

FINANCIAL REPORT
VILLAGE OF ALANSON
February 28, 2014

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August 26, 2014

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 28, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles 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 activity, the discretely presented component unit and each major fund of the Village of Alanson, as of February 28, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 i-v and 24-26, 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 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, Schoderus & 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 28, 2014.

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 Position displays all of the Village's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as *net position*. 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 position as of February 28, 2014, with comparative data from February 29, 2012:

Village of Alanson Statement of Net Position February 28, 2014						
	Governmental Activities		Business-Type Activities		Total	
	2014	2012	2014	2012	2014	2012
Assets						
Current and other assets	\$ 349,009	\$ 264,298	\$ 222,955	\$ 157,552	\$ 571,964	\$ 421,850
Capital assets - net of accum. dep.	1,227,773	1,077,202	-	-	1,227,773	1,077,202
Total assets	\$ 1,576,782	\$ 1,341,500	\$ 222,955	\$ 157,552	\$ 1,799,737	\$ 1,499,052
Liabilities						
Current liabilities	\$ 26,208	\$ 52,866	\$ 16,564	\$ 7,538	\$ 42,772	\$ 60,404
Notes payable, long-term portion	75,393	88,797	-	-	75,393	88,797
Total liabilities	101,601	141,663	16,564	7,538	118,165	149,201
Net Position						
Investment in capital assets net of related debt	1,152,380	947,510	-	-	1,152,380	947,510
Restricted	24,108	16,507	206,391	150,014	230,499	166,521
Unrestricted	298,693	235,820	-	-	298,693	235,820
Total net position	1,475,181	1,199,837	206,391	150,014	1,681,572	1,349,851
Total liabilities and net position	\$ 1,576,782	\$ 1,341,500	\$ 222,955	\$ 157,552	\$ 1,799,737	\$ 1,499,052

At the end of the fiscal year, The Village of Alanson is able to report positive balances in all categories of net position. The first portion of the Village's net position 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 Village uses these capital assets in providing services; consequently, these assets are not available for future spending.

The restricted portion of net position represents amounts limited for spending on street repairs and maintenance.

The remaining portion of net position – unrestricted net position – 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 for the year ended February 28, 2014, with comparative data for February 29, 2012 as summarized below:

Village of Alanson
Statement of Activities
Year Ended February 28, 2014

	Governmental Activities		Business-Type Activities		Totals	
	2014	2012	2014	2012	2014	2012
Revenue						
Program revenue:						
Charges for services	\$ 6,035	\$ 9,223	\$ 175,865	\$ 156,055	\$ 181,900	\$ 165,278
Operating grants	-	-	-	-	-	-
Capital grants	126,770	84,666	-	-	126,770	84,666
General revenue:						
Property taxes	183,041	175,458	-	-	183,041	175,458
State shared revenues	126,843	114,260	-	-	126,843	114,260
Interest	36,160	30,296	2,778	1,888	38,938	32,184
Other	312	556	-	-	312	556
Total revenues	479,161	414,459	178,643	157,943	657,804	572,402
Function/Program Expenses						
General government	112,252	118,986	-	-	112,252	118,986
Public safety	2,277	4,224	-	-	2,277	4,224
Public works	199,297	131,872	154,346	158,384	353,643	290,256
Recreation and culture	1,428	3,854	-	-	1,428	3,854
Interest expense	3,508	4,507	-	-	3,508	4,507
Depreciation (unallocated)	40,220	37,031	-	-	40,220	37,031
Total expenses	358,982	300,474	154,346	158,384	513,328	458,858
Change in net assets	120,179	113,985	24,297	(441)	144,476	113,544
Net assets - beginning of year	1,355,002	1,085,852	182,094	150,455	1,537,096	1,236,307
Net assets - end of year	\$ 1,475,181	\$ 1,199,837	\$ 206,391	\$ 150,014	\$ 1,681,572	\$ 1,349,851

As reported above, the Village recorded \$513,328 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 position of \$144,476.

