

**FINANCIAL REPORT
VILLAGE OF ALANSON
February 29, 2012**

VILLAGE OF ALANSON
FINANCIAL REPORT
February 29, 2012

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August 27, 2012

Independent Auditors' Report

Village President and Council
Village of Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson, Michigan, as of and for the year ended February 29, 2012, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson, as of February 29, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 the 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 inquires 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.

Hill, Schroderus & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

VILLAGE OF ALANSON
7631 SOUTH US 31
ALANSON, MI 49706

Management's Discussion and Analysis

As management of the Village of Alanson, Emmet County, Michigan, 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 29, 2012.

Overview of the Basic Financial Statements

Village of Alanson's basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

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 Assets displays all of the Village's assets and liabilities, with the difference reported as *net assets*. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the primary functions of the Village (general government, public safety, public works, etc.), which are supported by the Village's general revenues (property taxes, state shared revenues, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds and proprietary fund, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds.

The focus of the governmental fund financial statements is on the sources and uses of funds during the current year.

The proprietary fund financial statements present information as it would appear for a private-sector business.

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

Notes to the Financial Statements

The notes provide additional information, which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the Village's net assets as of February 29, 2012:

Village of Alanson Statement of Net Assets February 29, 2012						
	Governmental Activities		Business-Type Activities		Total	
	2012	2010	2012	2010	2012	2010
Assets						
Current and other assets	\$ 264,298	\$ 202,417	\$ 157,552	\$ 130,961	\$ 421,850	\$ 333,378
Capital assets - net of accum. dep.	1,077,202	1,055,985	-	-	1,077,202	1,055,985
Total assets	\$ 1,341,500	\$ 1,258,402	\$ 157,552	\$ 130,961	\$ 1,499,052	\$ 1,389,363
Liabilities						
Current liabilities	\$ 52,866	\$ 18,043	\$ 7,538	\$ 9,782	\$ 60,404	\$ 27,825
Notes payable, long-term portion	88,797	114,096	-	-	88,797	114,096
Total liabilities	141,663	132,139	7,538	9,782	149,201	141,921
Net Assets						
Investment in capital assets net of related debt	947,510	929,954	-	-	947,510	929,954
Restricted	16,507	-	150,014	121,179	166,521	121,179
Unrestricted	235,820	196,309	-	-	235,820	196,309
Total net assets	1,199,837	1,126,263	150,014	121,179	1,349,851	1,247,442
Total liabilities and net assets	\$ 1,341,500	\$ 1,258,402	\$ 157,552	\$ 130,961	\$ 1,499,052	\$ 1,389,363

At the end of the fiscal year, The Village of Alanson is able to report positive balances in all categories of net assets. The first portion of the Village's net assets is its investment in capital assets (land, buildings/building improvements, and equipment); less any related debt used to acquire those assets that is still outstanding. The Villages uses these capital assets in providing services; consequently, these assets are not available for future spending.

The restricted net assets represent amounts limited for spending on street repairs and maintenance and for the Island Sanctuary Park Boardwalk project.

The remaining portion of net assets – unrestricted net assets – may be used at the Village's discretion to meet ongoing obligations.

The results for the Village as a whole are reported in the Statement of Activities, which is summarized below:

**Village of Alanson
Statement of Activities
Year Ended February 29, 2012**

	Governmental Activities		Business-Type Activities		Totals	
	2012	2010	2012	2010	2012	2010
Revenue						
Program revenue:						
Charges for services	\$ 9,223	\$ 6,977	\$ 156,055	\$ 141,567	\$ 165,278	\$ 148,544
Operating grants	-	91,166	-	-	-	91,166
Capital grants	84,666	-	-	-	84,666	-
General revenue:						
Property taxes	175,458	170,397	-	-	175,458	170,397
State shared revenues	114,260	116,514	-	-	114,260	116,514
Interest	30,296	29,446	1,888	851	32,184	30,297
Other	556	1,454	-	-	556	1,454
Total revenues	414,459	415,954	157,943	142,418	572,402	558,372
Function/Program Expenses						
General government	118,986	120,751	-	-	118,986	120,751
Public safety	4,224	9,395	-	-	4,224	9,395
Public works	131,872	121,522	158,384	160,406	290,256	281,928
Recreation and culture	3,854	3,391	-	-	3,854	3,391
Interest expense	4,507	5,432	-	-	4,507	5,432
Depreciation (unallocated)	37,031	72,636	-	-	37,031	72,636
Total expenses	300,474	333,127	158,384	160,406	458,858	493,533
Change in net assets	113,985	82,827	(441)	(17,988)	113,544	64,839
Net assets - beginning of year	1,085,852	1,043,436	150,455	139,167	1,236,307	1,182,603
Net assets - end of year	\$ 1,199,837	\$ 1,126,263	\$ 150,014	\$ 121,179	\$ 1,349,851	\$ 1,247,442

As reported above, the Village recorded \$458,858 of expenses. The Village's governmental activities were funded primarily with property tax revenues and state shared revenues.

