

**VILLAGE OF ELLSWORTH, MICHIGAN**

**FEBRUARY 28, 2013**



**Baird, Cotter & Bishop, P.C.**  
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CERTIFIED PUBLIC ACCOUNTANTS

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VILLAGE OF ELLSWORTH, MICHIGAN

FEBRUARY 28, 2013

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May 17, 2013

INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Ellsworth, Michigan

**Report on the Financial Statements**

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

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this include 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 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, and each major fund, and the aggregate remaining fund information of Village of Ellsworth, Michigan as of February 28, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through x and 25 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 May 17, 2013, on our consideration of Village of Ellsworth, 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 Ellsworth, Michigan's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

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

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

The management of the Village of Ellsworth, Michigan (“the Village”) offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$1,012,105 (shown as *Net Position*). Of this amount, \$67,679 (*Unrestricted Net Position*) may be used to meet the Village’s ongoing obligations to citizens and creditors.
- ❖ The Village’s net position decreased by \$37,384 during the fiscal year. Government activities had a \$17,293 decrease, while Business-type activities had a \$20,091 decrease.
- ❖ As of February 28, 2013, the governmental funds of the Village of Ellsworth reported combined ending fund balances of \$66,147, of which \$30,668 was unassigned.
- ❖ The Net Position of the Village’s Water Fund decreased by \$20,091 bringing the total Net Position of this fund to \$347,512.
- ❖ The Village of Ellsworth’s total long-term debt decreased by \$12,000 during the fiscal year.

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

The *Statement of Activities* presents the 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 periods.

Both of the government-wide statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development, recreation and culture, and other functions. Business-type activities of the Village include water utility services.

### **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 of Ellsworth, like other state and local governments, uses fund accounting to ensure 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 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 Street Fund, Local Street Fund and Recreation Fund, which are considered to be major funds.

The Village of Ellsworth adopts an annual budget for all major funds. A budgetary comparison has been provided for all major funds to demonstrate compliance with this budget.

**Proprietary Funds** The Village uses enterprise funds to account for its water activity.

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 activity, which is considered to be a major fund of the Village of Ellsworth.

### **Notes to Financial Statements**

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

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

**Other Information**

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

**Government-Wide 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 of Ellsworth, assets exceed liabilities by \$1,012,105, at the close of the most recent fiscal year.

*Village of Ellsworth*  
*Net Position*  
*As of February 28,*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 85,777	\$ 65,046	\$ 84,359	\$ 80,934	\$ 170,136	\$ 145,980
Capital Assets	598,446	641,557	531,284	563,669	1,129,730	1,205,226
<b>Total Assets</b>	<b>684,223</b>	<b>706,603</b>	<b>615,643</b>	<b>644,603</b>	<b>1,299,866</b>	<b>1,351,206</b>
Current Liabilities	19,630	24,717	16,131	12,000	35,761	36,717
Long-Term Liabilities	0	0	252,000	265,000	252,000	265,000
<b>Total Liabilities</b>	<b>19,630</b>	<b>24,717</b>	<b>268,131</b>	<b>277,000</b>	<b>287,761</b>	<b>301,717</b>
Net Position:						
Net Investment in Capital Assets	598,446	641,557	266,284	286,669	864,730	928,226
Restricted	25,721	5,863	53,975	53,975	79,696	59,838
Unrestricted	40,426	34,466	27,253	26,959	67,679	61,425
<b>Total Net Position</b>	<b>\$ 664,593</b>	<b>\$ 681,886</b>	<b>\$ 347,512</b>	<b>\$367,603</b>	<b>\$1,012,105</b>	<b>\$1,049,489</b>

The most significant portion of the Village's net position reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Village used to acquire or construct those assets. The Village uses these capital assets to provide services to 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 needed 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 represents resources, \$79,696, that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$67,679, may be used to meet the Village's ongoing obligations to citizens and creditors.

VILLAGE OF ELLSWORTH, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

At the end of the current fiscal year, the Village is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

However, the Village of Ellsworth's overall net position decreased \$37,384 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities and business-type activities.