Business-Type Activity Financial Analysis

As of year-end, the Village's business-type activity reported total net position of approximately \$206,391, which is \$24,297 more than the beginning of the year.

The Village's Funds

The analysis of the Village's major funds begins on page five. As of year-end, the Village governmental funds reported a combined fund balance of \$295,891, which is \$58,774 more than the beginning of the year.

General Fund Budgetary Highlights

Final actual revenues were \$17,620 over final budgeted amounts. Interest, rentals and other were the most significant revenues over budgeted amounts.

Final actual expenditures were \$27,634 more than final budgeted amounts. Roads 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 \$8,198 greater than final budgeted amounts. Local Streets budget to actual was \$2,800 less than budgeted.

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 28, 2014, the Village had \$1,227,773 invested in capital assets. The following table summarizes the capital asset activity for the year:

Village of Alanson Year Ended February 28, 2014

	<u>March 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>February 28, 2014</u>
Land	\$ 143,252	\$ -	\$ -	\$ 143,252
Construction in progress	235,599	73,951	(309,550)	-
Land improvements	-	309,550	-	309,550
Buildings and improvements	235,694	-	-	235,694
Equipment	209,471	14,987	-	224,458
Infrastructure	1,300,069	-	-	1,300,069
	<u>2,124,085</u>	<u>398,488</u>	<u>(309,550)</u>	<u>2,213,023</u>
Total capital assets	2,124,085	398,488	(309,550)	2,213,023
	<u>(945,030)</u>	<u>(40,220)</u>	<u>-</u>	<u>(985,250)</u>
Less accum. depreciation	(945,030)	(40,220)	-	(985,250)
	<u>\$ 1,179,055</u>	<u>\$ 358,268</u>	<u>\$ (309,550)</u>	<u>\$ 1,227,773</u>
Net capital assets	\$ 1,179,055	\$ 358,268	\$ (309,550)	\$ 1,227,773

At February 28, 2014, the Village had \$75,393 in outstanding long-term debt. The following table summarizes the debt activity for the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
PRIMARY GOVERNMENT					
Governmental Activities					
Bonds and notes payable:					
Installment purchase agreement	\$ 88,797	\$ -	\$ (13,404)	\$ 75,393	\$ 13,934

Economic Factors

As Clerk for the Village of Alanson, it is my pleasure to invite you to this review of our fiscal year ending February 28, 2014. Over the last two years the Village has faced many changes in both our downtown and residential areas. While we have some new business opening, there is still a declining tax base in our downtown area. We are very happy to see some foreclosed property being purchased and renovated.

The TF09-114 Island Sanctuary Park Boardwalk Project has been successfully completed. This project was jointly funded by a Michigan Department of Natural Resources Development Grant and the Village. The next phase of this project will be to put down a walkway made of memorial and in honor boards. This boardwalk will be along the Crooked River south of Sanctuary Island. It will provide a place for boaters to tie up and use Sanctuary Island facilities or walk up town for lunch or to shop. The work on this project will again be done by Village volunteers.

The Village has also received grant money for in-ground trash receptacles for Sanctuary Island. The Alanson DDA (with TIF captured money) has placed bicycle racks in several places in the Village.