The Village experienced an increase in net assets of \$113,544.

Business-Type Activity Financial Analysis

As of year-end, the Village's business-type activity reported total net assets of approximately \$150,014, which is \$441 less than the beginning of the year.

The Village's Funds

The analysis of the Village's major funds begins on page three. As of year-end, the Village governmental funds reported a combined fund balance of \$192,900, which is \$74,851 more than the beginning of the year.

General Fund Budgetary Highlights

Final actual revenues were \$13,245 under final budgeted amounts. Property taxes and other income were both under budgeted amounts.

Final actual expenditures were \$19,281 more than final budgeted amounts. Professional services were the most significant expense over budgeted amounts.

Major and Local Street Funds Budgetary Highlights

Final actual revenues in the Major Street fund were about \$1,960 greater than final budgeted amounts. Local Streets budget to actual is very similar.

Final actual expenditures were more than budgeted amounts. The largest budget variance is noted in the Local Street funds due to more use of sand and salt close to year end.

Capital Assets and Debt Administration

At February 29, 2012, the Village had \$1,077,202 invested in capital assets. The following table summarizes the capital asset activity for the year:

Village of Alanson Year Ended February 29, 2012

	March 1, 2011	Additions	Disposals	February 29, 2012
Land	\$ 143,252	\$ -	\$ -	\$ 143,252
Construction in progress	24,384	72,330	-	96,714
Buildings and improvements	235,694	-	-	235,694
Equipment	209,471	-	-	209,471
Infrastructure	1,300,069	-	-	1,300,069
Total capital assets	1,912,870	72,330	-	1,985,200
Less accum. depreciation	(870,967)	(37,031)	-	(907,998)
Net capital assets	\$ 1,041,903	\$ 35,299	\$ -	\$ 1,077,202

At February 29, 2012, the Village had \$101,692 in outstanding long-term debt. The following table summarizes the debt activity for the year:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
Installment purchase agreement	\$ 114,097	\$ -	\$ (12,405)	\$ 101,692	\$ 12,895

Economic Factors

As Clerk for the Village of Alanson, it is my pleasure to welcome you to this audit of our fiscal year ending February 29, 2012. Over the last two years, the Village has faced many changes in our downtown area with the loss of business and a declining tax base.

We are beginning to slowly move forward again with the TF09-114 Island Sanctuary Park Boardwalk. This project is being funded jointly by a Michigan Department of Natural Resources Development Grant (68%), and the Village of Alanson (32% match). The Village portion of the grant has been achieved by "in kind labor" which includes hundreds of hours of labor donated by the Alanson Improvement Group and other volunteers. It also includes the donation of equipment and materials by a number of our local contractors. The projected completion date is May 2013 and we have already received some inquiries about vacant businesses near the project.

The Village has also participated in several other shared services projects with Littlefield Township, Emmet County DPW and the Littlefield Alanson Management Authority to make improvements which will benefit the Village of Alanson and township residents.

The Village continues to move forward in these changing times with good fiscal policies and stewardship of Village resources. It is our goal to make Alanson a nice place to visit, and hopefully put down roots.

Requests for Information

The Village's financial statements are designed to present users with a general overview of the Township's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Village Clerk, Village of Alanson, 7631 Burr Avenue, P.O. Box 425, Alanson, MI 49706.