*Village of Ellsworth  
Change in Net Position  
For the Fiscal Year Ended February 28,*

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b><u>Revenues</u></b>						
<b>Program Revenues</b>						
Charges for Services	\$ 59,547	\$ 48,605	\$ 63,874	\$ 61,656	\$ 123,421	\$ 110,261
Operating Grants and Contributions	81,560	68,347	0	0	81,560	68,347
<b>General Revenues</b>						
Taxes	89,976	92,685	0	0	89,976	92,685
State Grants	31,594	34,206	0	0	31,594	34,206
Interest Earnings	55	111	543	1,390	598	1,501
Other	1,606	2,668	17,552	7,281	19,158	9,949
<b>Total Revenues</b>	<b>264,338</b>	<b>246,622</b>	<b>81,969</b>	<b>70,327</b>	<b>346,307</b>	<b>316,949</b>
<b><u>Expenses</u></b>						
General Government	95,325	100,539	0	0	95,325	100,539
Public Safety	5,552	4,892	0	0	5,552	4,892
Public Works	94,006	82,536	0	0	94,006	82,536
Community and Economic Development	1,973	3,477	0	0	1,973	3,477
Recreation and Culture	70,571	46,609	0	0	70,571	46,609
Other Functions	14,204	13,231	0	0	14,204	13,231
Interest on Long-Term Debt	0	779	0	0	0	779
Water	0	0	102,060	98,274	102,060	98,274
<b>Total Expenses</b>	<b>281,631</b>	<b>252,063</b>	<b>102,060</b>	<b>98,274</b>	<b>383,691</b>	<b>350,337</b>
Increase (Decrease) in Net Position	(17,293)	(5,441)	(20,091)	(27,947)	(37,384)	(33,388)
Beginning Net Position	681,886	687,327	367,603	395,550	1,049,489	1,082,877
Ending Net Position	\$ 664,593	\$ 681,886	\$ 347,512	\$ 367,603	\$ 1,012,105	\$ 1,049,489



VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

**Governmental Activities**

During the current fiscal year, net position for the governmental activities decreased \$17,293 from the prior fiscal year for an ending balance of \$664,593. The most significant portion of the revenue for all governmental activities of the Village of Ellsworth comes from Taxes. The Village's operating millage increased in 2012 to 12.3 mills. The Village's charter allows the Village to levy up to 15 mills for operations.

The Village's governmental activities expenses are dominated by the General Government and Public Works expenses. The Village spent \$95,325 on General Government during the fiscal year. Public Works represented the next largest expense at \$94,006. Expenses in the Major Street Fund and Local Street Fund represent a large part of the Public Works expenses.

**Business-Type Activities**

For the Village of Ellsworth's business-type activities, net position decreased during the fiscal year by \$20,091 to reach an ending balance of \$347,512. The Business-type activities of the Village include the Water Fund, which provides water utility services to Village residents as well as commercial customers. The most significant portion of the revenue for all business-type activities is charges for services. This amount comes from water billings.

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

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

***Governmental Funds*** The focus of the Village of Ellsworth's governmental funds is provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village of Ellsworth'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 been limited to use for a particular purpose by either an external party, the Village of Ellsworth itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village of Ellsworth's council.

At February 28, 2013, the Village of Ellsworth's governmental funds reported combined fund balances of \$66,147, an increase of \$25,818 in comparison with the prior year. Approximately \$30,668 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either restricted or assigned to indicate that is 1) restricted for particular purposes (\$25,721) or 2) assigned for particular purposes (\$9,758).

**General Fund** – The fund balance of the Village of Ellsworth's General Fund increased its fund balance in this fiscal year by \$6,982, bringing the balance to \$39,084. Expenditures for all functions were below budgeted figures, causing the increase.

**Major Street Fund** – The Major Street Fund increased its fund balance in this fiscal year by \$19,169, bringing the balance to \$23,211. This increase can be attributed to the fact that the Village paid off its

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

remaining debt in the prior fiscal year and received a transfer in from the General Fund in the amount of \$13,106.

**Local Street Fund** – The Local Street Fund increased its fund balance in this fiscal year by \$689, bringing the balance to \$2,510. The Local Street received a transfer in from the Major Street Fund in the amount of \$5,000, which caused the increase in fund balance.

**Recreation Fund** – The Recreation Fund decreased its fund balance in this fiscal year by \$1,022, bringing the balance to \$1,342. The decrease can be attributable to an increased amount of expenses compared with prior years.

**Proprietary Funds** The Village’s proprietary fund provide the same information as the government-wide statements, but in more detail.

**Water Fund** – Unrestricted net position of the Water Fund at the end of the year was \$27,253. The net position of the fund decreased by \$20,091 in 2012-2013. Depreciation is the main reason the Water Fund experienced a decrease in net position during the year.

**General Fund Budgetary Highlights**

During the year, the Council amended the budget at various times. Below is a schedule showing the changes from the original estimated revenues and budgeted appropriations.

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGET</u>
Total Revenues	<u>\$ 180,809</u>	<u>\$ 203,342</u>	<u>\$201,286</u>
Total Expenditures	<u>\$ 173,454</u>	<u>\$ 203,132</u>	<u>\$179,198</u>

The increase in estimated revenues and budgeted appropriations can be attributed to the fact that the Village received grant funds that it had not originally intended to receive. The majority of the grant funds were expended during the year.