As 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 to maybe consider it a great place to 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 Position
February 28, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activity	Total	Downtown Development Authority
<u>Assets</u>				
Current Assets				
Cash	\$ 279,179	\$ 173,891	\$ 453,070	\$ 24,034
Due from other governmental units	28,190	-	28,190	-
Receivables	26,910	63,794	90,704	2,125
Internal balances	14,730	(14,730)	-	-
	349,009	222,955	571,964	26,159
Noncurrent Assets				
Assets not being depreciated	143,252	-	143,252	-
Depreciable assets	2,069,771	-	2,069,771	-
Less: accumulated depreciation	(985,250)	-	(985,250)	-
	1,227,773	-	1,227,773	-
Total noncurrent assets	1,227,773	-	1,227,773	-
Total assets	\$ 1,576,782	\$ 222,955	\$ 1,799,737	\$ 26,159
<u>Liabilities and Net Position</u>				
Current Liabilities				
Accounts payable	\$ 22,388	\$ -	\$ 22,388	\$ -
Due to other governmental units	-	16,564	16,564	-
Accrued expenditures	3,820	-	3,820	-
Notes payable, due within one year	13,934	-	13,934	-
	40,142	16,564	56,706	-
Total current liabilities	40,142	16,564	56,706	-
Noncurrent Liabilities				
Notes payable, noncurrent	61,459	-	61,459	-
Total liabilities	101,601	16,564	118,165	-
Net Position				
Invested in capital assets, net of related debt	1,152,380	-	1,152,380	-
Restricted for :				
Streets	24,108	-	24,108	-
Public works	-	206,391	206,391	-
Unrestricted	298,693	-	298,693	26,159
	1,475,181	206,391	1,681,572	26,159
Total net position	1,475,181	206,391	1,681,572	26,159
Total liabilities and net position	\$ 1,576,782	\$ 222,955	\$ 1,799,737	\$ 26,159

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

VILLAGE OF ALANSON
Statement of Activities
For the Year Ended February 28, 2014

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Nonmajor Component Unit
Primary Government:								
Governmental activities:								
General government	\$ 76,761	\$ 6,035	\$ -	\$ -	\$ (70,726)	\$ -	\$ (70,726)	\$ -
Public safety	2,277	-	-	-	(2,277)	-	(2,277)	-
Public works	199,297	-	-	126,270	(73,027)	-	(73,027)	-
Recreation and cultural	1,428	-	-	500	(928)	-	(928)	-
Unallocated depreciation	40,220	-	-	-	(40,220)	-	(40,220)	-
Interest on long-term debt	3,508	-	-	-	(3,508)	-	(3,508)	-
Total governmental activities	323,491	6,035	-	126,770	(190,686)	-	(190,686)	-
Business-type activities:								
Sewer	154,346	175,865	-	-	-	21,519	21,519	-
Total primary government	\$ 477,837	\$ 181,900	\$ -	\$ 126,770	\$ (190,686)	\$ 21,519	\$ (169,167)	\$ -
Component Unit:								
Downtown Development Authority	\$ 40,677	\$ 21,017	\$ 21,210	\$ -	-	-	-	1,550
General revenues:								
Property taxes					183,041	-	183,041	-
State-shared revenues					126,843	-	126,843	-
Interest and rentals					669	2,778	3,447	30
Miscellaneous					312	-	312	-
Total general revenues and transfers					310,865	2,778	313,643	30
Change in net position					120,179	24,297	144,476	1,580
Net position- beginning of year					1,355,002	182,094	1,537,096	24,579
Net position - end of year					\$ 1,475,181	\$ 206,391	\$ 1,681,572	\$ 26,159

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

VILLAGE OF ALANSON
Balance Sheet
Governmental Funds
February 28, 2014

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Governmental Funds</u>
Cash	\$ 259,138	\$ 19,778	\$ 263	\$ 279,179
Due from other funds	14,730	-	-	14,730
Due from other governmental units	10,204	13,449	4,537	28,190
Total assets	<u>\$ 284,072</u>	<u>\$ 33,227</u>	<u>\$ 4,800</u>	<u>\$ 322,099</u>
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts payable	\$ 20,516	\$ 1,872	\$ -	\$ 22,388
Accrued expenditures	3,820	-	-	3,820
Total liabilities	<u>24,336</u>	<u>1,872</u>	<u>-</u>	<u>26,208</u>
Fund balances				
Restricted for:				
Street repairs	-	19,308	4,800	24,108
Committed for equipment purchases	-	12,047	-	12,047
Unassigned	259,736	-	-	259,736
Total fund balances	<u>259,736</u>	<u>31,355</u>	<u>4,800</u>	<u>295,891</u>
Total liabilities and fund balances	<u>\$ 284,072</u>	<u>\$ 33,227</u>	<u>\$ 4,800</u>	<u>\$ 322,099</u>