VILLAGE OF ALANSON
Statement of Net Assets
February 29, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activity	Total	Downtown Development Authority
<u>Assets</u>				
Current Assets				
Cash	\$ 184,578	\$ 100,063	\$ 284,641	\$ 32,795
Due from other governmental units	53,145	-	53,145	-
Receivables	26,575	57,489	84,064	950
Prepaid expenses	-	-	-	2,016
	<u>264,298</u>	<u>157,552</u>	<u>421,850</u>	<u>35,761</u>
Noncurrent Assets				
Assets not being depreciated	239,966	-	239,966	-
Depreciable assets	1,745,234	-	1,745,234	-
Less: accumulated depreciation	(907,998)	-	(907,998)	-
	<u>1,077,202</u>	<u>-</u>	<u>1,077,202</u>	<u>-</u>
Total noncurrent assets	<u>1,077,202</u>	<u>-</u>	<u>1,077,202</u>	<u>-</u>
Total assets	<u>\$ 1,341,500</u>	<u>\$ 157,552</u>	<u>\$ 1,499,052</u>	<u>\$ 35,761</u>
<u>Liabilities and Net Assets</u>				
Current Liabilities				
Accounts payable	\$ 9,429	\$ -	\$ 9,429	\$ -
Due to other governmental units	-	7,538	7,538	-
Accrued expenditures	2,542	-	2,542	-
Line of credit	28,000	-	28,000	-
Notes payable, due within one year	12,895	-	12,895	-
	<u>52,866</u>	<u>7,538</u>	<u>60,404</u>	<u>-</u>
Total current liabilities	<u>52,866</u>	<u>7,538</u>	<u>60,404</u>	<u>-</u>
Noncurrent Liabilities				
Notes payable, noncurrent	88,797	-	88,797	-
	<u>88,797</u>	<u>-</u>	<u>88,797</u>	<u>-</u>
Total liabilities	<u>141,663</u>	<u>7,538</u>	<u>149,201</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	947,510	-	947,510	-
Restricted for :				
Island Sanctuary Park Boardwalk	598	-	598	-
Streets	15,909	-	15,909	-
Public works	-	150,014	150,014	-
Unrestricted	235,820	-	235,820	35,761
	<u>1,199,837</u>	<u>150,014</u>	<u>1,349,851</u>	<u>35,761</u>
Total net assets	<u>1,199,837</u>	<u>150,014</u>	<u>1,349,851</u>	<u>35,761</u>
Total liabilities and net assets	<u>\$ 1,341,500</u>	<u>\$ 157,552</u>	<u>\$ 1,499,052</u>	<u>\$ 35,761</u>

VILLAGE OF ALANSON
Statement of Activities
For the Year Ended February 29, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-Type Activities	Total	Nonmajor Component Unit
Primary Government:								
Governmental activities:								
General government	\$ 118,986	\$ 9,223	\$ -	\$ 2,000	\$ (107,763)	\$ -	\$ (107,763)	\$ -
Public safety	4,224	-	-	-	(4,224)	-	(4,224)	-
Public works	131,872	-	-	82,666	(49,206)	-	(49,206)	-
Recreation and cultural	3,854	-	-	-	(3,854)	-	(3,854)	-
Unallocated depreciation	37,031	-	-	-	(37,031)	-	(37,031)	-
Interest on long-term debt	4,507	-	-	-	(4,507)	-	(4,507)	-
Total governmental activities	<u>300,474</u>	<u>9,223</u>	<u>-</u>	<u>84,666</u>	<u>(206,585)</u>	<u>-</u>	<u>(206,585)</u>	<u>-</u>
Business-type activities:								
Sewer	158,384	156,055	-	-	-	(2,329)	(2,329)	-
Total primary government	<u>\$ 458,858</u>	<u>\$ 165,278</u>	<u>\$ -</u>	<u>\$ 84,666</u>	<u>\$ (206,585)</u>	<u>\$ (2,329)</u>	<u>\$ (208,914)</u>	<u>\$ -</u>
Component Unit:								
Downtown Development Authority	<u>\$ 57,205</u>	<u>\$ 33,909</u>	<u>\$ 21,233</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,063)</u>
General revenues:								
Property taxes					175,458	-	175,458	8,560
State-shared revenues					114,260	-	114,260	-
Interest and rentals					30,296	1,888	32,184	86
Miscellaneous					556	-	556	-
Total general revenues and transfers					<u>320,570</u>	<u>1,888</u>	<u>322,458</u>	<u>8,646</u>
Change in net assets					<u>113,985</u>	<u>(441)</u>	<u>113,544</u>	<u>6,583</u>
Net assets - beginning of year					<u>1,085,852</u>	<u>150,455</u>	<u>1,236,307</u>	<u>29,178</u>
Net assets - end of year					<u>\$ 1,199,837</u>	<u>\$ 150,014</u>	<u>\$ 1,349,851</u>	<u>\$ 35,761</u>

VILLAGE OF ALANSON
Governmental Funds
Balance Sheet
February 29, 2012

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Governmental Funds</u>
Cash	\$ 165,032	\$ 19,006	\$ 540	\$ 184,578
Due from other governmental units	9,792	6,949	3,552	20,293
Total assets	<u>\$ 174,824</u>	<u>\$ 25,955</u>	<u>\$ 4,092</u>	<u>\$ 204,871</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 5,366	\$ 2,000	\$ 2,063	\$ 9,429
Accrued expenditures	2,542	-	-	2,542
Total liabilities	<u>7,908</u>	<u>2,000</u>	<u>2,063</u>	<u>11,971</u>
Fund balances				
Restricted for:				
Island Sanctuary Park Boardwalk	598	-	-	598
Street repairs	-	13,880	2,029	15,909
Committed for equipment purchases	-	10,075	-	10,075
Unassigned	166,318	-	-	166,318
Total fund balances	<u>166,916</u>	<u>23,955</u>	<u>2,029</u>	<u>192,900</u>
Total liabilities and fund balances	<u>\$ 174,824</u>	<u>\$ 25,955</u>	<u>\$ 4,092</u>	<u>\$ 204,871</u>