A review of actual revenues compared with estimated revenues yields no significant variances, except for other revenues. A portion of grant funds received during the year were not spent, thus were deferred for spending in the next fiscal year. The Village had originally intended to spend the entire grant amount during the 2012-2013 fiscal year.

A review of actual expenditures compared with budgeted appropriations showed that all functions expended less than the appropriated amount. Most of the variances were insignificant, except for the expenditures related to recreation and culture. The reason for this variance is because the Village did not expend all of the grant funds it received during the fiscal year as originally planned.

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

**Capital Asset and Debt Administration**

**Capital Assets** The Village of Ellsworth's investment in capital assets for the governmental and business-type activities as of February 28, 2013, amounted to \$1,129,730 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, roads, machinery and equipment and water system infrastructure. Detail of these capital assets is shown below.

*Village of Ellsworth*  
*Capital Assets as of February 28,*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land and Land Improvements	\$ 456,220	\$ 456,220	\$ 0	\$ 0	\$ 456,220	\$ 456,220
Buildings	121,623	121,623	29,337	29,337	150,960	150,960
System Infrastructure	0	0	1,242,373	1,242,373	1,242,373	1,242,373
Roads	221,453	221,453	0	0	221,453	221,453
Machinery and Equipment	173,356	173,356	50,643	50,643	223,999	223,999
Subtotal	972,652	972,652	1,322,353	1,322,353	2,295,005	2,295,005
Accumulated Depreciation	374,206	331,095	791,069	758,684	1,165,275	1,089,779
<b>Net Capital Assets</b>	<b>\$ 598,446</b>	<b>\$ 641,557</b>	<b>\$ 531,284</b>	<b>\$ 563,669</b>	<b>\$ 1,129,730</b>	<b>\$ 1,205,226</b>

Additional information regarding the Village's capital assets can be found in the Notes to Financial Statements section in this report.

**Long-Term Debt** As of February 28, 2013, the Village had total bonded debt outstanding of \$265,000. The revenue bonds associated with the Water Fund (\$265,000), are backed by revenues from the Water system, and have been used to finance major capital projects within the Water system.

Additional information regarding the Village of Ellsworth's long-term debt can be found in the Notes to Financial Statements section in this report.

**Economic Factors Affecting the Village's Future**

The following economic factors currently affect the Village of Ellsworth and were considered in developing the 2013-2014 budget:

- As the economic conditions in the State of Michigan continue to improve, there is more certainty and stability surrounding the significant revenue sources of the Village (property taxes and state shared revenues).

VILLAGE OF ELLSWORTH, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2013

- The Village is in the process of looking at means of financing a significant water infrastructure improvement project.
- The Village is in the process of exploring options for a new accounting system.
- The Township continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Ellsworth, P.O. Box 265, Ellsworth, Michigan 49729, or call us at (231) 588-7411.

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 28, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 65,758	\$ 19,663	\$ 85,421
Receivables			
Accounts	0	8,721	8,721
Taxes	741	0	741
Due from Other Governments	19,278	0	19,278
Inventory	0	2,000	2,000
	<hr/>		
Total Current Assets	85,777	30,384	116,161
	<hr/>		
<u>RESTRICTED ASSETS</u>			
Deposits			
Bond and Interest Redemption Fund	0	10,000	10,000
Bond Reserve Account	0	38,974	38,974
Special Purpose Account	0	5,001	5,001
	<hr/>		
Total Restricted Assets	0	53,975	53,975
	<hr/>		
<u>CAPITAL ASSETS</u>			
Land	17	0	17
Land Improvements	456,203	0	456,203
Buildings	121,623	29,337	150,960
Roads	221,453	0	221,453
Machinery and Equipment	173,356	50,643	223,999
System Infrastructure	0	1,242,373	1,242,373
	<hr/>		
	972,652	1,322,353	2,295,005
Less Accumulated Depreciation	374,206	791,069	1,165,275
Net Capital Assets	598,446	531,284	1,129,730
	<hr/>		
TOTAL ASSETS	684,223	615,643	1,299,866
	<hr/>		

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

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 28, 2013

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Bank Overdraft	6,586	0	6,586
Accounts Payable	3,072	3,131	6,203
Payroll Withholdings Payable	586	0	586
Accrued Expenses	6,054	0	6,054
Unearned Revenues	3,332	0	3,332
Current Portion of Long-Term Debt	0	13,000	13,000
	<hr/>		
Total Current Liabilities	19,630	16,131	35,761
 <u>LONG-TERM LIABILITIES</u>			
Revenue Bonds, Net of Current Portion	0	252,000	252,000
	<hr/>		
TOTAL LIABILITIES	19,630	268,131	287,761
 <u>NET POSITION</u>			
Net Investment in Capital Assets	598,446	266,284	864,730
Restricted for Debt Service	0	48,974	48,974
Restricted for Special Purposes	25,721	5,001	30,722
Unrestricted	40,426	27,253	67,679
	<hr/>		
TOTAL NET POSITION	\$ 664,593	\$ 347,512	\$ 1,012,105
	<hr/> <hr/>		

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

VILLAGE OF ELLSWORTH, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2013

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUES AND CHANGE IN NET POSITION		TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>							
General Government	\$ 95,325	\$ 31,573	\$ 0	\$ 0	\$ (63,752)	\$ 0	\$ (63,752)
Public Safety	5,552	263	770	0	(4,519)	0	(4,519)
Public Works	94,006	0	61,149	0	(32,857)	0	(32,857)
Community and Economic Development	1,973	0	0	0	(1,973)	0	(1,973)
Recreation and Culture	70,571	27,711	19,641	0	(23,219)	0	(23,219)
Other Functions	14,204	0	0	0	(14,204)	0	(14,204)
Total Governmental Activities	281,631	59,547	81,560	0	(140,524)	0	(140,524)
<u>BUSINESS-TYPE ACTIVITIES</u>							
Water System	102,060	63,874	0	0	0	(38,186)	(38,186)
TOTAL	\$ 383,691	\$ 123,421	\$ 81,560	\$ 0	(140,524)	(38,186)	(178,710)
<u>GENERAL REVENUES</u>							
Taxes					89,976	0	89,976
State Grants					31,594	0	31,594
Interest Earnings					55	543	598
Other					1,606	17,552	19,158
					123,231	18,095	141,326
Change in Net Position					(17,293)	(20,091)	(37,384)
<u>NET POSITION</u> - Beginning of Year					681,886	367,603	1,049,489
<u>NET POSITION</u> - End of Year					\$ 664,593	\$ 347,512	\$ 1,012,105

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

VILLAGE OF ELLSWORTH, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 28, 2013

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	RECREATION FUND	TOTALS
<u>ASSETS</u>					
Cash	\$ 45,932	\$ 18,484	\$ 0	\$ 1,342	\$ 65,758
Taxes Receivable	741	0	0	0	741
Due from Other Governments	5,455	10,727	3,096	0	19,278
Due from Other Funds	0	0	6,000	0	6,000
 TOTAL ASSETS	 \$ 52,128	 \$ 29,211	 \$ 9,096	 \$ 1,342	 \$ 91,777
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Bank Overdraft	\$ 0	\$ 0	\$ 6,586	\$ 0	\$ 6,586
Accounts Payable	3,072	0	0	0	3,072
Payroll Withholdings Payable	586	0	0	0	586
Accrued Wages	6,054	0	0	0	6,054
Unearned Revenues	3,332	0	0	0	3,332
Due to Other Funds	0	6,000	0	0	6,000
 Total Liabilities	 13,044	 6,000	 6,586	 0	 25,630
<u>FUND BALANCE</u>					
Restricted for Street Improvements	0	23,211	2,510	0	25,721
Assigned for Recreation Programs	0	0	0	1,342	1,342
Assigned for Subsequent Year Budget Shortfall	8,416	0	0	0	8,416
Unassigned	30,668	0	0	0	30,668
 Total Fund Balance	 39,084	 23,211	 2,510	 1,342	 66,147
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 52,128	 \$ 29,211	 \$ 9,096	 \$ 1,342	 \$ 91,777

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



VILLAGE OF ELLSWORTH, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
FEBRUARY 28, 2013

Total Fund Balances for Governmental Funds \$ 66,147

Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 17	
Land Improvements	456,203	
Buildings	121,623	
Machinery and Equipment	173,356	
Roads	221,453	
Accumulated Depreciation	<u>(374,206)</u>	598,446

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 664,593

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

VILLAGE OF ELLSWORTH, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED FEBRUARY 28, 2013

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	RECREATION FUND	TOTALS
<b><u>REVENUES</u></b>					
Taxes	\$ 89,976	\$ 0	\$ 0	\$ 0	\$ 89,976
Licenses and Permits	255	0	0	0	255
State Grants	34,976	45,750	12,787	0	93,513
Contributions from Local Units	0	0	0	3,500	3,500
Charges for Services	494	0	0	430	924
Fines and Forfeits	8	0	0	0	8
Interest and Rents	58,415	0	0	0	58,415
Other Revenue	17,162	110	0	475	17,747
<b>Total Revenues</b>	<b>201,286</b>	<b>45,860</b>	<b>12,787</b>	<b>4,405</b>	<b>264,338</b>
<b><u>EXPENDITURES</u></b>					
General Government	94,085	0	0	0	94,085
Public Safety	5,552	0	0	0	5,552
Public Works	23,050	34,797	17,098	0	74,945
Community and Economic Development	1,973	0	0	0	1,973
Recreation and Culture	40,334	0	0	7,427	47,761
Other Functions	14,204	0	0	0	14,204
<b>Total Expenditures</b>	<b>179,198</b>	<b>34,797</b>	<b>17,098</b>	<b>7,427</b>	<b>238,520</b>
Excess (Deficiency) of Revenues Over Expenditures	22,088	11,063	(4,311)	(3,022)	25,818
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Transfers In	0	13,106	5,000	2,000	20,106
Transfers Out	(15,106)	(5,000)	0	0	(20,106)
<b>Total Other Financing Sources (Uses)</b>	<b>(15,106)</b>	<b>8,106</b>	<b>5,000</b>	<b>2,000</b>	<b>0</b>
<b>Net Changes in Fund Balances</b>	<b>6,982</b>	<b>19,169</b>	<b>689</b>	<b>(1,022)</b>	<b>25,818</b>
<b><u>FUND BALANCES</u> - Beginning of Year</b>	<b>32,102</b>	<b>4,042</b>	<b>1,821</b>	<b>2,364</b>	<b>40,329</b>
<b><u>FUND BALANCES</u> - End of Year</b>	<b>\$ 39,084</b>	<b>\$ 23,211</b>	<b>\$ 2,510</b>	<b>\$ 1,342</b>	<b>\$ 66,147</b>

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

VILLAGE OF ELLSWORTH, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2013

Net Change in Fund Balances - Total Governmental Funds	\$ 25,818
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.

Depreciation Expense	(43,111)
Capital Outlay	<u>0</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (17,293)</u></u>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF ELLSWORTH, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF NET POSITION  
FEBRUARY 28, 2013

	<u>WATER FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 19,663
Accounts Receivable	8,721
Inventory	2,000
Total Current Assets	30,384
<u>RESTRICTED ASSETS</u>	
Deposits	
Bond and Interest Redemption Fund	10,000
Bond Reserve Account	38,974
Special Purpose Account	5,001
Total Restricted Assets	53,975
<u>CAPITAL ASSETS</u>	
Buildings	29,337
Machinery and Equipment	50,643
System Infrastructure	1,242,373
	1,322,353
Less Accumulated Depreciation	791,069
Net Investment in Capital Assets	531,284
TOTAL ASSETS	615,643
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	3,131
Revenue Bonds Payable - Current Portion	13,000
Total Current Liabilities	16,131
<u>LONG-TERM LIABILITIES</u>	
Revenue Bonds Payable - Net of Current Portion	252,000
TOTAL LIABILITIES	268,131
<u>NET POSITION</u>	
Net Investment in Capital Assets	266,284
Restricted	53,975
Unrestricted	27,253
TOTAL NET POSITION	\$ 347,512

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

VILLAGE OF ELLSWORTH, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED FEBRUARY 28, 2013

	<u>WATER FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 63,874
Other Revenue	17,552
	<hr/>
Total Operating Revenues	81,426
	<hr/>
<u>OPERATING EXPENSES</u>	
Administrative and General	10,687
Plant	74,774
	<hr/>
Total Operating Expenses	85,461
	<hr/>
Operating Income (Loss)	(4,035)
	<hr/>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	543
Interest Expense	(16,599)
	<hr/>
Total Nonoperating Revenues (Expenses)	(16,056)
	<hr/>
Change in Net Position	(20,091)
	<hr/>
<u>TOTAL NET POSITION - Beginning of Year</u>	367,603
	<hr/>
<u>TOTAL NET POSITION -End of Year</u>	\$ 347,512
	<hr/> <hr/>

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

VILLAGE OF ELLSWORTH, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 28, 2013

	<u>WATER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities	
Cash Received from Customers	\$ 60,549
Cash Payments to Suppliers for Goods and Services	(31,301)
Cash Payments to Employees for Services	(18,644)
Other Operating Revenues	<u>17,552</u>
Net Cash Provided (Used) by Operating Activities	<u>28,156</u>
Cash Flows from Capital and Related Financing Activities	
Payment of Revenue Bond	(12,000)
Interest Payments	<u>(16,599)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>(28,599)</u>
Cash Flows from Investing Activities	
Interest on Investments	<u>543</u>
Net Increase (Decrease) in Cash and Cash Equivalents	100
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>73,538</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u>\$ 73,638</u>

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

VILLAGE OF ELLSWORTH, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 28, 2013

	<u>WATER FUND</u>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Operating Income (Loss)	<u>\$ (4,035)</u>
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	32,385
(Increase) Decrease in Current Assets	
Accounts Receivable	(3,325)
Increase (Decrease) in Current Liabilities	
Accounts Payable	<u>3,131</u>
Total Adjustments	<u>32,191</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 28,156</u></u>

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

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The Village of Ellsworth does not have any *component units*.

**B. Reporting Entity**

The Village of Ellsworth, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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 where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Village of Ellsworth reports the following major governmental funds:

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



VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

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

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

The *Recreation Fund* is used to account for the financial activity of the recreation programs.

The Village of Ellsworth reports the following major proprietary fund:

The *Water Fund* records financial activity of the water system, which provides water to customers.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business type activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

- Prior to March 1, the Village Clerk submits to the Village Council a proposed operating budget for all governmental funds for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- The Village Council holds a public hearing and adopts a resolution approving the budgets.
- All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

Budgeted amounts are as originally adopted, or as amended by the Village Council from time to time throughout the year.

- Encumbrance accounting is not employed in governmental funds.

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***1. Deposits and Investments***

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

Investments - The Village's investment policy is in compliance with state law and authorizes the Village to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, bankers acceptances, federal agency instruments, money market funds and commercial paper.

***2. Inventories and Prepaid Items***

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

***3. Restricted Assets***

Certain debt proceeds of the Village's enterprise funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants and they are maintained in separate bank accounts.

***4. Capital Assets***

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

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

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings and Improvements	20-50
Building Improvements	20
Land Improvements	20
Machinery and Equipment	5-10
Public Domain Infrastructure	50
System Infrastructure	30

**5. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. The Village does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues with two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Village does not have any deferred inflows of resources.

**6. *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

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

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.

**7. *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 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.

**8. *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. 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 governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) 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 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.

**9. *Use of Estimates***

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

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

**H. Revenues and Expenditures/Expenses**

***1. Program Revenues***

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

***2. Property Taxes***

The 2012 taxable valuation of the Village of Ellsworth totaled \$7,129,192, on which ad valorem taxes levied consisted of 12.3 mills for the Village of Ellsworth operating purposes.

***3. Proprietary Funds Operating and Nonoperating Revenues and Expenses***

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 water fund are charges to customers for services. Operating expenses for enterprise funds include cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**II. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

The Village's deposits are owned by several of the Village's funds. Bank deposits are in Charlevoix State Bank.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2013, none of the Village's bank balance of \$141,068 was exposed to custodial credit risk because it was insured and collateralized. Although the Village's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Village's deposits.

*Foreign Currency Risk.* The Village is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

**B. Receivables**

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

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Water</u>	<u>Total</u>
Receivables					
Accounts	\$ 0	\$ 0	\$ 0	\$ 8,721	\$ 8,721
Taxes	741	0	0	0	741
Intergovernmental	5,455	10,727	3,096	0	19,278
	<hr/>				
Total	\$ 6,196	\$ 10,727	\$ 3,096	\$ 8,721	\$ 28,740

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

**C. Capital Assets**

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated				
Land	\$ 17	\$ 0	\$ 0	\$ 17
	<hr/>			
Capital Assets, Being Depreciated				
Land Improvements	456,203	0	0	456,203
Buildings	121,623	0	0	121,623
Roads	221,453	0	0	221,453
Machinery and Equipment	173,356	0	0	173,356
	<hr/>			
Total Capital Assets, Being Depreciated	972,635	0	0	972,635

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation for:				
Land Improvements	71,990	22,810	0	94,800
Buildings	71,470	2,420	0	73,890
Roads	50,900	10,834	0	61,734
Machinery and Equipment	136,735	7,047	0	143,782
 Total Accumulated Depreciation	 331,095	 43,111	 0	 374,206
 Total Capital Assets, Being Depreciated, Net	 641,540	 (43,111)	 0	 598,429
 Governmental Activities Capital Assets, Net	 \$ 641,557	 \$ (43,111)	 \$ 0	 \$ 598,446

Business-Type Activities

Capital Assets, Being Depreciated				
Buildings	\$ 29,337	\$ 0	\$ 0	\$ 29,337
Machinery and Equipment	50,643	0	0	50,643
System Infrastructure	1,242,373	0	0	1,242,373
 Total Capital Assets, Being Depreciated	 1,322,353	 0	 0	 1,322,353
 Less Accumulated Depreciation				
Buildings	22,003	978	0	22,981
Machinery and Equipment	50,643	0	0	50,643
System Infrastructure	686,038	31,407	0	717,445
 Total Capital Assets, Being Depreciated	 758,684	 32,385	 0	 791,069
 Business-Type Activites Capital Assets, Net	 \$ 563,669	 \$ (32,385)	 \$ 0	 \$ 531,284



VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

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

Governmental Activities	
General Government	\$ 1,240
Public Works	19,061
Recreation and Culture	22,810
Total Depreciation Expense - Governmental Activities	\$ 43,111
Business-Type Activities	
Water	\$ 32,385

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

Interfund Receivable and Payable balances as of February 28, 2013, were:

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
Primary Government		
Major Street Fund	\$ 0	\$ 6,000
Local Street Fund	6,000	0
	\$ 6,000	\$ 6,000

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at February 28, 2013, are expected to be repaid within one year.

Interfund Transfers as of February 28, 2013, were:

	TRANSFERS	
	IN	OUT
Primary Government		
General Fund	\$ 0	\$ 15,106
Major Street Fund	13,106	5,000
Local Street Fund	5,000	0
Recreation Fund	2,000	0
	\$ 20,106	\$ 20,106

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

**E. Long-Term Debt**

**1. Primary Government**

The following is a summary of debt transactions of the Village of Ellsworth for the year ended February 28, 2013:

	<u>REVENUE BONDS</u>
Debt Payable at March 1, 2012	\$ 277,000
New Debt Incurred	0
Debt Retired	<u>(12,000)</u>
Debt Payable at February 28, 2013	<u>\$ 265,000</u>
Due within one year	<u>\$ 13,000</u>

Debt payable at February 28, 2013, is comprised of the following individual issues:

Revenue Bonds:

\$410,000 Water Supply System Revenue Bonds due in annual installments of \$12,000 to \$30,000 through September 1, 2025; Interest at 6.125%	<u>\$ 265,000</u>
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The annual requirements to amortize these debts outstanding as of February 28, 2013, including interest payments of \$121,124 are as follows:

<u>YEAR ENDING FEBRUARY 28,</u>	<u>REVENUE BONDS</u>
2014	
PRINCIPAL	\$ 13,000
INTEREST	15,833
TOTAL	<u>28,833</u>
2015	
PRINCIPAL	14,000
INTEREST	15,006
TOTAL	<u>29,006</u>

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

<u>YEAR ENDING</u> <u>FEBRUARY 28,</u>	<u>REVENUE</u> <u>BONDS</u>
2016	
PRINCIPAL	15,000
INTEREST	14,118
TOTAL	<u>29,118</u>
2017	
PRINCIPAL	16,000
INTEREST	13,168
TOTAL	<u>29,168</u>
2018	
PRINCIPAL	17,000
INTEREST	12,158
TOTAL	<u>29,158</u>
2019-2023	
PRINCIPAL	106,000
INTEREST	42,878
TOTAL	<u>148,878</u>
2024-2026	
PRINCIPAL	84,000
INTEREST	7,963
TOTAL	<u>91,963</u>
GRAND TOTAL	
PRINCIPAL	265,000
INTEREST	121,124
TOTAL	<u>\$ 386,124</u>

**III. OTHER INFORMATION**

**A. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters.

The Village participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and worker's disability compensation. The pools are considered public entity risk pools. The Village pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Village has not been informed to any special assessments being required for the current year or the three prior years.

VILLAGE OF ELLSWORTH, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2013

The Village continued to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**B. New GASB Standards**

Effective March 1, 2012 the Village adopted GASB Statement 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position” and GASB Statement 65, “Items Previously Recognized as Assets and Liabilities”. These statements establish and clarify new components of the statement of position, “Deferred Inflows of Resources” and “Deferred Outflows of Resources”. GASB 63 also changes the term “net assets”, which was previously made up of assets less liabilities, to “net position”, which is now made up of assets, deferred outflows of resources, liabilities and deferred inflows of resources. Accordingly any reference to “net assets” has been changed to “net position”.

VILLAGE OF ELLSWORTH, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED FEBRUARY 28, 2013

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>			<u>RECREATION FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>												
Taxes	\$ 88,500	\$ 88,500	\$ 89,976	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	2,790	2,790	255	0	0	0	0	0	0	0	0	0
State Grants	32,270	32,270	34,976	50,000	48,000	45,750	13,000	12,000	12,787	0	0	0
Contributions from Local Units	0	0	0	0	0	0	0	0	0	5,500	3,500	3,500
Charges for Services	300	300	494	0	0	0	0	0	0	250	250	430
Fines and Forfeits	50	50	8	0	0	0	0	0	0	0	0	0
Interest and Rents	55,000	55,000	58,415	0	0	0	0	0	0	0	0	0
Other Revenues	1,899	24,432	17,162	0	0	110	0	0	0	400	400	475
<b>Total Revenues</b>	<b>180,809</b>	<b>203,342</b>	<b>201,286</b>	<b>50,000</b>	<b>48,000</b>	<b>45,860</b>	<b>13,000</b>	<b>12,000</b>	<b>12,787</b>	<b>6,150</b>	<b>4,150</b>	<b>4,405</b>
<u>EXPENDITURES</u>												
General Government												
Village Council	10,250	10,250	9,684	0	0	0	0	0	0	0	0	0
Clerk	9,880	9,880	8,650	0	0	0	0	0	0	0	0	0
Treasurer	4,064	4,064	3,893	0	0	0	0	0	0	0	0	0
Building and Grounds	71,558	74,603	71,858	0	0	0	0	0	0	0	0	0
Public Safety												
Police	6,650	7,850	4,452	0	0	0	0	0	0	0	0	0
Ambulance Services	1,100	1,100	1,100	0	0	0	0	0	0	0	0	0
Public Works	25,000	25,000	23,050	50,366	50,366	34,797	25,360	24,714	17,098	0	0	0
Community and Economic Development	3,020	3,020	1,973	0	0	0	0	0	0	0	0	0
Recreation and Culture	27,157	52,590	40,334	0	0	0	0	0	0	6,100	8,375	7,427
Other Functions	14,775	14,775	14,204	0	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>173,454</b>	<b>203,132</b>	<b>179,198</b>	<b>50,366</b>	<b>50,366</b>	<b>34,797</b>	<b>25,360</b>	<b>24,714</b>	<b>17,098</b>	<b>6,100</b>	<b>8,375</b>	<b>7,427</b>
Excess (Deficiency) of Revenues Over Expenditures	7,355	210	22,088	(366)	(2,366)	11,063	(12,360)	(12,714)	(4,311)	50	(4,225)	(3,022)
<u>OTHER FINANCING SOURCES (USES)</u>												
Transfers In	0	0	0	10,000	10,000	13,106	7,000	7,000	5,000	0	2,000	2,000
Transfers Out	(13,016)	(15,016)	(15,106)	(7,000)	(7,000)	(5,000)	0	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(13,016)</b>	<b>(15,016)</b>	<b>(15,106)</b>	<b>3,000</b>	<b>3,000</b>	<b>8,106</b>	<b>7,000</b>	<b>7,000</b>	<b>5,000</b>	<b>0</b>	<b>2,000</b>	<b>2,000</b>
Net Change in Fund Balance	(5,661)	(14,806)	6,982	2,634	634	19,169	(5,360)	(5,714)	689	50	(2,225)	(1,022)
<u>FUND BALANCE</u> - Beginning of Year	30,000	30,000	32,102	4,042	4,042	4,042	1,821	1,821	1,821	1,974	1,974	2,364
<u>FUND BALANCE</u> - End of Year (Deficit)	\$ 24,339	\$ 15,194	\$ 39,084	\$ 6,676	\$ 4,676	\$ 23,211	\$ (3,539)	\$ (3,893)	\$ 2,510	\$ 2,024	\$ (251)	\$ 1,342



# Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

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May 17, 2013

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT OR NEAR THE CONCLUSION OF THE AUDIT

To the Village Council  
Village of Ellsworth, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Ellsworth 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 *Government Auditing Standards*, 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 April 23, 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 Ellsworth are described in Note I to the financial statements. Starting in 2012-2013, the Village has implemented GASB 63 and GASB 65, new standards that rename, redefine, and clarify components of net position. 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 governmental activities, the business-type activities, and each major fund of the Village of Ellsworth's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no 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 May 17, 2013.

### *Management Consultations with Other Independent Accountants*

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

### *Other Audit Findings or Issues*

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

During the course of our audit of the basic financial statements of the Village of Ellsworth for the year ended February 28, 2013, we noted the following item which we feel deserves comment:

#### Budgeting

The Local Street Fund and Recreation Fund had budgets that created a deficit fund balance. Governments are not allowed to adopt budgets that create a deficit fund balance. We recommend that the Village review the budgets prior to adoption to make sure a deficit fund balance condition is not created.

This information is intended solely for the use of the Village Council and management of the Village of Ellsworth and is not intended to be and should not be used by anyone other than these specific parties.

BAIRD, COTTER AND BISHOP, P.C.

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





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May 17, 2013

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

To the Village Council  
Village of Ellsworth, Michigan

We have audited, in accordance with the auditing standards general 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Ellsworth, Michigan as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the Village of Ellsworth's basic financial statements and have issued our report thereon dated May 17, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Ellsworth's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Ellsworth's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Ellsworth's internal.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 below to be material weaknesses.

## 1) Lack of Segregation of Duties

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of duties.

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

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

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

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

Cause: This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

Recommendation: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Ellsworth'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*.

### Response to Findings

The Village of Ellsworth's response to the findings identified in our audit is described above. The Village of Ellsworth's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BAIRD, COTTER AND BISHOP, P.C.

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