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

VILLAGE OF ALANSON
Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
February 28, 2014

Total Fund Balance - Governmental Funds	\$ 295,891
Amounts reported for governmental activities in the statement of net position 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.	26,910
Governmental funds report capital outlays as expenditures. However, in the statement of net position, these assets are capitalized and depreciated over their estimated useful lives.	
Governmental capital assets	2,213,023
Accumulated depreciation	(985,250)
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.	<u>(75,393)</u>
Net Position of Governmental Activities	<u><u>\$ 1,475,181</u></u>

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

VILLAGE OF ALANSON
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended February 28, 2014

	General	Major Street	Local Street	Total Governmental Funds
Revenues				
Taxes	\$ 183,758	\$ -	\$ -	\$ 183,758
State revenues	166,293	45,437	20,897	232,627
Charges for services	6,035	-	-	6,035
Interest and rentals	567	91	11	669
Other	21,298	-	-	21,298
	<u>377,951</u>	<u>45,528</u>	<u>20,908</u>	<u>444,387</u>
Total revenues				
Expenditures				
Current:				
General government	76,761	-	-	76,761
Public safety	2,277	-	-	2,277
Public works	132,432	42,635	24,230	199,297
Recreation and cultural	1,428	-	-	1,428
Capital outlay	88,938	-	-	88,938
Debt service	16,912	-	-	16,912
	<u>318,748</u>	<u>42,635</u>	<u>24,230</u>	<u>385,613</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>59,203</u>	<u>2,893</u>	<u>(3,322)</u>	<u>58,774</u>
Other financing sources (uses)				
Operating transfers in	-	1,800	-	1,800
Operating transfers out	<u>(1,800)</u>	<u>-</u>	<u>-</u>	<u>(1,800)</u>
Total other financing sources (uses)	<u>(1,800)</u>	<u>1,800</u>	<u>-</u>	<u>-</u>
Net change in fund balances	57,403	4,693	(3,322)	58,774
Fund balances - beginning of year	<u>202,333</u>	<u>26,662</u>	<u>8,122</u>	<u>237,117</u>
Fund balances - end of year	<u>\$ 259,736</u>	<u>\$ 31,355</u>	<u>\$ 4,800</u>	<u>\$ 295,891</u>

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

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 28, 2014

Net Change in Fund Balances - Total Governmental Funds	\$ 58,774
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.	(717)
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	88,938
Current year depreciation	(40,220)
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	13,404
Change in Net Position of Governmental Activities	\$ 120,179

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

VILLAGE OF ALANSON
Statement of Net Position
Proprietary Fund
February 28, 2014

	Business-Type Activity <u>Enterprise Fund</u> Sewer <u>System</u>
<u>Assets</u>	
Current Assets	
Cash	\$ 173,891
Receivables	<u>63,794</u>
Total current assets	<u><u>\$ 237,685</u></u>
<u>Liabilities and Net Position</u>	
Current Liabilities	
Due to other governmental units	\$ 16,564
Due to general fund	<u>14,730</u>
Total liabilities	31,294
Net Position	
Restricted	<u>206,391</u>
Total liabilities and net position	<u><u>\$ 237,685</u></u>

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

VILLAGE OF ALANSON
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended February 28, 2014

	Business-Type Activity <u>Enterprise Fund</u> Sewer <u>System</u>
Operating revenues	
Charges for services	\$ 175,865
Operating expenses	
Personal services	7,418
Contractual services	145,932
Other supplies and expenses	996
	<u>154,346</u>
Total operating expenses	154,346
Operating income (loss)	21,519
Nonoperating revenues	
Interest	<u>2,778</u>
Change in net position	24,297
Total net position - beginning of year	<u>182,094</u>
Total net position - end of year	<u><u>\$ 206,391</u></u>

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

VILLAGE OF ALANSON
Statement of Cash Flows
Proprietary Fund
For the Year Ended February 28, 2014

	Business-Type Activity <u>Enterprise Fund</u> <u>Sewer</u> <u>System</u>
Cash flows from operating activities	
Receipts from customers	\$ 193,692
Payments to suppliers	(138,108)
Cash payments to employees for services	<u>(7,418)</u>
Net cash provided (used) by operating activities	<u>48,166</u>
Cash flows from investing activities	
Interest received	<u>2,778</u>
Net cash provided (used) by investing activities	<u>2,778</u>
Net increase (decrease) in cash	50,944
Cash, beginning	<u>122,947</u>
Cash, ending	<u><u>\$ 173,891</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 21,519
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	17,828
Increase (decrease) in accounts payable	<u>8,819</u>
Net cash provided (used) by operating activities	<u><u>\$ 48,166</u></u>

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

VILLAGE OF ALANSON
NOTES TO FINANCIAL STATEMENTS
February 28, 2014

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 accounting policies of the Village of Alanson conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Alanson.

REPORTING ENTITY

As required by generally accepted accounting principles, these financial statements present the Village and its component unit, an entity for which the Village is considered to be financially accountable. The financial data of the component unit is included in the Village's reporting entity because of the significance of its operational or financial relationship with the Village.

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 \$1,000 during the fiscal year ended February 28, 2014.

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

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

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

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 position resulting from the current year's activities.

In the government-wide Statement of Net Position, 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 position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. 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.

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).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS - CONTINUED

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 position, 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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

BASIS OF ACCOUNTING – CONTINUED

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 Position of the government-wide financial statements.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

Capital Assets - Continued

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

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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCES – CONTINUED

Fund Balances - Continued

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.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: CASH AND INVESTMENTS - CONTINUED

Custodial Credit Risk- Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. At February 28, 2014, the carrying amount of the Village's deposits was \$477,104 and the bank balance was \$499,806. Of the bank balance \$461,639 was covered by Federal depository insurance. The remaining \$ 38,167 was uninsured and uncollateralized. 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 2013 taxable valuation of the Village of Alanson totaled \$ 16,123,179.

The tax rate for the year ended February 28, 2014, is as follows:

<u>Purpose</u>	<u>Rate/Taxable Valuation</u>
General government	7.3150 per \$1,000
Street improvements	4.0387 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, 2013	Additions	Deletions	Balance February 28, 2014
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 143,252	\$ -	\$ -	\$ 143,252
Construction in progress	235,599	73,951	(309,550)	-
Subtotal	<u>378,851</u>	<u>73,951</u>	<u>(309,550)</u>	<u>143,252</u>
Capital assets being depreciated:				
Land improvements	-	309,550	-	309,550
Buildings	235,694	-	-	235,694
Equipment	209,471	14,987	-	224,458
Infrastructure	1,300,069	-	-	1,300,069
Subtotal	<u>1,745,234</u>	<u>324,537</u>	<u>-</u>	<u>2,069,771</u>
Less accumulated depreciation:				
Land improvements	-	(2,814)	-	(2,814)
Buildings	(62,296)	(8,228)	-	(70,524)
Equipment	(137,501)	(6,761)	-	(144,262)
Infrastructure	(745,233)	(22,417)	-	(767,650)
Subtotal	<u>(945,030)</u>	<u>(40,220)</u>	<u>-</u>	<u>(985,250)</u>
Net capital assets being depreciated	<u>800,204</u>	<u>284,317</u>	<u>-</u>	<u>1,084,521</u>
Governmental activities net capital assets	<u>\$ 1,179,055</u>	<u>\$ 358,268</u>	<u>\$ (309,550)</u>	<u>\$ 1,227,773</u>

Depreciation expense was charged to the primary government as follows:

Governmental Activities

Unallocated \$ 40,220

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 14,730	\$ -
Sewer Fund	<u>-</u>	<u>14,730</u>
	<u><u>\$ 14,730</u></u>	<u><u>\$ 14,730</u></u>

The interfund balance is to repay the General Fund monies that it erroneously paid to the Sewer Fund.

NOTE 7: INTERFUND TRANSFERS

Operating transfers are as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 1,800
Major Street	<u>1,800</u>	<u>-</u>
	<u><u>\$ 1,800</u></u>	<u><u>\$ 1,800</u></u>

The transfer was for general operational expenses.

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, 2013	Additions	Reductions	Balance February 28, 2014	Due Within One Year
Governmental Activities					
Installment purchase agreement:	<u>\$ 88,797</u>	<u>\$ -</u>	<u>\$ (13,404)</u>	<u>\$ 75,393</u>	<u>\$ 13,934</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 28, 2014 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$13,934	\$2,978	\$16,912
2016	14,484	2,428	16,912
2017	15,056	1,856	16,912
2018	15,651	1,261	16,912
2019	16,268	642	16,910
	<u>\$75,393</u>	<u>\$9,165</u>	<u>\$84,558</u>

NOTE 9: RESTRICTED NET POSITION

The Sewer Fund's net position is 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 28, 2014 are as follows:

<u>Classification/ Fund</u>	<u>Purpose</u>	<u>Amount</u>
Restricted:		
Street funds	Streets	\$ 24,108
Committed:		
Major street fund	Equipment purchase	12,047
Unassigned:		
General fund		<u>259,736</u>
Total fund balances		<u>\$ 295,891</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 28, 2014 are as follows:

Year Ending	Amount
2015	\$ 30,392
2016	30,208
2017	30,429
2018	30,213
2019	30,403
2020-2024	150,941
	\$ 302,586

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 28, 2014 are as follows:

Year Ending	Amount
2015	\$ 18,300
2016	18,113
2017	19,973
2018	19,723
2019	21,520
2020-2025	110,395
2026-2030	135,505
2031-2032	88,969
	\$ 432,498

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 13: SUBSEQUENT EVENTS

Subsequent to February 28, 2014, the Village purchased a 2014 Freightliner dump truck for \$ 147,377. A loan with a local bank was secured to help finance the truck.

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF ALANSON
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/(Under)
	Original	Final		
Beginning budgetary fund balance	\$ -	\$ -	\$ 202,333	\$ 202,333
Resources (inflows):				
Taxes	185,054	222,463	183,758	(38,705)
State revenues	130,695	169,124	166,293	(2,831)
Charges for services	3,825	3,592	6,035	2,443
Interest and rentals	12,380	430	36,058	35,628
Other	-	213	21,298	21,085
Amounts available for appropriations	<u>331,954</u>	<u>395,822</u>	<u>615,775</u>	<u>219,953</u>
Charges to appropriations (outflows):				
General government:				
Council	8,480	8,480	8,750	270
Other wages	5,000	5,000	1,451	(3,549)
Equipment purchases	15,000	15,000	14,987	(13)
Professional services	2,900	2,900	1,717	(1,183)
Village promotion	3,200	3,200	3,382	182
Miscellaneous	1,200	1,200	1,175	(25)
Clerk	13,334	13,334	12,379	(955)
Utilities and maintenance	40,700	40,700	46,660	5,960
Treasurer	8,444	8,444	8,458	14
Sewer billing	2,760	2,760	-	(2,760)
Office supplies	6,625	6,625	5,007	(1,618)
Payroll taxes	7,000	7,000	8,160	1,160
Insurance	15,000	15,000	15,113	113
Total general government	<u>129,643</u>	<u>129,643</u>	<u>127,239</u>	<u>(2,404)</u>
Public safety:				
Planning	2,200	2,200	2,250	50
Zoning	100	100	27	(73)
Total public safety	<u>2,300</u>	<u>2,300</u>	<u>2,277</u>	<u>(23)</u>
Public works:				
Roads	172,662	172,662	206,383	33,721
Recreation and cultural:				
Parks and recreation	5,000	5,000	1,428	(3,572)
Debt service	17,000	17,000	16,912	(88)
Total charges to appropriations	<u>326,605</u>	<u>326,605</u>	<u>354,239</u>	<u>27,634</u>
Other financing sources				
Transfer to other funds	-	23,270	1,800	(21,470)
Ending budgetary fund balance	<u><u>\$ 5,349</u></u>	<u><u>\$ 45,947</u></u>	<u><u>\$ 259,736</u></u>	<u><u>\$ 213,789</u></u>