VILLAGE OF ALANSON
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Assets
February 29, 2012

Total Fund Balance - Governmental Funds	\$ 192,900
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.</p>	59,427
<p>Governmental funds report capital outlays as expenditures. However, in the statement of net assets, these assets are capitalized and depreciated over their estimated useful lives.</p>	
<p>Governmental capital assets</p>	1,985,200
<p>Accumulated depreciation</p>	(907,998)
<p>Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the governmental funds.</p>	<u>(129,692)</u>
Net Assets of Governmental Activities	<u><u>\$ 1,199,837</u></u>

VILLAGE OF ALANSON
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended February 29, 2012

	General	Major Street	Local Street	Total Governmental Funds
Revenues				
Taxes	\$ 188,880	\$ -	\$ -	\$ 188,880
State revenues	89,718	37,981	19,475	147,174
Charges for services	9,223	-	-	9,223
Interest and rentals	30,180	103	13	30,296
Other	14,056	-	5,400	19,456
	<u>332,057</u>	<u>38,084</u>	<u>24,888</u>	<u>395,029</u>
Expenditures				
Current:				
General government	118,986	-	-	118,986
Public safety	4,224	-	-	4,224
Public works	71,295	33,796	26,781	131,872
Recreation and cultural	3,854	-	-	3,854
Capital outlay	72,330	-	-	72,330
Debt service	16,912	-	-	16,912
	<u>287,601</u>	<u>33,796</u>	<u>26,781</u>	<u>348,178</u>
Excess (deficiency) of revenues over expenditures	<u>44,456</u>	<u>4,288</u>	<u>(1,893)</u>	<u>46,851</u>
Other financing sources (uses)				
Operating transfers in	-	-	463	-
Operating transfers out	-	(463)	-	-
Proceeds from line of credit	28,000	-	-	28,000
	<u>28,000</u>	<u>(463)</u>	<u>463</u>	<u>28,000</u>
Net change in fund balances	72,456	3,825	(1,430)	74,851
Fund balances - beginning of year	<u>94,460</u>	<u>20,130</u>	<u>3,459</u>	<u>118,049</u>
Fund balances - end of year	<u>\$ 166,916</u>	<u>\$ 23,955</u>	<u>\$ 2,029</u>	<u>\$ 192,900</u>

VILLAGE OF ALANSON
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended February 29, 2012

Net Change in Fund Balances - Total Governmental Funds	\$ 74,851
Amounts reported for governmental activities in the statement of activities are different because:	
Revenue is recorded in the governmental funds when it is measurable and available. In governmental activities, revenue and an account receivable are recorded when revenue is earned.	19,430
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation.	
Capital outlay	72,330
Current year depreciation	(37,031)
Proceeds from the line of credit are reported as other financing sources in the governmental funds. In the Statement of Net Assets, these amounts increase the long-term liability	(28,000)
Governmental funds report bond and note proceeds as an other financing source, while repayment of principal is reported as an expenditure.	
Repayment of note principal	12,405
Change in Net Assets of Governmental Activities	\$ 113,985

VILLAGE OF ALANSON
Statement of Net Assets
Proprietary Fund
February 29, 2012

	Business-Type Activity Enterprise Fund Sewer System <hr style="border: 1px solid black;"/>
<u>Assets</u>	
Current Assets	
Cash	\$ 100,063
Receivables	<hr style="border: 1px solid black;"/> 57,489
Total current assets	<hr style="border: 3px double black;"/> \$ 157,552
<u>Liabilities and Net Assets</u>	
Current Liabilities	
Due to other governmental units	\$ 7,538
Net Assets	
Restricted	<hr style="border: 1px solid black;"/> 150,014
Total liabilities and net assets	<hr style="border: 3px double black;"/> \$ 157,552

VILLAGE OF ALANSON
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended February 29, 2012

	Business-Type Activity Enterprise Fund Sewer System <hr/>
Operating revenues	
Charges for services	\$ 156,055
	<hr/>
Operating expenses	
Personal services	6,688
Contractual services	150,179
Other supplies and expenses	1,517
	<hr/>
Total operating expenses	158,384
	<hr/>
Operating income (loss)	(2,329)
Nonoperating revenues	
Interest	1,888
	<hr/>
Change in net assets	(441)
Total net assets - beginning	150,455
	<hr/>
Total net assets - ending	\$ 150,014
	<hr/> <hr/>

VILLAGE OF ALANSON
Statement of Cash Flows
Proprietary Fund
For the Year Ended February 29, 2012

	Business-Type Activity Enterprise Fund Sewer System
Cash flows from operating activities	
Receipts from customers	\$ 170,545
Payments to suppliers	(153,016)
Cash payments to employees for services	(6,688)
	10,841
Net cash provided (used) by operating activities	10,841
Cash flows from investing activities	
Interest received	1,888
	1,888
Net cash provided (used) by investing activities	1,888
Net increase (decrease) in cash	12,729
Cash, beginning	87,334
Cash, ending	\$ 100,063
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (2,329)
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	14,491
Increase (decrease) in accounts payable	(1,321)
	14,491
Net cash provided (used) by operating activities	\$ 10,841

VILLAGE OF ALANSON
NOTES TO FINANCIAL STATEMENTS
February 29, 2012

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

The Village operates under a Council-President form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, sanitation, public improvements, planning and zoning, culture – recreation, and general administrative services.

The Village's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Pronouncements of the FASB issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary funds in accordance with GASB Statement No. 20. The following is a summary of the significant policies used by the Village of Alanson.

REPORTING ENTITY

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the Village and included in the Village's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Village has one component unit.

JOINT VENTURE

Under authorization of state statutes, the Village joined Littlefield Township to establish the Littlefield Alanson Management Authority (the "Authority"), for the purpose of managing the community building, which houses the offices of each governmental unit. The Authority consists of two members, one appointed by each unit.

The Village and Township have agreed to reimburse the Authority for all costs associated with the use of the building. The only transactions between the Village and the Authority were reimbursements of \$5,502 during the fiscal year ended February 29, 2012.

Audited financial statements are prepared bi-annually and can be obtained, by request, through the Authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

DISCRETELY PRESENTED COMPONENT UNIT

Downtown Development Authority (DDA) – The Downtown Development Authority was established on August 31, 2004 pursuant to the provisions of Public Act 197 of 1975. The DDA was created to analyze the impact of economic changes and growth in the downtown district. The DDA's governing body consists of 8-12 individuals, appointed by the president of the Village and subject to approval by the Village Council. The DDA's budget is also subject to approval by the Village Council. Upon dissolution of the DDA, its assets revert to the village.

BASIC FINANCIAL STATEMENTS – OVERVIEW

The Village's basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village's major funds). Both the government-wide and the fund financial statements categorize primary government activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. As a general rule the effect of interfund activity, such as overhead costs, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Village as an entity and the change in the Village's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activity are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Village's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.

The program revenues must be directly associated with the 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 as general revenue.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED*

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Village are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures/expenses. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental or business-type categories. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

Governmental Funds

The following is a description of the major governmental funds of the Village:

General Fund – The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Major and Local Street Funds – The Street Funds account for the operation of the street departments. Primary financing is provided by the Village's share of state gasoline taxes. State law requires these gasoline taxes to be used to maintain streets.

Proprietary Funds

The focus of the proprietary funds is upon the determination of operating income, changes in fund net assets, financial position, and cash flows, which is similar to for-profit businesses. The following is a description of the major proprietary fund of the Village:

Sewer Fund – The Sewer Fund is an Enterprise Fund. This fund is financed and operated in a manner similar to private enterprise. The intent is that costs (expenses) of providing sewer service to the general public are recovered through user charges.

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 operation. The principal operating revenues of the Village's proprietary fund are charges to customers for sales and services. Operating expenses for this fund include the cost of sales and services, and also administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

All proprietary funds and agency funds are accounted for using the full accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

ASSETS, LIABILITIES, AND FUND BALANCES

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, short-term certificates of deposit and demand deposits.

Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

Capital Assets

Capital assets, which include property, buildings, leasehold improvements, infrastructure assets (e.g., roads, bridges and similar items) and equipment are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are recorded by the Village when they have an estimated useful life in excess of 2 years, and individual costs are equal to or greater than:

Land	\$ 1
Buildings	25,000
Infrastructure	50,000
All other asset types	3,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Streets, Curbs and Gutters	10 to 30 years
Equipment	3 to 7 years
Office Equipment	5 to 7 years

Long-Term Obligations

In the government-wide financial statements and the proprietary fund financial statements long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Fund Balances

Beginning with the fiscal year 2011/2012, the Village implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

Fund Balances - Continued

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Township Board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the Township’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Township Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as non-spendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the Township’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

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 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 revenue and expenses during the period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Village is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village's deposits and investment policy are in accordance with statutory authority.

Custodial Credit Risk- Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At February 29, 2012, the carrying amount of the Village's deposits was \$317,436 and the bank balance was \$329,162 all of which was covered by federal depository insurance. The Village may experience significant fluctuations in deposit balances through the year.

NOTE 3: RECEIVABLES

Business-Type Activity receivables are due from commercial and residential customers. These receivables as well as Governmental Activities receivables that are due from other governmental units are considered to be fully collectible. As such, no allowance for uncollectible receivables is accrued.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of January 1 on the State taxable valuation of property in the Village. The Village bills and collects its own property taxes from July through September. Property taxes are recognized as revenue in the year in which they are levied.

The Village is permitted by state law, subject to State Headlee and Truth-in-Taxation provisions, up to \$12.50 per \$1,000 of taxable valuation for general governmental services other than payment of principal and interest on long-term debt and in unlimited amounts for the payment of principal and interest on long-term debt. The Village is also permitted by state law to levy taxes up to \$5 per \$1,000 of taxable valuation for street improvements. The 2011 taxable valuation of the Village of Alanson totaled \$ 18,334,858.

The tax rate for the year ended February 29, 2012, is as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General government	6.1543 per \$1,000
Street improvements	3.3979 per \$1,000

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: CAPITAL ASSETS

Capital asset activity of the Village's primary government for the current year was as follows:

	Balance March 1, 2011	Additions	Deletions	Balance February 29, 2012
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 143,252	\$ -	\$ -	\$ 143,252
Construction in progress	24,384	72,330	-	96,714
Subtotal	<u>167,636</u>	<u>72,330</u>	<u>-</u>	<u>239,966</u>
Capital assets being depreciated:				
Buildings	235,694	-	-	235,694
Equipment	209,471	-	-	209,471
Infrastructure	1,300,069	-	-	1,300,069
Subtotal	<u>1,745,234</u>	<u>-</u>	<u>-</u>	<u>1,745,234</u>
Less accumulated depreciation:				
Buildings	(45,841)	(8,228)	-	(54,069)
Equipment	(124,729)	(6,386)	-	(131,115)
Infrastructure	(700,397)	(22,417)	-	(722,814)
Subtotal	<u>(870,967)</u>	<u>(37,031)</u>	<u>-</u>	<u>(907,998)</u>
Net capital assets being depreciated	<u>874,267</u>	<u>(37,031)</u>	<u>-</u>	<u>837,236</u>
Governmental activities net capital assets	<u>\$ 1,041,903</u>	<u>\$ 35,299</u>	<u>\$ -</u>	<u>\$ 1,077,202</u>

Depreciation expense was charged to the primary government as follows:

Governmental Activities

Unallocated	<u>\$ 37,031</u>
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Construction in progress is related to the development of Island Sanctuary Park Boardwalk. The estimated cost of the project is \$366,400, which is funded jointly by a Michigan Department of Natural Resources Grant (68%) and the Village of Alanson (32% match). The Village's match contains donated labor and material for the project.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: INTERFUND TRANSFERS

Operating transfers are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Major Street	\$ -	\$ 463
Local Street	<u>463</u>	<u>-</u>
	<u><u>\$ 463</u></u>	<u><u>\$ 463</u></u>

The transfer was for general operational expenses.

NOTE 7: LINE OF CREDIT

The Village has a \$75,000 line of credit with First Federal Bank to be drawn upon as needed for working capital to purchase building materials for a pedestrian bridge and boardwalk, with an interest rate of 0.750% over the prime rate. The line of credit is secured by a CD that the bank holds. As of February 29, 2012, the balance outstanding on the line of credit is \$ 28,000.

NOTE 8: LONG-TERM LIABILITIES

A summary of Long-term liability activity of the Village's primary government for the current year is as follows:

	Balance March 1, 2011	Additions	Reductions	Balance February 29, 2012	Due Within One Year
Governmental Activities					
Installment purchase agreement:	<u>\$ 114,097</u>	<u>\$ -</u>	<u>\$ (12,405)</u>	<u>\$ 101,692</u>	<u>\$ 12,895</u>

The liability is a limited tax general obligation. The Village pledged its limited tax full faith and credit for the payment of principal and interest on the Installment Purchase Agreement. The Agreement, dated February 6, 2008, with a principal balance of \$150,000 and an interest rate of 3.95%, requires annual installment payments of \$16,912 beginning February 1, 2009 through February 1, 2019.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 8: LONG-TERM LIABILITIES - CONTINUED

The annual requirements to amortize the balance outstanding as of February 29, 2012 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$12,895	\$4,017	\$16,912
2014	13,404	3,508	16,912
2015	13,934	2,978	16,912
2016	14,484	2,428	16,912
2017	15,056	1,856	16,912
2018-2019	31,919	1,903	33,822
	<u>\$101,692</u>	<u>\$16,690</u>	<u>\$118,382</u>

NOTE 9: RESTRICTED NET ASSETS

The Sewer Fund's net assets are restricted for maintenance and debt service of the Village's sewer operation.

NOTE 10: FUND BALANCE CLASSIFICATIONS

Amounts for specific purposes by fund and fund balance classifications for the year ended February 29, 2012 are as follows:

<u>Classification/ Fund</u>	<u>Purpose</u>	<u>Amount</u>
Restricted:		
General fund	Island Sanctuary Park Boardwalk	\$ 598
Street funds	Streets	15,909
Committed:		
Major street fund	Equipment purchase	10,075
Unassigned:		
General fund		<u>166,318</u>
Total fund balances		<u>\$ 192,900</u>

NOTE 11: 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 belongs to the Michigan Township Participating Plan, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for 100% of its claims.

The Village continues to carry commercial insurance for all other risks of loss, including worker's compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 12: COMMITMENTS

Sewer Fund – The Village is a participant in a joint sewage disposal system administered by the Harbor Springs Area Sewage Disposal Authority and is committed to share in a portion of all costs, including principal and interest on long-term debt. The Village’s portion of long-term debt consists of the following bond issues:

In January, 2002, the Village of Alanson, entered into a contract with the Harbor Springs Area Sewage Disposal Authority for the Village’s share of the cost of a new wastewater treatment facility and the closure of the Authority’s existing lagoon and spray irrigation system. The faith and credit of the Village has been pledged to pay its 10.37% share of the \$7,000,000 issued bonds.

The annual requirements to amortize the Village’s portion of these debts, including interest at 2.5%, as of February 29, 2012 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2013	\$ 37,305
2014	37,118
2015	37,429
2016	37,202
2017	37,474
2018-2022	185,606
2023	<u>74,931</u>
	<u><u>\$ 447,065</u></u>

In October, 2010, the Village of Alanson, entered into a contract with the Harbor Springs Area Sewage Disposal Authority for the Village’s share of the cost of improvements to the pump stations and water tank facilities. The faith and credit of the Village has been pledged to pay its 8.31% share of the \$3,495,000 issued bonds.

The annual requirements to amortize the Village’s portion of these debts, including interest at 3% - 5%, as of February 29, 2012 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2013	\$ 12,348
2014	18,487
2015	18,300
2016	18,113
2017	19,973
2018-2022	103,811
2023-2027	124,962
2028-2032	<u>147,339</u>
	<u><u>\$ 463,333</u></u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 13: SUBSEQUENT EVENTS

Subsequent to February 29, 2012, the Village entered into an agreement to improve the Recycling Center in Alanson. The cost of the project is \$53,860. The Village of Alanson, Emmet County and Littlefield Township are each responsible for a portion of the cost. The Village's share of the project is approximately \$17,800.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF ALANSON
Budgetary Comparison Schedule
General Fund
For the Year Ended February 29, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ -	\$ -	\$ 94,460	\$ 94,460
Resources (inflows):				
Taxes	167,160	201,560	188,880	(12,680)
State revenues	80,236	90,222	89,718	(504)
Charges for services	4,200	9,911	9,223	(688)
Interest and rentals	20,500	24,453	30,180	5,727
Other	30,421	19,156	14,056	(5,100)
Amounts available for appropriations	<u>302,517</u>	<u>345,302</u>	<u>426,517</u>	<u>81,215</u>
Charges to appropriations (outflows):				
General government:				
Council	7,800	7,620	7,530	(90)
Other wages	2,000	2,213	2,213	-
Equipment purchases	3,000	1,549	1,549	-
Elections	1,200	1,519	1,519	-
Professional services	12,250	(17,466)	6,241	23,707
Village promotion	3,300	2,315	2,315	-
Miscellaneous	510	1,474	1,411	(63)
Clerk	12,500	15,085	12,085	(3,000)
Utilities and maintenance	42,739	48,243	49,131	888
Treasurer	8,458	8,826	7,883	(943)
Sewer billing	2,760	2,745	-	(2,745)
Office supplies	3,575	5,328	5,328	-
Payroll taxes	8,000	6,943	7,211	268
Insurance	15,600	15,013	14,570	(443)
Total general government	<u>123,692</u>	<u>101,407</u>	<u>118,986</u>	<u>17,579</u>
Public safety:				
Planning	2,500	2,390	2,390	-
Zoning	1,350	1,834	1,834	-
Total public safety	<u>3,850</u>	<u>4,224</u>	<u>4,224</u>	<u>-</u>
Public works:				
Roads	106,199	128,689	143,625	14,936
Sewer	23,396	12,934	-	(12,934)
Total public works	<u>129,595</u>	<u>141,623</u>	<u>143,625</u>	<u>2,002</u>
Recreation and cultural:				
Parks and recreation	7,000	4,154	3,854	(300)
Debt service	16,900	16,912	16,912	-
Total charges to appropriations	<u>281,037</u>	<u>268,320</u>	<u>287,601</u>	<u>19,281</u>
Other financing sources:				
Proceeds from line of credit	-	-	28,000	28,000
Ending budgetary fund balance	<u>\$ 21,480</u>	<u>\$ 76,982</u>	<u>\$ 166,916</u>	<u>\$ 89,934</u>

VILLAGE OF ALANSON
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 29, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ -	\$ -	\$ 20,130	\$ 20,130
Resources (inflows):				
State revenues	37,200	36,097	37,981	1,884
Interest	50	27	103	76
	<u>37,250</u>	<u>36,124</u>	<u>58,214</u>	<u>22,090</u>
Amounts available for appropriations	<u>37,250</u>	<u>36,124</u>	<u>58,214</u>	<u>22,090</u>
Charges to appropriations (outflows):				
Public works:				
Routine maintenance	5,000	7,569	7,854	285
Administration	16,000	13,899	13,899	-
Other	16,250	12,043	12,043	-
Transfer to other funds	-	463	463	-
	<u>-</u>	<u>463</u>	<u>463</u>	<u>-</u>
Total charges to appropriations	<u>37,250</u>	<u>33,974</u>	<u>34,259</u>	<u>285</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ 2,150</u>	<u>\$ 23,955</u>	<u>\$ 21,805</u>

VILLAGE OF ALANSON
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 29, 2012

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Over/(Under)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ -	\$ -	\$ 3,459	\$ 3,459
Resources (inflows):				
State revenues	19,515	17,979	19,475	1,496
Interest	23	13	13	-
Other revenue	-	6,836	5,400	(1,436)
Transfer from other funds	-	463	463	-
	<u>19,538</u>	<u>25,291</u>	<u>28,810</u>	<u>3,519</u>
Amounts available for appropriations	<u>19,538</u>	<u>25,291</u>	<u>28,810</u>	<u>3,519</u>
Charges to appropriations (outflows):				
Public works:				
Routine maintenance	6,000	6,019	8,083	2,064
Other	13,538	18,698	18,698	-
	<u>19,538</u>	<u>24,717</u>	<u>26,781</u>	<u>2,064</u>
Total charges to appropriations	<u>19,538</u>	<u>24,717</u>	<u>26,781</u>	<u>2,064</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ 574</u>	<u>\$ 2,029</u>	<u>\$ 1,455</u>

VILLAGE OF ALANSON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
February 29, 2012

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental funds of the Village. Budgetary control is legally maintained at the fund level.

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

1. Prior to March 1, the President submits to the Village Council a proposed operating budget for the fiscal year commencing March 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
2. A public hearing is conducted at Village Hall to obtain taxpayer comments.
3. Prior to March 1, the fund budgets are legally enacted through passage of an appropriation act.
4. The budget is adopted at the fund level consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Village Council during the year, and lapse at year-end.

NOTE 2: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The Village is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. During the year ended February 29, 2012, the Village incurred expenditures which were in excess of the amounts appropriated as follows:

Fund	Amended Budget	Amount of Expenditures	Variance
General Fund	\$ 268,320	\$ 287,601	\$ 19,281
Major Street	33,974	34,259	285
Local Street	24,717	26,781	2,064

AUDIT-RELATED COMMUNICATIONS

August 27, 2012

To the Village Council
Village of Alanson

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of the Village of Alanson for the year ended February 29, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted 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 May 21, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Internal Controls

In planning and performing our audit of the financial statements of the Village, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Alanson's internal control over financial reporting (internal control) as a basis for designing 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 Alanson's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Alanson's internal control.

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 discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 following deficiencies in internal control to be material weaknesses:

Preparation of Financial Statements

The Village does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles, and to present required financial statement disclosures. Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining effective internal accounting controls related to the preparation and review of the formal year-end financial statements.

To the Village Council
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Segregation of Duties

An inherent weakness in your system of internal control exists because the limited size of your staff does not permit an adequate segregation of duties. Without an adequate segregation of duties, there is an increased risk that errors or fraud could occur and not be detected.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Village of Alanson's internal control to be a significant deficiency:

Bank Reconciliations

The Village does not perform bank reconciliations on a regular or timely basis. Reconciliations should be prepared for each cash and investment account every month.

We have also noted other matters for your consideration:

Budgeting

The budget document should include the results for the most recently completed year, the estimated results for the current year and the proposed budgeted amounts for the ensuing year. The budget document should also include both the beginning and ending fund balance amounts.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Village of Alanson are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Village implemented the provisions of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended February 29, 2012. 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's financial statements was:

Management's estimate of the depreciation is based on estimated useful lives of capital assets. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is 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 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 clearly 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, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 27, 2012.

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.

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Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Hill, Schroderus & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan