Government	665	665	665	--
<b>Total General Government</b>	<u>35,245</u>	<u>42,565</u>	<u>40,408</u>	<u>2,157</u>
<b>Public Safety - Fire Department</b>	<u>20,200</u>	<u>20,000</u>	<u>22,202</u>	<u>(2,202)</u>
<b>Public Works</b>				
Garage	65,000	62,000	74,458	(12,458)
Street Lighting	15,000	11,000	11,072	(72)
Refuse Collection	11,000	13,100	13,269	(169)
<b>Total Public Works</b>	<u>91,000</u>	<u>86,100</u>	<u>98,799</u>	<u>(12,699)</u>
<b>Recreation &amp; Culture</b>	<u>3,241</u>	<u>3,241</u>	<u>3,241</u>	<u>--</u>
<b>Other Functions</b>	<u>382,976</u>	<u>85,294</u>	<u>129,068</u>	<u>(43,774)</u>
<b>Total Expenditures</b>	<u>532,662</u>	<u>237,200</u>	<u>293,718</u>	<u>(56,518)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>--</u>	<u>(53,200)</u>	<u>(113,819)</u>	<u>(60,619)</u>
<b>Net Change in Fund Balance</b>	<u>--</u>	<u>(53,200)</u>	<u>(113,819)</u>	<u>(60,619)</u>
<b>Fund Balance at Beginning of Period</b>	<u>(558,496)</u>	<u>(558,496)</u>	<u>(558,496)</u>	<u>--</u>
<b>Fund Balance at End of Period</b>	<u>\$ (558,496)</u>	<u>\$ (611,696)</u>	<u>\$ (672,315)</u>	<u>\$ (60,619)</u>

**Village of Elberta**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Local Streets**  
**For the Year Ended February 28, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Taxes	\$ 19,280	\$ 20,485	\$ 24,754	\$ 4,269
State Revenue Sharing	8,000	20,000	20,037	37
Interest Expense	20	10	13	3
<b>Total Revenues</b>	<u>27,300</u>	<u>40,495</u>	<u>44,804</u>	<u>4,309</u>
<b>Expenditures</b>				
Public Works	14,300	38,295	38,693	(398)
<b>Total Expenditures</b>	<u>14,300</u>	<u>38,295</u>	<u>38,693</u>	<u>(398)</u>
<b>Other Financing Uses</b>				
Transfers Out	13,000	--	--	--
<b>Total Expenditures and Other Financing Uses</b>	<u>27,300</u>	<u>38,295</u>	<u>38,693</u>	<u>(398)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>--</u>	<u>2,200</u>	<u>6,111</u>	<u>3,911</u>
<b>Net Change in Fund Balance</b>	<u>--</u>	<u>2,200</u>	<u>6,111</u>	<u>3,911</u>
<i>Fund Balance at Beginning of Period</i>	133,408	133,408	133,408	--
<b>Fund Balance at End of Period</b>	<u>\$ 133,408</u>	<u>\$ 135,608</u>	<u>\$ 139,519</u>	<u>\$ 3,911</u>

**Village of Elberta**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Major Streets**  
**For the Year Ended February 28, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
State Revenue Sharing	\$ 24,530	\$ 42,990	\$ 43,050	\$ 60
Other	20	10	12	2
<b><i>Total Revenues</i></b>	<u>24,550</u>	<u>43,000</u>	<u>43,062</u>	<u>62</u>
<b>Expenditures</b>				
Public Works	24,550	38,500	32,602	5,898
<b><i>Total Expenditures</i></b>	<u>24,550</u>	<u>38,500</u>	<u>32,602</u>	<u>5,898</u>
<b><i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i></b>				
	--	4,500	10,460	5,960
<b><i>Net Change in Fund Balance</i></b>	<u>--</u>	<u>4,500</u>	<u>10,460</u>	<u>5,960</u>
<b><i>Fund Balance at Beginning of Period</i></b>	62,099	62,099	62,099	--
<b><i>Fund Balance at End of Period</i></b>	<u>\$ 62,099</u>	<u>\$ 66,599</u>	<u>\$ 72,559</u>	<u>\$ 5,960</u>

**Village of Elberta**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual**  
**Park Fund**  
**For the Year Ended February 28, 2014**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Positive (Negative) Final to Actual</b>
<b>Revenues</b>				
Charges for Services	\$ 24,650	\$ 22,700	\$ 23,110	\$ 410
Rental Income	41,580	37,900	38,841	941
Other	7,510	7,000	7,110	110
<b>Total Revenues</b>	<u>73,740</u>	<u>67,600</u>	<u>69,061</u>	<u>1,461</u>
<b>Expenditures</b>				
Recreation & Culture	74,240	74,400	71,234	3,166
<b>Total Expenditures</b>	<u>74,240</u>	<u>74,400</u>	<u>71,234</u>	<u>3,166</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(500)</u>	<u>(6,800)</u>	<u>(2,173)</u>	<u>4,627</u>
<b>Net Change in Fund Balance</b>	<b>(500)</b>	<b>(6,800)</b>	<b>(2,173)</b>	<b>4,627</b>
<i>Fund Balance at Beginning of Period</i>	1,022	1,022	1,022	--
<b>Fund Balance at End of Period</b>	<u>\$ 522</u>	<u>\$ (5,778)</u>	<u>\$ (1,151)</u>	<u>\$ 4,627</u>

November 7, 2014

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, 2014. 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 November 7, 2014.

*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  
Interlochen, 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*

November 7, 2014

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, 2014, which collectively comprise the Village of Elberta, Michigan's basic financial statements and have issued our report thereon dated November 7, 2014. 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 Comments 2014-1 through 2014-4 to be Material Weaknesses, Comments 2014-5 through 2014-9 to be Significant Deficiencies, and Comments 2014-10 through 2014-15 to be Compliance Findings.

#### 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.

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

Gabridge & Company, PLC

## Village of Elberta

### Comments and Recommendations

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#### **Material Weaknesses In Internal Control**

##### **2014-1 Preparation of Governmental Financial Statements in Accordance with GAAP**

*Condition:* As many small and medium-sized governmental entities do, the Village of Elberta (Village) has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the Village's internal controls.

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

*Effect:* The books of the Village are not in compliance with GAAP until after the close of the year when the audit is conducted.

*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 Village personnel to prepare them internally.

*Recommendation:* We recommend that the council designate a responsible Village official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

This weakness was noted in the State's internal control audit and is still an issue.

##### **2014-2 Lack of Monitoring/Segregation of Duties**

*Condition:* As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effective, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

## Village of Elberta

### Comments and Recommendations

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We noted the following internal control weaknesses, which should be addressed or corrected by the Village Council:

1. The Treasurer has access and ability to prepare water and sewer bills, investigate discrepancies related to cash, reconcile bank statements, and investigate discrepancies relating to expenditures without management oversight by the Village Council.
2. The Clerk is responsible for opening the mail, collecting money, and posting the water and garbage payments to the computer.

Both the Clerk and Treasurer accept payments for water and sewer bills. The Clerk prepares disbursements and the Treasurer verifies and signs the checks. The Clerk and the Treasurer verify the water and sewer bill with the deposits made.

*Criteria:* The Standards of Internal Control for the Federal Government, which is a good general standard for all types of municipalities, defines monitoring as assessing the quality of performance over time and ensuring that the findings of audits and other reviews are promptly resolved. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties.

According to the Michigan Uniform Accounting Procedures Manual, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted. Also, when possible, collections must be reconciled by an individual not involved in the receipt process. Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud.

*Cause:* This condition is a result of the Village's limited resources and the small size of its accounting staff.

*Effect:* As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis. The effect of this finding is that individuals have too much responsibility without adequate review of others.

*Recommendation:* We recommend that the Village Council establish procedures to segregate duties to ensure that the one individual is not solely responsible for the bank accounts and payroll functions. We would encourage the Village Council to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

This weakness was noted in the State's internal control audit and is still an issue.

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#### **2014-3 Capital Assets**

*Condition:* We noted during our review that the Village does not maintain adequate internal controls for capital assets. We found that a capital asset listing is not maintained in accordance with generally accepted accounting principles. The balances reported in the Village's audit report were maintained by the Village's auditor in summary form only.

We also noted during our review that the Village has not formally adopted a capitalization policy to determine a "threshold" to capitalize an asset or record it as an expense. It appears that in the past, the Village utilized a capitalization threshold of \$500; however, no official policy was adopted by the Village Council.

*Criteria:* It is the responsibility of the Village to update the capital assets listing for additions and disposals. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. For the enterprise funds, assets purchased during the year should be recorded as increases in the capital asset account and not as an expense. Depreciation expense is also to be recorded for the enterprise funds. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

*Effect:* The lack of a comprehensive listing may lead to insurance listings not being updated and the control over assets being limited without documentation of what assets the Village actually owns. Not posting the depreciation expense to the enterprise funds creates a material understatement of the operating expenses.

*Recommendation:* We recommend that the Village implement procedures to record the assets and depreciation expense as listed above. We also recommend that the Village adopt a capitalization policy to determine a threshold to capitalize an asset or record it as expenditure.

This weakness was noted in the State's internal control audit and is still an issue.

#### **2014-4 Bank Reconciliations**

*Condition:* During our audit we noted there were no bank reconciliations performed as of February 28, 2014 or for any other month during the year.

*Criteria:* Monthly bank and cash reconciliations are to be performed monthly to compare bank balances to balances in the general ledger cash accounts. This is done to ensure accuracy and accountability for all cash transactions.

*Effect:* The true financial position of the Village is not known so Council members cannot make informed decisions.

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*Cause:* This condition was caused by a lack of oversight by the Village Council

*Recommendation:* Bank reconciliations of all accounts should be performed monthly and reviewed by a responsible official.

### **Significant Deficiencies In Internal Control**

#### **2014-5 Disbursement Procedures**

*Condition:* We noted the following weaknesses during the testing of the internal controls over the cash disbursement process:

- 1) There were no pre-approvals for Department of Public Works (DPW) expenditures; no approved purchase orders are used.
- 2) Account classifications were not indicated on vendor invoices.
- 3) Vendor invoices did not include management approval.
- 4) The amount of approved disbursements was not indicated in the Council minutes.
- 5) The check sequence used for the approved disbursements were not included in the Council minutes or separately accounted for by an independent person.
- 6) There was no independent management review of bank reconciliations, if completed at all.
- 7) Credit card payments were not supported with signed receipts.

*Criteria:* MCL 64.6 states: “(1) The Clerk shall be the general accountant of the Village. (2) Claims against the Village shall be filed with the Clerk for adjustments. After examination, the Clerk shall report the claims with the accompanying vouchers and counterclaims of the Village, and the true balances, to the Council for allowance. After the claims are allowed by the Council, the Clerk shall present check disbursement authorizations to the Treasurer for payment of the claims, designating the fund from which payment is to be made, and take proper receipts.”

MCL 65.7 states: “(1) the council shall audit and allow all accounts chargeable against the Village. An account or claim or contract shall not be received for audit or allowance unless it is accompanied with a certificate of an officer of the Village, or an affidavit of the person rendering it, that the services therein charged have been actually performed or the property delivered for the Village, that the sums charged therefor are reasonable and just, and that to the best of his or her knowledge and belief, no set-off exists, and no payment has been made on account thereof, except such set-offs or payments as are endorsed or referred to in the account or claim. Each account shall exhibit in detail all the items making up the amount claimed, and the date of each. The Council may adopt a different procedure for the audit and allowance of accounts, claims, and contracts that the provided by this subsection.”

The Uniform Accounting procedures Manual states in part: “that each local unit must establish and maintain an adequate system of internal control which includes the following:

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- Bank accounts must be promptly reconciled (within the month following the bank statement date) by an individual not involved the receipt/bank deposit process. In small units of government when segregation of duties is not possible, a second official must review the reconciliation;
- All functions regarding a checking account should not be performed by the same individual.

*Cause:* The cause of this finding is unknown.

*Effect:* The effect of this finding is that invoices may not be properly approved.

*Recommendation:* We recommend that the Village implement the above criteria to improve the internal controls over the cash disbursement process. The Village should focus on the following areas:

- 1) Administrative approval by the Clerk must be indicated on each claim.
- 2) Account classifications must be indicated on each claim.
- 3) Bank account reconciliations must be completed and have a second official review the reconciliation.

This weakness was noted in the State's internal control audit and is still an issue.

### **2014-6 Lack of Documentation and Approvals for Payroll**

*Condition:* There are only four employees on staff for the Village. The employees are paid on an hourly basis for duties performed for the general government operations, DPW, Major and Local Street, and Water'/Sewer Operations. There is no documentation to indicate management approval of the employee's hours, except for the DPW Superintendent signing off on the other DPW employee's time sheet. In addition, there appears to be no oversight of overtime hours of the two DPW employees.

Withholdings and other deductions must be remitted as required by law. Payroll tax returns must be filed as required by law.

The Village should adhere to the manual's best practices, which require:

- Timekeeping and attendance records should be created for each employee and signed or initialed by the employee;
- Time records should be approved by appropriately authorized personnel prior to preparing payroll;
- Payroll duties should be adequately segregated between the following: payroll master file, payroll check preparation, and payroll distribution;
- A written policy should specify the duties of each position;

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*Recommendation:* We recommend that a formal timesheet be used for all employees of the Village. The timesheet should include the duties performed and it should be approved by the Village Council.

This weakness was noted in the State's internal control audit and is still an issue.

#### **2014-7 Interfund Borrowing – Lack of Approval**

*Condition:* As of February 28, 2014, there was a total of \$606,225 that the General Fund owed the Village's five other funds. This interfund borrowing was not approved by the Village Council. In addition, the Village has not repaid these balances for numerous years.

*Criteria:* These accounts are set up to record short-term amounts to and from various funds. Further, the Uniform Chart of Accounts indicates these accounts are "to record short-term amounts due to/from other funds within the local units."

*Cause:* Village personnel do not review and manage these account balances.

*Effect:* The effect is that the General Fund owes the other funds of the Village funds without Council approval.

*Recommendation:* We recommend these accounts be reconciled monthly with the bank reconciliation process to ensure that they are in balance throughout the year. Further, we recommend these balances be repaid to the funds making the short-term loans or that the balances be reclassified as long-term advances.

This weakness was noted in the State's internal control audit and is still an issue.

#### **2014-8 Lack of Control over DPW Fuel Usage**

*Condition:* We noted during our audit the Village maintains tanks of gasoline and diesel fuel for DPW activities and fuel costs have gone up steadily since 2010.

*Criteria:* MCL65.7 states: "(1) the Council shall audit and allow all accounts chargeable against the Village. An account or claim or contract shall not be received for audit or allowance unless it is accompanied with a certificate of an officer of the Village, or an affidavit of the person rendering it, that the services therein charged have been actually performed or the property delivered for the Village, that the sums charged therefor are reasonable and just, and that to the best of his or her knowledge and belief, no set-off exists, and no payment has been made on account thereof, except such set-offs or payments as are endorsed or referred to in the account or claim. Each account shall exhibit in detail all the items making up the amount claimed, and the date of each. The Council may adopt a different procedure for the audit and allowance of accounts, claims, and contracts than that provided by this subsection."

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*Effect:* There is a possibility that since there is a lack of control over DPW fuel usage, more fuel is being used than needed, possibly for unauthorized purposes.

*Cause:* The cause of this finding is unknown.

*Recommendation:* We recommend that gas/fuel usage be closely monitored with the tank keys kept in a secure location and the amount of fuel pumped maintained and signed for by DPW employees.

This weakness was noted in the State's internal control audit and is still an issue.

### **2014-9 State and Federal 1099 Reporting**

*Condition:* We noted during our audit that a Council member and other contractors were not issued 1099's for work performed for the Village.

*Criteria:* According to IRS Publication 15a and Instructions for Form 1099, you must file Form 1099-MISC, Miscellaneous Income, for each person or unincorporated business to whom you have paid during the year at least \$600.

*Cause:* The cause of this finding is unknown.

*Effect:* The effect of this finding is that the contractor may not have all of the necessary information needed to complete income tax returns and the Village is not in compliance with IRS regulations and can be fined for non-compliance.

*Recommendation:* We recommend that a W-9 form be filed for all non-incorporated vendors (except attorneys, who should always get one) that provided services to the Village and a Form 1099 submitted for those payments of \$600 or more made to those vendors.

This weakness was noted in the State's internal control audit and is still an issue.

### **Compliance Findings**

#### **2014-10 Fund Deficits**

*Condition:* At February 28, 2014, the General Fund, Park Fund and Water Fund were in a deficit position. The Village has also failed to submit quarterly reports to the Michigan Department of Treasury for prior year Deficit Elimination Plans.

*Criteria:* MCL 141.921 (2) states: For a fiscal year of a unit of local government tending on or after October 1, 1980 or any year thereafter, if a local unit of government ends its fiscal year in a deficit condition, the local unit of government shall formulate and file a financial plan within 90 days after the beginning of the fiscal year to correct this condition.



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Upon request of a local unit of government the Department of Treasury may assist that local unit in the formulation of the financial plan to correct the deficit condition. The local unit of government shall file the financial plan to correct the deficit condition. The local unit of government shall file the financial plan with the Department of Treasury for evaluation and certification that the plan ensures that the deficit condition is corrected. Upon certification by the Department of Treasury, the local unit of government shall institute the plan. An amount equal to 25% of each payment to a local unit of government entitled to payments under this act may be withheld until requirements of this subsection are met.

*Recommendation:* We recommend the Village to file regular quarterly reports, including balance sheets, cash flows, accounts payable, and budget to actual in connection with deficit monitoring with the Michigan Department of Treasury as required by PA 275 of 1980, as amended. We also direct the village to make the necessary adjustments to its budget in order to eliminate the accumulated deficit while filing a plan that would be approved by the Department of Treasury.

This weakness was noted in the State's internal control audit and is still an issue.

#### **2014-11 Budgets not being Amended Throughout the Fiscal Year**

*Condition:* We noted during our audit that budget amendments were not presented or approved by the Council throughout the year.

*Criteria:* According to MCL 141.437, Sec. 17(1), except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local units.

(2) if, during a fiscal year, it appears to the chief administrative officer or to the legislative body that the actual and probable revenues from taxes and other sources in a fund are less than the estimated revenues, including an available surplus upon which appropriations from the fund were based and the proceeds from bonds or other obligations issued under the fiscal stabilization act, 1981 PA 80, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations, the chief administrative officer or fiscal officer shall present to the legislative body recommendation which, if adopted, would prevent expenditures from exceeding available revenues for that current fiscal year. The recommendations shall include proposals for reducing appropriations from the fund for budgetary centers in manner that would cause the total of appropriations to not be greater than the total of revised estimated revenues of the fund, or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. The recommendations shall recognize the requirements of state law and the provisions of collective bargaining agreements.

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*Effect:* The Village Council may not be working with the most useful information when comparing budgeted amounts to actual if the budgets were not amended throughout the year.

*Cause:* The cause of this finding is unknown.

*Recommendation:* The Council should make monthly comparisons of budget to actual and make amendments throughout the year as needed.

This weakness was noted in the State's internal control audit and is still an issue.

### **2014-12 Conflict of Interest Policy**

*Condition:* We noted during our audit the Village has not adopted a Conflict of Interest Policy.

*Criteria:* Members and participants in government at every level must be diligent in avoiding unethical conduct and conflicts of interest. A Conflict of Interest Policy is a useful tool to help prevent unethical conduct and conflicts of interest from occurring in local units of governments.

According to the Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government in Michigan, each local unit should adopt a policy which generally addresses the following aspects:

- General prohibition against entering into any business relationship that would put an employee or official into conflict with their obligations to the local unit of government.
- Requirements to disclose any personal transactions, in excess of a dollar threshold, entered into with any vendor that also does business with the local units.
- Disclosure or prohibition of gifts received from vendors in excess of a dollar threshold.
- Explicit expectation that in the performance of their duties, the employee/official will work in the best interest of the local unit.
- An explicit expectation that all information provided will be truthful and complete.

This policy should also support the identification and disclosure of related party transactions.

*Cause:* The cause of this issue is unknown.

*Recommendation:* We recommend the Village adopt a Conflict of Interest Policy.

This weakness was noted in the State's internal control audit and is still an issue.

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#### **2014-13 Legal Reserves Required by USDA**

*Condition:* We noted during our audit the Village has not maintained required reserves in its Sewer Fund as required by loan covenants with the USDA.

*Criteria:* The Village is required to maintain and restrict \$62,000 in its Sewer Fund to comply with USDA requirements.

*Cause:* The Village, in effect, loaned all but \$34,013 of its cash balances in the Sewer Fund to other funds of the Village because of their deficit positions.

*Recommendation:* We recommend raising water and sewer rates, raise taxes and sell Village assets to increase the cash balances in the Sewer Fund (and other Village funds) to comply with USDA loan requirements.

#### **2014-14 State's Uniform Budget Manual**

*Condition:* Budget amendments to the General Fund and Park Fund created or increased a fund deficit.

*Criteria:* Amendments to the approved budget (general appropriation act) must not cause estimated total expenditures, including an accrued deficit, to exceed total estimated revenues, including an available surplus.

*Cause:* The cause of this issue is unknown.

*Recommendation:* We recommend all beginning and final amended budgets coincide with amounts submitted to Treasury for the Village's State Approved, Deficit Elimination Plan.

#### **2014-15 Village Solstice Festival**

*Condition:* The Village celebrates a Solstice Festival that is not allowed by State Statute.

*Criteria:* MCL 123.851 specifically allows cities, villages and townships to expend money for the observance of Veterans, Independence and Memorial Days and Diamond Jubilee or Centennial Celebrations. It is improper for a unit of government to expend public money for an annual picnic or other celebration that is not specifically authorized by law and does not serve a public purpose.

*Cause:* The cause of this issue is unknown.

*Recommendation:* We recommend the Village discontinue the sponsorship of the Solstice Festival and instead have a local non-profit group manage the event.