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

VILLAGE OF ALANSON
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2014

	<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	\$ -	\$ -	\$ 26,662	\$ 26,662
Resources (inflows):				
State revenues	38,330	39,108	45,437	6,329
Interest	20	22	91	69
Transfer from other funds	-	-	1,800	1,800
	<u>38,350</u>	<u>39,130</u>	<u>73,990</u>	<u>34,860</u>
Amounts available for appropriations				
	<u>38,350</u>	<u>39,130</u>	<u>73,990</u>	<u>34,860</u>
Charges to appropriations (outflows):				
Public works:				
Routine maintenance	3,500	8,549	8,186	(363)
Administration	15,000	13,438	13,500	62
Other	15,050	20,951	20,949	(2)
Transfer to other funds	4,800	-	-	-
	<u>4,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total charges to appropriations	<u>38,350</u>	<u>42,938</u>	<u>42,635</u>	<u>(303)</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ (3,808)</u>	<u>\$ 31,355</u>	<u>\$ 35,163</u>

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

VILLAGE OF ALANSON
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2014

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget Over/(Under)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ -	\$ -	\$ 8,122	\$ 8,122
Resources (inflows):				
State revenues	19,563	23,699	20,897	(2,802)
Interest	<u>5</u>	<u>9</u>	<u>11</u>	<u>2</u>
Amounts available for appropriations	<u>19,568</u>	<u>23,708</u>	<u>29,030</u>	<u>5,322</u>
Charges to appropriations (outflows):				
Public works:				
Routine maintenance	7,500	7,294	4,960	(2,334)
Other	<u>12,068</u>	<u>2,614</u>	<u>19,270</u>	<u>16,656</u>
Total charges to appropriations	<u>19,568</u>	<u>9,908</u>	<u>24,230</u>	<u>14,322</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ 13,800</u>	<u>\$ 4,800</u>	<u>\$ (9,000)</u>

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

VILLAGE OF ALANSON
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
February 28, 2014

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 28, 2014, the Village incurred expenditures which were in excess of the amounts appropriated as follows:

Fund	Amended Budget	Amount of Expenditures	Variance
General Fund	\$ 326,605	\$ 354,239	\$ 27,634
Local Street	9,908	24,230	14,322

August 26, 2014

Communication with Those Charged with Governance at the Conclusion of the Audit

Village Council
Village of Alanson
Emmet County, Michigan

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component unit and each major fund of Village of Alanson for the year ended February 28, 2014. 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 April 29, 2014. 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 Village of Alanson are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended February 28, 2014. We noted no transactions entered into by Village of Alanson 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 26, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Village of Alanson'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 Village of Alanson's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to required supplementary information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

Hill, Schroderus & Co., LL

Hill, Schroderus & Co., LLP

August 26, 2014

Communication of Significant Deficiencies

To the Village Council
Village of Alanson

In planning and performing our audit of the financial statements of the governmental activity, the business-type activity, the discretely presented component unit and each major fund of Village of Alanson as of and for the year ended February 28, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered 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 Village of Alanson's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies in internal control to be significant deficiencies:

External Financial Reporting: 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.

Budgeting: The budget document should include the results for the most 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.

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

Hill, Schroderus & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan