

Village of Elk Rapids

Financial Statements
And Independent Auditors' Report

Year Ended February 28, 2013

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Independent Auditors' Report

Members of the Village Council
Village of Elk Rapids
Elk Rapids, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Elk Rapids' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

July 15, 2013

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

As management of the **Village of Elk Rapids**, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended February 28, 2013. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to financial statements.

The Village as a Whole

Despite the uncertain economy, the Village reports that our governmental activities net position has again increased over the past year. Once again, this has been achieved by careful management, careful spending and adopting a long-term view.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

The government-wide financial statements include not only the Village (known as the primary government), but also legally separate entities – the Downtown Development Authorities, Westside and Eastside, which are discretely presented component units of the Village. Financial information for the component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 1-3 of this report.

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

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

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

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

The Village maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, local street, and municipal street funds, each of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

Proprietary Funds. The Village maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its sanitary sewer and water distribution as well as the harbor operations. *Internal service funds* account for operations that provide services for equipment rental and accumulate and allocate costs internally among the Village's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for three major enterprise funds; water, sewer, and harbor plus non-major waste collection fund and the internal service fund. The basic proprietary fund financial statements can be found on pages 8-10 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 11 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 12-23 of this report.

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes comparisons from budgeted amounts to actual amounts in the major governmental funds, combining fund financial statements, and schedules, which can be found on pages 24-33 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village of Elk Rapids, assets exceeded liabilities by \$12,556,744 at the close of the most recent fiscal year, which is an increase over last year of \$10,331.

The largest portion of the Village's net position, about eighty-six percent (86%), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

In a condensed format, the table below shows net position as of each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 679,231	\$ 541,434	\$ 1,803,820	\$ 1,113,110
Capital assets	<u>4,387,463</u>	<u>4,458,958</u>	<u>8,890,987</u>	<u>8,877,022</u>
Total assets	<u>5,066,694</u>	<u>5,000,392</u>	<u>10,694,807</u>	<u>9,990,132</u>
Current liabilities	67,791	1,333,370	536,046	575,259
Non-current liabilities	<u>1,327,469</u>	<u>56,780</u>	<u>1,273,451</u>	<u>478,702</u>
Total liabilities	<u>1,395,260</u>	<u>1,390,150</u>	<u>1,809,497</u>	<u>1,053,961</u>
Net position:				
Net investment in capital assets	3,118,667	3,179,035	7,645,987	8,327,022
Restricted	203,828	123,664	-	92,833
Unrestricted	<u>348,939</u>	<u>307,543</u>	<u>1,239,323</u>	<u>516,316</u>
Total net position	<u>\$ 3,671,434</u>	<u>\$3,610,242</u>	<u>\$8,885,310</u>	<u>\$8,936,171</u>

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

The following table shows the changes in net position for each fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Program revenues:				
Charges for services	\$ 30,790	\$ 43,255	\$ 1,976,167	\$ 1,853,860
Capital grants and contributions	18,985	23,116	6,907	-
Operating grants	209,057	176,592	85,502	52,439
General revenues:				
Property taxes	1,126,327	1,118,164	97,161	106,426
Unrestricted grants	126,404	126,633	-	-
Investment earnings	1,979	2,881	5,022	36,739
Gain on sale of assets	14,500	-	-	-
Other	<u>75,957</u>	<u>100,149</u>	<u>34,092</u>	<u>39,280</u>
Total revenues	<u>1,600,999</u>	<u>1,590,790</u>	<u>2,204,851</u>	<u>2,088,744</u>
Program expenses:				
General government	256,824	319,779	-	-
Public safety	406,173	442,867	-	-
Public works	561,638	599,998	-	-
Community development	99,596	99,083	-	-
Recreation and culture	160,180	193,805	-	-
Interest on long-term debt	56,917	67,418	-	-
Capital outlay	52,729	-	-	-
Water	-	-	343,292	458,069
Sewer	-	-	623,670	506,183
Harbor	-	-	1,134,735	1,051,601
Waste collection	-	-	113,934	137,088
Total expenses	<u>1,594,057</u>	<u>1,722,950</u>	<u>2,215,631</u>	<u>2,152,941</u>
Transfers	<u>54,250</u>	<u>53,170</u>	<u>(40,081)</u>	<u>(53,170)</u>
Changes in net position	<u>\$ 61,192</u>	<u>\$ (78,990)</u>	<u>\$ (50,861)</u>	<u>\$ (117,367)</u>

General Fund Budgetary Highlights

Over the course of the year, approximately quarterly, the Village Manager recommends amendments to the budget to take into account unforeseen events happening during the year.

Capital Asset and Debt Administration

At the end of the 2012-2013 fiscal year, the Village had a total investment in capital assets for governmental and business-type activities of \$13,278,450 which is made up of a broad range of capital assets, including buildings, water and sewer structures, both above and below ground and significant investment in streets.

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

The following table summarizes the fixed assets of the Village at each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 585,021	\$ 585,021	\$ 691,961	\$ 645,422
Land improvements	921,539	914,105	-	-
Infrastructure	2,647,689	2,647,689	-	-
Buildings and structures	1,677,431	1,677,431	652,574	652,574
Improvements to systems	-	-	13,704,912	13,563,892
Vehicles	474,127	416,232	-	-
Furniture and equipment	529,426	464,370	213,358	213,358
Accumulated depreciation	<u>(2,447,770)</u>	<u>(2,245,889)</u>	<u>(6,371,818)</u>	<u>(6,198,225)</u>
Net capital assets	<u>\$4,387,463</u>	<u>\$4,458,959</u>	<u>\$ 8,890,987</u>	<u>\$8,877,021</u>

The following table summarizes the debt outstanding at each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
General obligation bonds	\$1,115,000	\$ 1,210,000	\$ -	\$ -
Notes payable	153,792	69,923	-	-
Revenue bonds	-	-	<u>1,245,000</u>	<u>550,000</u>
Net long-term debt	<u>\$1,268,792</u>	<u>\$ 1,279,923</u>	<u>\$1,245,000</u>	<u>\$ 550,000</u>

The Village's total debt increased due to a new bond issuance in the harbor fund and a new equipment loan in the motor vehicle pool fund.

Economic Factors and Next Year's Budgets and Rates

The following significant factors were considered in preparing the Village's budget for the 2013-2014 fiscal year:

- Decreased State revenue sharing
- Decreased taxable values
- Harbor dredging
- Local EDC financial support, staffing/marketing
- Police Department vehicle purchase
- Motor Pool purchase of a Trackless MT6 Off Road Vehicle
- Finalize water meter automatic readout system purchases
- Early payoff of Motor Pool note payable
- Purchase new fuel pumps at the harbor
- Fourth Street water main replacement
- Retaining Village operation of the wastewater treatment plant facility
- Sidewalk improvements
- Library roof replacement

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 28, 2013

The following significant factors were considered in preparing the Village's budget for the 2013-2014 fiscal year (continued):

- Additional park lights
- Planning and design for new WWTP with associated increases in user rates
- Implementing radio telemetry system for sewer lift stations

Contacting the Village Management

This discussion and analysis is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, Village of Elk Rapids, 315 Bridge Street, PO Box 398, Elk Rapids, MI 49629-0398.

Village of Elk Rapids
Statement of Net Position
February 28, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Westside DDA	Eastside DDA
Assets:					
Cash and investments	\$ 508,577	\$ 1,604,737	\$ 2,113,314	\$ -	\$ 61,943
Receivables	169,869	114,356	284,225	-	-
Prepaid items and other assets	785	381	1,166	-	-
Inventory	-	84,346	84,346	-	-
Capital assets, net:					
Assets not being depreciated	585,021	691,961	1,276,982	-	-
Assets being depreciated	3,802,442	8,199,026	12,001,468	-	-
Total assets	<u>5,066,694</u>	<u>10,694,807</u>	<u>15,761,501</u>	<u>-</u>	<u>61,943</u>
Liabilities:					
Accounts payable	29,117	16,170	45,287	-	131
Accrued expenses	24,510	13,663	38,173	-	1,016
Accrued interest	14,164	4,978	19,142	-	5,383
Unearned revenue	-	501,235	501,235	-	-
Non-current liabilities:					
Current portion of long-term debt	149,386	85,000	234,386	-	30,000
Compensated absences	58,673	28,451	87,124	-	-
Due in more than one year	1,119,410	1,160,000	2,279,410	-	465,000
Total liabilities	<u>1,395,260</u>	<u>1,809,497</u>	<u>3,204,757</u>	<u>-</u>	<u>501,530</u>
Net Position:					
Net investment in capital assets	3,118,667	7,645,987	10,764,654	-	-
Restricted for:					
Debt service	51,850	-	51,850	-	-
Capital projects	35,733	-	35,733	-	-
Special revenue activity	116,245	-	116,245	-	-
Unrestricted	348,939	1,239,323	1,588,262	-	(439,587)
Total net position	<u>\$ 3,671,434</u>	<u>\$ 8,885,310</u>	<u>\$ 12,556,744</u>	<u>\$ -</u>	<u>\$ (439,587)</u>

See Notes to Financial Statements.

Village of Elk Rapids
Statement of Activities
Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Primary Government					
Governmental Activities:					
General government	\$ 256,824	\$ 23,731	\$ 24,815	\$ -	\$ (208,278)
Public safety	406,173	7,059	753	-	(398,361)
Public works	561,638	-	183,489	-	(378,149)
Culture and recreation	160,180	-	-	-	(160,180)
Community and economic development	99,596	-	-	-	(99,596)
Interest on long-term debt	56,917	-	-	-	(56,917)
Capital outlay	52,729	-	-	18,985	(33,744)
Total governmental activities	<u>1,594,057</u>	<u>30,790</u>	<u>209,057</u>	<u>18,985</u>	<u>(1,335,225)</u>
Business-type Activities:					
Harbor	1,134,735	1,032,419	-	6,907	(95,409)
Sewer	623,670	524,379	85,502	-	(13,789)
Water	343,292	381,844	-	-	38,552
Waste collection	113,934	37,525	-	-	(76,409)
Total business-type activities	<u>2,215,631</u>	<u>1,976,167</u>	<u>85,502</u>	<u>6,907</u>	<u>(147,055)</u>
Total primary government	<u>\$ 3,809,688</u>	<u>\$ 2,006,957</u>	<u>\$ 294,559</u>	<u>\$ 25,892</u>	<u>\$ (1,482,280)</u>
Component Units					
Westside DDA	\$ 409	\$ -	\$ -	\$ -	\$ (409)
Eastside DDA	87,466	-	-	-	(87,466)
Total component units	<u>\$ 87,875</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (87,875)</u>

continued..

Village of Elk Rapids
Statement of Activities (Continued)
Year Ended June 30, 2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Westside DDA	Eastside DDA
Changes in Net Assets					
Net (expense) revenue	\$ (1,335,225)	\$ (147,055)	\$ (1,482,280)	\$ (409)	\$ (87,466)
General Revenues:					
Property taxes	1,126,327	97,161	1,223,488	-	94,578
Unrestricted grants and contributions	126,404	-	126,404	-	-
Interest and investment earnings	1,979	5,022	7,001	-	375
Gain on sale of assets	14,500	-	14,500	-	-
Other revenues (expenses)	72,957	34,092	107,049	-	-
Transfers - internal activities	54,250	(40,081)	14,169	-	(14,169)
Total general revenues, contributions and transfers	1,396,417	96,194	1,492,611	-	80,784
Changes in Net Assets	61,192	(50,861)	10,331	(409)	(6,682)
Net Assets - Beginning of Year	3,610,242	8,936,171	12,546,413	409	(432,905)
Net Assets - End of Year	\$ 3,671,434	\$ 8,885,310	\$ 12,556,744	\$ -	\$ (439,587)

See Notes to Financial Statements.

Village of Elk Rapids

Balance Sheet
Governmental Funds
February 28, 2013

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and investments	\$ 266,409	\$ 33,242	\$ 12,562	\$ 5,515	\$ 85,783	\$ 403,511
Receivables:						
Accounts receivable	-	-	-	-	5,054	5,054
Taxes receivable	31,903	-	-	12,455	1,873	46,231
Special assessments	-	-	-	-	8,085	8,085
Due from other governmental units	41,843	38,380	23,204	-	7,072	110,499
Prepaid expenditures	579	73	70	-	-	722
Total assets	<u>\$ 340,734</u>	<u>\$ 71,695</u>	<u>\$ 35,836</u>	<u>\$ 17,970</u>	<u>\$ 107,867</u>	<u>\$ 574,102</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 6,852	\$ 1,071	\$ 2,233	\$ -	\$ 12,138	\$ 22,294
Accrued expenses	16,606	3,293	2,659	-	61	22,619
Unearned revenue	-	-	-	-	8,085	8,085
Total liabilities	<u>23,458</u>	<u>4,364</u>	<u>4,892</u>	<u>-</u>	<u>20,284</u>	<u>52,998</u>
Fund Balances:						
Nonspendable:						
Prepaid expenditures	579	73	70	-	-	722
Restricted:						
Special revenue funds	-	67,258	30,874	17,970	-	116,102
Debt service funds	-	-	-	-	45,982	45,982
Capital project funds	-	-	-	-	35,733	35,733
Committed	-	-	-	-	5,868	5,868
Unassigned	316,697	-	-	-	-	316,697
Total fund balances	<u>317,276</u>	<u>67,331</u>	<u>30,944</u>	<u>17,970</u>	<u>87,583</u>	<u>521,104</u>
Total liabilities and fund balances	<u>\$ 340,734</u>	<u>\$ 71,695</u>	<u>\$ 35,836</u>	<u>\$ 17,970</u>	<u>\$ 107,867</u>	<u>\$ 574,102</u>

Village of Elk Rapids

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position February 28, 2013

Total Fund Balances - Governmental Funds \$ 521,104

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

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

The cost of the capital assets is

\$ 5,921,444

Accumulated depreciation is

(1,796,783)

4,124,661

Because the focus of governmental funds is on short-term financing,
some assets will not be available to pay for current-period expenditures.
Those assets (such as certain receivables) are offset by unearned revenues
in the governmental funds, and these are not included in fund balance.

Special assessments

8,085

Internal service funds are used by management to charge the costs of certain
equipment usage and administrative costs to individual governmental funds.
The assets and liabilities of the internal service funds are included in governmental
activities in the Statement of Net Position.

Net position of governmental activities accounted for in the internal service fund

236,566

Long-term liabilities not due and payable in the current period
and not reported in the funds:

Loans payable

(35,784)

Bonds payable

(1,115,000)

Accrued interest

(14,164)

Compensated absences

(54,030)

Total Net Position - Governmental Activities

\$ 3,671,438

Village of Elk Rapids
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended February 28, 2013

	General	Major Street	Local Street	Municipal Street	Other Nonmajor Governmental Funds	Total
Revenues:						
Taxes	\$ 781,953	\$ -	\$ -	\$ 315,160	\$ 49,227	\$ 1,146,340
Intergovernmental	132,023	124,063	58,026	-	-	314,112
Licenses and permits	3,178	-	-	-	-	3,178
Charges for services	541	-	-	-	22,411	22,952
Fines and forfeitures	6,569	-	-	-	-	6,569
Interest and rentals	1,077	101	70	188	325	1,761
Other revenue	23,791	581	-	-	68,828	93,200
Total revenues	<u>949,132</u>	<u>124,745</u>	<u>58,096</u>	<u>315,348</u>	<u>140,791</u>	<u>1,588,112</u>
Expenditures:						
General government	192,998	-	-	-	44,730	237,728
Public safety	423,236	-	-	-	-	423,236
Public works	-	198,769	176,028	32,315	-	407,112
Community and economic development	91,279	-	-	-	-	91,279
Culture and recreation	131,123	-	-	-	-	131,123
Debt service:						
Principal payments	34,139	-	-	-	95,000	129,139
Interest and fiscal charges	2,809	-	-	-	61,439	64,248
Capital outlay	-	-	-	-	85,678	85,678
Total expenditures	<u>875,584</u>	<u>198,769</u>	<u>176,028</u>	<u>32,315</u>	<u>286,847</u>	<u>1,569,543</u>
Revenues Over (Under) Expenditures	<u>73,548</u>	<u>(74,024)</u>	<u>(117,932)</u>	<u>283,033</u>	<u>(146,056)</u>	<u>18,569</u>
Other Financing Sources (Uses):						
Operating transfers in	77,382	97,000	120,000	2,971	145,903	443,256
Operating transfers out	(56,187)	(2,300)	(2,300)	(289,619)	(37,100)	(387,506)
Total other financing sources (uses)	<u>21,195</u>	<u>94,700</u>	<u>117,700</u>	<u>(286,648)</u>	<u>108,803</u>	<u>55,750</u>
Net Changes in Fund Balances	94,743	20,676	(232)	(3,615)	(37,253)	74,319
Fund Balances - Beginning of Year	<u>222,533</u>	<u>46,655</u>	<u>31,176</u>	<u>21,585</u>	<u>124,836</u>	<u>446,785</u>
Fund Balances - End of Year	<u>\$ 317,276</u>	<u>\$ 67,331</u>	<u>\$ 30,944</u>	<u>\$ 17,970</u>	<u>\$ 87,583</u>	<u>\$ 521,104</u>

See Notes to Financial Statements.

Village of Elk Rapids
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
 of Governmental Funds to the Statement of Activities
 Year Ended February 28, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 74,319

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

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	\$ (224,644)	
Capital outlay	<u>42,154</u>	(182,490)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Current year earned special assessments		(1,347)
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.

Repayment to bond holders and bank		129,139
Decrease in accrued interest		7,325

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Change in net position from governmental activities in the internal service fund		41,298
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in the accrual for compensated absences		<u>(7,052)</u>
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Change in Net Position of Governmental Activities \$ 61,192

Village of Elk Rapids
Statement of Net Position
Proprietary Funds
February 28, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Harbor	Nonmajor Fund	Total	Internal Service
				Waste Collection		
Assets:						
Current assets:						
Cash and cash equivalents	\$ 266,362	\$ 138,857	\$ 1,174,429	\$ 25,089	\$ 1,604,737	\$ 105,066
Receivables:						
Accounts	48,615	61,957	-	-	110,572	-
Taxes	-	-	-	3,784	3,784	-
Inventory, at cost	29,251	14,593	38,802	1,700	84,346	-
Prepaid expenses	126	88	98	69	381	63
Total current assets	<u>344,354</u>	<u>215,495</u>	<u>1,213,329</u>	<u>30,642</u>	<u>1,803,820</u>	<u>105,129</u>
Capital assets:						
Land	25,800	630	665,531	-	691,961	14,012
Land improvements, buildings, and equipment	<u>3,272,211</u>	<u>4,448,638</u>	<u>6,793,177</u>	<u>56,818</u>	<u>14,570,844</u>	<u>899,777</u>
	3,298,011	4,449,268	7,458,708	56,818	15,262,805	913,789
Less accumulated depreciation	<u>(1,274,217)</u>	<u>(2,567,583)</u>	<u>(2,492,790)</u>	<u>(37,228)</u>	<u>(6,371,818)</u>	<u>(650,987)</u>
Net capital assets	<u>2,023,794</u>	<u>1,881,685</u>	<u>4,965,918</u>	<u>19,590</u>	<u>8,890,987</u>	<u>262,802</u>
Total assets	<u>2,368,148</u>	<u>2,097,180</u>	<u>6,179,247</u>	<u>50,232</u>	<u>10,694,807</u>	<u>367,931</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	1,250	10,264	1,964	2,692	16,170	6,823
Accrued expenses	10,429	15,829	10,917	4,939	42,114	6,534
Customer deposits	-	235	-	-	235	-
Unearned revenue	-	14,130	486,870	-	501,000	-
Accrued interest	-	-	4,978	-	4,978	-
Current portion of long-term debt	-	-	85,000	-	85,000	23,602
Total current liabilities (payable from current assets)	<u>11,679</u>	<u>40,458</u>	<u>589,729</u>	<u>7,631</u>	<u>649,497</u>	<u>36,959</u>
Noncurrent liabilities:						
Loans payable	-	-	-	-	-	94,406
General obligation and revenue bonds payable	-	-	1,160,000	-	1,160,000	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>1,160,000</u>	<u>-</u>	<u>1,160,000</u>	<u>94,406</u>
Total liabilities	<u>11,679</u>	<u>40,458</u>	<u>1,749,729</u>	<u>7,631</u>	<u>1,809,497</u>	<u>131,365</u>
Net Position:						
Net investment in capital assets	2,023,794	1,881,685	3,720,918	19,590	7,645,987	168,396
Unrestricted	<u>332,675</u>	<u>175,037</u>	<u>708,600</u>	<u>23,011</u>	<u>1,239,323</u>	<u>68,170</u>
Total net position	<u>\$ 2,356,469</u>	<u>\$ 2,056,722</u>	<u>\$ 4,429,518</u>	<u>\$ 42,601</u>	<u>\$ 8,885,310</u>	<u>\$ 236,566</u>

Village of Elk Rapids
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Harbor	Nonmajor Fund	Total	Internal Service
				Waste Collection		
Operating Revenues:						
Charges for services	\$ 381,844	\$ 524,379	\$ 1,032,419	\$ 37,525	\$ 1,976,167	\$ 216,426
Other operating revenues	-	85,502	18,895	-	104,397	-
Total operating revenues	<u>381,844</u>	<u>609,881</u>	<u>1,051,314</u>	<u>37,525</u>	<u>2,080,564</u>	<u>216,426</u>
Operating Expenses:						
Water operations	263,049	-	-	-	263,049	-
Sewer operations	-	532,372	-	-	532,372	-
Harbor operations	-	-	833,014	-	833,014	-
Waste collection operations	-	-	-	111,980	111,980	-
Motor pool operations	-	-	-	-	-	144,652
Depreciation	80,243	91,298	220,217	1,953	393,711	44,689
Total operating expenses	<u>343,292</u>	<u>623,670</u>	<u>1,053,231</u>	<u>113,933</u>	<u>2,134,126</u>	<u>189,341</u>
Operating Income (Loss)	<u>38,552</u>	<u>(13,789)</u>	<u>(1,917)</u>	<u>(76,408)</u>	<u>(53,562)</u>	<u>27,085</u>
Nonoperating Revenues (Expenses):						
Taxes	-	-	-	97,161	97,161	-
Interest income	1,515	480	2,956	71	5,022	218
Interest expense	-	-	(81,504)	-	(81,504)	-
Other income (expense)	2,037	13,381	6,595	90	22,103	995
Gain (loss) on disposal of assets	-	-	-	-	-	14,500
Total nonoperating revenues (expenses)	<u>3,552</u>	<u>13,861</u>	<u>(71,953)</u>	<u>97,322</u>	<u>42,782</u>	<u>15,713</u>
Net Income (Loss) Before Transfers	<u>42,104</u>	<u>72</u>	<u>(73,870)</u>	<u>20,914</u>	<u>(10,780)</u>	<u>42,798</u>
Transfers:						
Transfers in	7,800	-	11,967	916	20,683	-
Transfers out	(39,164)	(2,300)	(17,000)	(2,300)	(60,764)	(1,500)
Total transfers	<u>(31,364)</u>	<u>(2,300)</u>	<u>(5,033)</u>	<u>(1,384)</u>	<u>(40,081)</u>	<u>(1,500)</u>
Changes in Net Position	10,740	(2,228)	(78,903)	19,530	(50,861)	41,298
Net Position - Beginning of Year	<u>2,345,729</u>	<u>2,058,950</u>	<u>4,508,421</u>	<u>23,071</u>	<u>8,936,171</u>	<u>195,268</u>
Net Position - End of Year	<u>\$ 2,356,469</u>	<u>\$ 2,056,722</u>	<u>\$ 4,429,518</u>	<u>\$ 42,601</u>	<u>\$ 8,885,310</u>	<u>\$ 236,566</u>

Village of Elk Rapids
Statement of Cash Flows
Proprietary Funds
Year Ended February 28, 2013

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Harbor	Nonmajor Fund	Total	Internal Service
				Waste Collection		
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 378,841	\$ 522,931	\$1,066,300	\$ 37,970	\$ 2,006,042	\$ -
Other operating receipts	-	85,502	18,895	-	104,397	-
Receipts for interfund services provided	-	-	-	-	-	216,426
Cash paid to suppliers of goods and services	(190,800)	(391,349)	(630,618)	(73,827)	(1,286,594)	(97,942)
Cash paid to employees for services	(76,368)	(124,511)	(204,998)	(37,698)	(443,575)	(44,524)
Net cash provided by (used in) operating activities	<u>111,673</u>	<u>92,573</u>	<u>249,579</u>	<u>(73,555)</u>	<u>380,270</u>	<u>73,960</u>
Cash Flows From Noncapital Financing Activities:						
Nonoperating property taxes	-	-	-	97,161	97,161	-
Net transfers to/from other funds	(31,364)	(2,300)	(5,033)	(1,384)	(40,081)	(1,500)
Net cash provided by noncapital financing activities	<u>(31,364)</u>	<u>(2,300)</u>	<u>(5,033)</u>	<u>95,777</u>	<u>57,080</u>	<u>(1,500)</u>
Cash Flows From Capital and Related Financing Activities:						
Principal paid on long-term debt	-	-	(140,000)	-	(140,000)	-
Issuance of long-term debt	-	-	835,000	-	835,000	118,008
Interest payments	-	-	(81,540)	-	(81,540)	-
Proceeds from the disposal of assets	-	-	-	-	-	14,500
Purchase of capital assets, net	-	(44,179)	(357,009)	-	(401,188)	(155,683)
Net cash used by capital and related financing activities	<u>-</u>	<u>(44,179)</u>	<u>256,451</u>	<u>-</u>	<u>212,272</u>	<u>(23,175)</u>
Cash Flows from Investing Activities:						
Advance repayment from other fund	-	-	88,319	-	88,319	-
Other nonoperating income received	2,037	13,726	6,595	90	22,448	995
Interest income received	1,515	480	1,463	71	3,529	218
Net cash provided by (used in) investing activities	<u>3,552</u>	<u>14,206</u>	<u>96,377</u>	<u>161</u>	<u>114,296</u>	<u>1,213</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>83,861</u>	<u>60,300</u>	<u>597,374</u>	<u>22,383</u>	<u>763,918</u>	<u>50,498</u>
Cash and Cash Equivalents - Beginning of Year	<u>182,501</u>	<u>78,902</u>	<u>573,725</u>	<u>2,706</u>	<u>837,834</u>	<u>54,568</u>
Cash and Cash Equivalents - End of Year	<u>\$ 266,362</u>	<u>\$ 139,202</u>	<u>\$ 1,171,099</u>	<u>\$ 25,089</u>	<u>\$ 1,601,752</u>	<u>\$ 105,066</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 38,552	\$ (13,789)	\$ (1,917)	\$ (76,408)	\$ (53,562)	\$ 27,085
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	80,243	91,298	220,217	1,953	393,711	44,689
Changes in:						
Receivables	(3,003)	(15,812)	-	445	(18,370)	-
Inventories	4,236	(437)	(5,880)	-	(2,081)	-
Accounts payable	(1,202)	7,743	(1,756)	(28)	4,757	3,550
Accrued expenses	(7,153)	9,205	5,034	483	7,569	(1,364)
Unearned revenue	-	14,130	33,881	-	48,011	-
Customer deposits	-	235	-	-	235	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 111,673</u>	<u>\$ 92,573</u>	<u>\$ 249,579</u>	<u>\$ (73,555)</u>	<u>\$ 380,270</u>	<u>\$ 73,960</u>

Village of Elk Rapids
Statement of Fiduciary Net Position
Fiduciary Funds
February 28, 2013

	Payroll Trust Fund	Birch Lake Sewer Trust
Assets:		
Cash and investments	\$ 3,414	\$ 6,681
Receivable	-	333
Total assets	\$ 3,414	\$ 7,014
Liabilities:		
Due to other funds	\$ -	\$ -
Due to other agencies	3,414	7,014
Total liabilities	\$ 3,414	\$ 7,014

See Notes to Financial Statements.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Village Operations and Principles of Preparation

The Village of Elk Rapids, Michigan is located in the southwestern corner of Antrim County. The Village operates under a Council form of government and provides various services to its residents including community enrichment and development, public safety, public works, parks and recreation, and general administrative services. The financial statements of the Village of Elk Rapids have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, scope of public service, fiscal dependency, and special financial relationships.

Component Units

Downtown Development Authority – The Downtown Development Authority (DDA) was formed to enhance the Village's business district by preservation, creation and implementation of the development plans in the district to be financed by taxes from properties within its districts. The members of the governing board of the DDA are appointed by the Village Council. The budgets and expenditures of the DDAs must be approved by the Village Council. The Village Council also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the Village Manager, Village of Elk Rapids, 315 Bridge Street, PO Box 398, Elk Rapids, MI 49629-0398.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

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

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

Municipal Street Fund – This fund accounts for the use of property taxes, which are earmarked for municipal street purposes.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The government reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the government’s water production, purification, and distribution systems.

Sewer Fund – The Sewer Fund accounts for the activities of the government’s sewage collection and treatment systems.

Harbor Fund – The Harbor Fund accounts for the activity of the government’s harbor operations.

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Project Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Waste Collection Fund – This fund accounts for the Village’s waste collection operations.

Equipment Internal Service Fund – The internal service fund accounts for operations that provide motor vehicle and equipment management to other departments of the Village on a cost-reimbursement basis.

Agency Funds – These funds account for assets held by the Village in a trustee or agency capacity for individuals, private organizations, other governments and/or other funds.

Additional Financial Statement Presentation Information - Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds and of the government’s internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Deposits and Investments – Cash and cash equivalents include cash on hand and certificates of deposit.

State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The Village's investment policy does not have specific limits in excess of state law pertaining to investment credit risk.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type and fiduciary activities are reported in the government-wide financial statements as "internal balances."

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

Restricted Assets – Certain proceeds of the enterprise funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) - Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Buildings and improvements	40 - 50
Infrastructure	20
Systems and improvements	50 - 60
Vehicles	5 - 12
Furniture, machinery, and equipment	5 - 15

Compensated Absences – Vacation days for Village employees are determined based on contracts with Village employees. The liability for these amounts is included in the government-wide and enterprise fund financial statements.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –Fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (Village Council) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose. It is the Village's policy to generally use fund balance in order according to hierarchy of fund balance categories, from restricted down to unassigned.

Property Taxes - The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are turned over to Antrim County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Village for 2012 had a taxable value of approximately \$105,900,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's tax rate for fiscal year 2012-13 was 7.4950 mills for general operating, 0.9558 for waste collection, 3.1002 for municipal streets, and .4635 for debt service.

Village of Elk Rapids
Notes to Financial Statements

2. Stewardship, Compliance and Accountability

The general and special revenue funds are the governmental fund types under formal budgetary control. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget.

- 1) A general and special revenue funds budget is presented to Village Council in January, at which time hearings on the budget are scheduled. A Public Hearing is held in February and a special meeting is held to give management the opportunity to discuss their budget with the Council.
- 2) The budget, and an appropriation ordinance implementing it, is then adopted in February.
- 3) Formal budget integration is employed as a management control device during the year for all funds.
- 4) Budgets presented for the general and special revenue funds were prepared on the modified cash basis of accounting. Encumbrances are not recorded at year-end.
- 5) Expenditures may not legally exceed activity (department) totals in the general fund. All other special revenue funds cannot legally exceed their respective fund totals. Expenditures exceeding budgeted amounts, if any, are disclosed in the required supplementary information section.
- 6) Budgets for the current year are reviewed during the year for any revision of estimates. Proposed increases or reductions in appropriations are presented to the Council for their action. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- 7) The Council has the authority to amend all budgets at the fund level through the appropriation ordinance. It further has the right to amend the general fund at the activity level if it desires. Management has no authority to amend budgets at the fund level. Management can do transfers within funds at the departmental level without governing board approval but not between departments.
- 8) The budgetary information presented has been amended during the year by an official action of the Village Council. The amendments were not significant in total.
- 9) All budget appropriations lapse at the end of each fund's fiscal year.

3. Cash and Cash Equivalents

To facilitate better management of the Village's resources, cash is combined in a pooled operating account for much of the Village's activity.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash & cash equivalents	\$ 508,577	\$ 1,604,737	\$ 2,113,314	\$ 61,943	\$ 10,095	\$ 2,185,352

Village of Elk Rapids
Notes to Financial Statements

3. Cash and Cash Equivalents (Continued)

The cash and cash equivalents for the Village by type are as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,184,765
Petty cash and cash on hand	<u>587</u>
Total	<u><u>\$ 2,185,352</u></u>

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. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$1,950,000 of the Village's bank balance of approximately \$2,200,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. Receivables

Receivables of the governmental activities of the primary government at year-end consisted of the following:

Other governmental units (primarily the State of Michigan)	\$ 103,427
Special assessments	8,095
Other	<u>58,347</u>
	<u><u>\$ 169,869</u></u>

Village of Elk Rapids
Notes to Financial Statements

5. Capital Assets

Capital assets activity for the year ended February 28, 2013 was as follows:

<u>Primary Government</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 585,021	\$ -	\$ -	\$ 585,021
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>585,021</u>	<u>-</u>	<u>-</u>	<u>585,021</u>
Capital assets being depreciated:				
Land improvements	914,105	7,434	-	921,539
Infrastructure	2,647,689	-	-	2,647,689
Buildings and improvements	1,677,431	-	-	1,677,431
Vehicles	416,232	57,895	-	474,127
Furniture and equipment	464,370	132,508	67,452	529,426
Total capital assets being depreciated	<u>6,119,827</u>	<u>197,837</u>	<u>67,452</u>	<u>6,250,212</u>
Accumulated depreciation:				
Land improvements	357,967	56,464	-	414,431
Infrastructure	424,606	110,120	-	534,726
Buildings and improvements	752,241	41,517	-	793,758
Vehicles	301,788	28,851	-	330,639
Furniture and equipment	409,287	32,381	67,452	374,216
Total accumulated depreciation	<u>2,245,889</u>	<u>269,333</u>	<u>67,452</u>	<u>2,447,770</u>
Total capital assets being depreciated - net	<u>3,873,938</u>	<u>(71,496)</u>	<u>-</u>	<u>3,802,442</u>
Governmental activities capital assets - net	<u>\$ 4,458,959</u>	<u>\$ (71,496)</u>	<u>\$ -</u>	<u>\$ 4,387,463</u>

Village of Elk Rapids
Notes to Financial Statements

5. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 645,422	\$ 46,539	\$ -	\$ 691,961
Total capital assets not being depreciated	<u>645,422</u>	<u>46,539</u>	<u>-</u>	<u>691,961</u>
Capital assets being depreciated:				
Buildings and improvements	652,574	-	-	652,574
Improvements to systems	13,563,892	361,138	220,118	13,704,912
Machinery and equipment	<u>213,358</u>	<u>-</u>	<u>-</u>	<u>213,358</u>
Total capital assets being depreciated	<u>14,429,824</u>	<u>361,138</u>	<u>220,118</u>	<u>14,570,844</u>
Accumulated depreciation	<u>6,198,225</u>	<u>393,711</u>	<u>220,118</u>	<u>6,371,818</u>
Total capital assets being depreciated - net	<u>8,231,599</u>	<u>(32,573)</u>	<u>-</u>	<u>8,199,026</u>
Business-type activities capital assets - net	<u>\$ 8,877,021</u>	<u>\$ 13,966</u>	<u>\$ -</u>	<u>\$ 8,890,987</u>

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

Governmental Activities:	
General government	\$ 31,055
Public safety	15,737
Public works	140,478
Community development	8,317
Recreation and culture	29,057
Depreciation on capital assets held by the City's internal service fund is charged to the various functions based on usage of the assets	<u>44,689</u>
Total depreciation expense - governmental activities	<u>\$ 269,333</u>
Business-Type Activities:	
Water	\$ 80,243
Sewer	91,298
Harbor	220,217
Waste Collection	<u>1,953</u>
Total depreciation expense - business-type activities	<u>\$ 393,711</u>

Village of Elk Rapids
Notes to Financial Statements

6. Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 77,382	\$ 56,187
Major Street Fund	97,000	2,300
Local Street Fund	120,000	2,300
Municipal Street Fund	2,971	289,619
Proprietary Funds	20,683	62,264
Component Units	-	14,169
Nonmajor Governmental Funds	145,903	37,100
	<u>\$ 463,939</u>	<u>\$ 463,939</u>

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

7. Long-Term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

Governmental activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds	\$ 1,210,000	\$ -	\$ 95,000	\$ 1,115,000	\$ 90,000
Notes payable	69,923	118,008	34,139	153,792	59,386
Compensated absences	53,447	5,226	-	58,673	-
Total	<u>\$ 1,333,370</u>	<u>\$ 123,234</u>	<u>\$ 129,139</u>	<u>\$ 1,327,465</u>	<u>\$ 149,386</u>

The following is a summary of the general obligation debt outstanding of the Village as of February 28, 2013:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Governmental activities:			
2000 General obligation water bonds	6.00%	2021	\$ 300,000
2003 Capital improvements bonds - Bridge St.	2.25-4.45%	2019	250,000
2009 Capital improvements bonds - River St.	5.20%	2025	565,000
Note payable - mower	2.92%	2018	118,008
Note payable - land purchase	4.00%	2014	35,784
			<u>\$ 1,268,792</u>

Village of Elk Rapids
Notes to Financial Statements

7. Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental activities obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 149,386	\$ 46,035	\$ 195,421
2015	133,602	44,152	177,754
2016	143,602	39,148	182,750
2017	143,602	33,996	177,598
2018	148,600	28,282	176,882
2019-2023	430,000	77,781	507,781
2024-2025	120,000	9,360	129,360
	<u>\$ 1,268,792</u>	<u>\$ 278,754</u>	<u>\$ 1,547,546</u>

Business-type activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Bonds	\$ 550,000	\$ 1,245,000	\$ 550,000	\$ 1,245,000	\$ 85,000
Compensated absences	25,259	3,192	-	28,451	-
Total	<u>\$ 575,259</u>	<u>\$ 1,248,192</u>	<u>\$ 550,000</u>	<u>\$ 1,273,451</u>	<u>\$ 85,000</u>

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Business-type activities:			
2012 Capital Improvement - Harbor	0.90% - 3.30%	2028	\$ 1,245,000

Annual debt service requirements to maturity on the above business-type bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 85,000	\$ 28,248	\$ 113,248
2015	90,000	27,370	117,370
2016	90,000	26,290	116,290
2017	85,000	25,089	110,089
2018	95,000	23,689	118,689
2019-2023	390,000	90,555	480,555
2024-2028	410,000	34,508	444,508
	<u>\$ 1,245,000</u>	<u>\$ 255,748</u>	<u>\$ 1,500,748</u>

Component unit activities long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component Unit:					
Bonds	\$ 525,000	-	\$ 30,000	\$ 495,000	\$ 30,000

Village of Elk Rapids
Notes to Financial Statements

7. Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above component unit bond obligations are as follows:

Component unit:	Interest Rate	Maturing Through	Principal Outstanding
2008 Lake/Loomis St. bonds	4.40%	2025	\$ 495,000
	Principal	Interest	Total
2014	\$ 30,000	\$ 21,533	\$ 51,533
2015	30,000	20,228	50,228
2016	35,000	18,923	53,923
2017	35,000	17,400	52,400
2018	35,000	15,878	50,878
2019-2023	220,000	53,723	273,723
2024-2025	110,000	7,178	117,178
	\$ 495,000	\$ 154,860	\$ 649,860

8. Retirement Plans

The Village sponsors a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all full-time employees if they are not eligible under the MERS plan described below.

The plan is administered by third-party trustees. Plan provisions and contribution requirements were established and can only be amended by authorization of the Village Council. For the year ended February 28, 2013, the Village contributed \$10,057 to the plan.

Description of MERS Plan and Plan Assets

Beginning with the previous year, the Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the applicable percentage times the final average compensation (FAC) according to the various classifications within the Village Departments with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2012.

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's personnel. The Village is required to contribute at an actuarially determined rate with the Village covering up to 10% of the amount for Village personnel and 15% for the Village Manager. Employees are responsible for covering the remaining required contribution.

Village of Elk Rapids
Notes to Financial Statements

8. Retirement Plans (Continued)

Annual Pension Cost

During the fiscal year ended February 28, 2013, the Village's contributions totaling \$84,204 were made in accordance with contribution requirements determined by an actuarial valuation of the plan. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Two-Year Trend Information as of December 31 follows:

	<u>2012</u>	<u>2011</u>
Annual Pension Cost	\$ 84,204	\$ 74,921
Percentage of APC Contributed	100%	100%
Net Pension Obligation	0	0
Actuarial Value of Assets	1,336,763	1,070,873
Actuarial Accrued Liability	1,628,943	1,333,883
Unfunded AAL	292,180	263,010
Funded Ratio	82%	80%
Covered Payroll	817,735	750,980
UAAL as a Percentage of Covered Payroll	37%	35%

9. 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. During the year ended February 28, 2013, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three fiscal years.

10. Contingencies

The Village is subject to legal action as a normal course of business. However, management, with counsel's assistance, vigorously upholds their position on any such action. The ultimate resolution of these matters, if any, is not ascertainable at this time. No provision has been made in the financial statements related to these claims.

Required Supplemental Information

Village of Elk Rapids
 Budgetary Comparison Schedule
 General Fund
 Year Ended February 28, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Taxes	\$ 775,775	\$ 781,814	\$ 781,953
State revenue	121,975	119,476	132,023
Licenses and permits	2,275	2,275	3,178
Charges for services	300	300	541
Fines and violations	8,000	8,000	6,569
Interest and rentals	500	500	1,077
Other revenue	19,500	22,050	23,791
Total revenues	928,325	934,415	949,132
Expenditures:			
General government:			
Village manager	41,970	29,540	28,773
Elections	2,160	2,160	-
Administrative	93,675	94,940	90,307
Clerk	67,670	80,328	73,918
Total general government	205,475	206,968	192,998
Public safety:			
Police	424,695	434,740	423,236
Community and economic development:			
Zoning	95,740	100,035	91,279
Culture and recreation:			
Park maintenance expense	128,925	128,430	119,656
Parks and recreation	2,860	1,760	1,324
Beautification department	10,200	11,200	10,143
Total culture and recreation	141,985	141,390	131,123
Debt service:			
Principal payments	123,142	122,461	34,139
Interest and fiscal charges	2,790	2,810	2,809
Total debt service	125,932	125,271	36,948
Total expenditures	993,827	1,008,404	875,584
Revenues Over (Under) Expenditures	(65,502)	(73,989)	73,548
Other Financing Sources (Uses):			
Transfers in	79,425	77,382	77,382
Transfers out	(59,180)	(60,180)	(56,187)
Total other financing sources (uses)	20,245	17,202	21,195
Net Changes in Fund Balances	(45,257)	(56,787)	94,743
Fund Balances - Beginning of Year	222,533	222,533	222,533
Fund Balances - End of Year	\$ 177,276	\$ 165,746	\$ 317,276

Village of Elk Rapids
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended February 28, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 106,745	\$ 106,745	\$ 124,063
Interest and rentals	200	200	101
Other revenue	-	-	581
Total revenues	106,945	106,945	124,745
Expenditures:			
Highways and streets:			
Street maintenance	129,070	127,850	124,459
Winter maintenance	75,400	76,205	74,310
Total highways and streets	204,470	204,055	198,769
Total expenditures	204,470	204,055	198,769
Revenues Over (Under) Expenditures	(97,525)	(97,110)	(74,024)
Other Financing Sources (Uses):			
Transfers in	97,000	97,000	97,000
Transfers out	(2,300)	(2,300)	(2,300)
Total other financing sources (uses)	94,700	94,700	94,700
Net Changes in Fund Balances	(2,825)	(2,410)	20,676
Fund Balances - Beginning of Year	46,655	46,655	46,655
Fund Balances - End of Year	\$ 43,830	\$ 44,245	\$ 67,331

Village of Elk Rapids
 Budgetary Comparison Schedule
 Local Street Fund
 Year Ended February 28, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Intergovernmental	\$ 47,915	\$ 47,915	\$ 58,026
Interest and rentals	100	100	70
Total revenues	48,015	48,015	58,096
Expenditures:			
Highways and streets:			
Street surface	112,455	114,695	109,926
Winter maintenance	62,585	66,275	66,102
Total highways and streets	175,040	180,970	176,028
Total expenditures	175,040	180,970	176,028
Revenues Over (Under) Expenditures	(127,025)	(132,955)	(117,932)
Other Financing Sources (Uses):			
Transfers in	120,000	120,000	120,000
Transfers out	(2,300)	(2,300)	(2,300)
Total other financing sources (uses)	117,700	117,700	117,700
Net Changes in Fund Balances	(9,325)	(15,255)	(232)
Fund Balances - Beginning of Year	31,176	31,176	31,176
Fund Balances - End of Year	\$ 21,851	\$ 15,921	\$ 30,944

Village of Elk Rapids
 Budgetary Comparison Schedule
 Municipal Street Fund
 Year Ended February 28, 2013

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Taxes	\$ 315,443	\$ 315,160	\$ 315,160
Interest and rentals	300	300	188
Total revenues	315,743	315,460	315,348
Expenditures:			
Public works:			
Street lighting	39,900	36,900	32,160
Other	1,000	1,000	155
Total public works	40,900	37,900	32,315
Total expenditures	40,900	37,900	32,315
Revenues Over (Under) Expenditures	274,843	277,560	283,033
Other Financing Sources (Uses):			
Transfers in	3,800	2,971	2,971
Transfers out	(289,619)	(289,619)	(289,619)
Total other financing sources (uses)	(285,819)	(286,648)	(286,648)
Net Changes in Fund Balances	(10,976)	(9,088)	(3,615)
Fund Balances - Beginning of Year	21,585	21,585	21,585
Fund Balances - End of Year	\$ 10,609	\$ 12,497	\$ 17,970

Other Supplemental Information

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2013

	<u>Building Operating</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ -	\$ 49,977	\$ 35,806	\$ 85,783
Accounts receivable	-	-	5,054	5,054
Taxes receivable	-	1,873	-	1,873
Due from other governmental units	7,072	-	-	7,072
Special assessments	-	-	8,085	8,085
Total assets	<u>\$ 7,072</u>	<u>\$ 51,850</u>	<u>\$ 48,945</u>	<u>\$ 107,867</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 7,011	\$ -	\$ 5,127	\$ 12,138
Accrued expenses	61	-	-	61
Unearned revenue	-	-	8,085	8,085
Total liabilities	<u>7,072</u>	<u>-</u>	<u>13,212</u>	<u>20,284</u>
Fund Balances:				
Restricted	-	45,982	35,733	81,715
Committed	-	5,868	-	5,868
Total fund balances	<u>-</u>	<u>51,850</u>	<u>35,733</u>	<u>87,583</u>
Total liabilities and fund balances	<u>\$ 7,072</u>	<u>\$ 51,850</u>	<u>\$ 48,945</u>	<u>\$ 107,867</u>

Village of Elk Rapids

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended February 28, 2013

	Building Operating	Debt Service	Capital Project	Total
Revenues:				
Taxes	\$ -	\$ 49,227	\$ -	\$ 49,227
Charges for services	22,411	-	-	22,411
Local contributions	-	-	11,237	11,237
Interest revenue	-	107	218	325
Miscellaneous	-	-	57,591	57,591
Total revenues	<u>22,411</u>	<u>49,334</u>	<u>69,046</u>	<u>140,791</u>
Expenditures:				
General government	44,730	-	-	44,730
Debt service:				
Principal payments	-	95,000	-	95,000
Interest and fiscal charges	-	61,439	-	61,439
Capital outlay	-	-	85,678	85,678
Total expenditures	<u>44,730</u>	<u>156,439</u>	<u>85,678</u>	<u>286,847</u>
Revenues Over (Under) Expenditures	<u>(22,319)</u>	<u>(107,105)</u>	<u>(16,632)</u>	<u>(146,056)</u>
Other Financing Sources (Uses):				
Transfers in	24,420	109,483	12,000	145,903
Transfers out	(2,100)	-	(35,000)	(37,100)
Total other financing sources (uses)	<u>22,320</u>	<u>109,483</u>	<u>(23,000)</u>	<u>108,803</u>
Changes in Fund Balances	1	2,378	(39,632)	(37,253)
Fund Balances - Beginning of Year	<u>(1)</u>	<u>49,472</u>	<u>75,365</u>	<u>124,836</u>
Fund Balances - End of Year	<u>\$ -</u>	<u>\$ 51,850</u>	<u>\$ 35,733</u>	<u>\$ 87,583</u>

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Debt Service Funds
February 28, 2013

	<u>River Crossing</u>	<u>Bridge Street</u>	<u>River Street</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 44,109	\$ 4,066	\$ 1,802	\$ 49,977
Taxes receivable	1,873	-	-	1,873
Total assets	<u>\$ 45,982</u>	<u>\$ 4,066</u>	<u>\$ 1,802</u>	<u>\$ 51,850</u>
<u>Liabilities and Fund Balances</u>				
Fund Balances:				
Restricted	\$ 45,982	\$ -	\$ -	\$ 45,982
Committed	-	4,066	1,802	5,868
Total fund balances	<u>45,982</u>	<u>4,066</u>	<u>1,802</u>	<u>51,850</u>
Total liabilities and fund balances	<u>\$ 45,982</u>	<u>\$ 4,066</u>	<u>\$ 1,802</u>	<u>\$ 51,850</u>

Village of Elk Rapids
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended February 28, 2013

	River Crossing	Bridge Street	River Street	Total
Revenues:				
Taxes	\$ 49,227	\$ -	\$ -	\$ 49,227
Interest revenue	107	-	-	107
Total revenues	<u>49,334</u>	<u>-</u>	<u>-</u>	<u>49,334</u>
Expenditures:				
Debt service:				
Principal payments	30,000	35,000	30,000	95,000
Interest and fiscal charges	19,093	11,406	30,940	61,439
Total expenditures	<u>49,093</u>	<u>46,406</u>	<u>60,940</u>	<u>156,439</u>
Revenues Over (Under) Expenditures	<u>241</u>	<u>(46,406)</u>	<u>(60,940)</u>	<u>(107,105)</u>
Other Financing Sources (Uses):				
Transfers in	-	47,943	61,540	109,483
Total other financing sources (uses)	<u>-</u>	<u>47,943</u>	<u>61,540</u>	<u>109,483</u>
Changes in Fund Balances	241	1,537	600	2,378
Fund Balances - Beginning of Year	<u>45,741</u>	<u>2,529</u>	<u>1,202</u>	<u>49,472</u>
Fund Balances - End of Year	<u>\$ 45,982</u>	<u>\$ 4,066</u>	<u>\$ 1,802</u>	<u>\$ 51,850</u>

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Capital Project Funds
February 28, 2013

	General Capital Projects	Southwest Village Project	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 35,751	\$ 55	\$ 35,806
Receivables:			
Accounts receivable	5,054	-	5,054
Special assessments	8,085	-	8,085
Total assets	\$ 48,890	\$ 55	\$ 48,945
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 5,127	\$ -	\$ 5,127
Unearned revenue	8,085	-	8,085
Total liabilities	13,212	-	13,212
Fund Balances:			
Committed	35,678	55	35,733
Total fund balances	35,678	55	35,733
Total liabilities and fund balances	\$ 48,890	\$ 55	\$ 48,945

Village of Elk Rapids
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended February 28, 2013

	General Capital Projects	Southwest Village Project	Total
Revenues:			
Local contributions	\$ 11,237	\$ -	\$ 11,237
Interest revenue	218	-	218
Other revenue	57,591	-	57,591
Total revenues	<u>69,046</u>	<u>-</u>	<u>69,046</u>
Expenditures:			
Capital outlay	85,678	-	85,678
Total expenditures	<u>85,678</u>	<u>-</u>	<u>85,678</u>
Revenues Over (Under) Expenditures	<u>(16,632)</u>	<u>-</u>	<u>(16,632)</u>
Other Financing Sources (Uses):			
Transfers in	12,000	-	12,000
Transfers out	(35,000)	-	(35,000)
Total other financing sources (uses)	<u>(23,000)</u>	<u>-</u>	<u>(23,000)</u>
Changes in Fund Balances	(39,632)	-	(39,632)
Fund Balances - Beginning of Year	<u>75,310</u>	<u>55</u>	<u>75,365</u>
Fund Balances - End of Year	<u>\$ 35,678</u>	<u>\$ 55</u>	<u>\$ 35,733</u>



July 17, 2013

To the Village Council
Village of Elk Rapids

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elk Rapids for the year ended February 28, 2013. 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 as part of our proposal for services. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Elk Rapids 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 fiscal year 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives for fixed assets is based on management's estimated of the length of time those assets are expected to provide economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and current policies regarding the payment of sick and vacation time.

We evaluated the key factors and assumptions used to develop the estimates noted above in determining that it is reasonable in relation to the financial statements taken as a whole.

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 proposed by us, with several being material in nature.

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 July 15, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

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 Village Council and management of the Village of Elk Rapids and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.



To the Village Council
and Management of the Village of Elk Rapids

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elk Rapids as of and for the year ended February 28, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Village'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 Elk Rapids' internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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 either material weaknesses or 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 deficiency in the Village of Elk Rapids' internal control to be a material weakness:

Finding 2013-1 – General Accounting Issues and Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles.

Criteria or Specific Requirement: It is management's responsibility to prepare the financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: As is the case with many smaller and medium-sized entities, the Village has relied on its independent external auditors to assist with the preparation of the financial statements and footnotes along with proposing entries for the records to be in compliance with GAAP.

Cause: The Village has determined that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary expertise required to perform this task internally.

Effect: The Village lacks complete internal control over the preparation of financial statements in accordance with GAAP, and instead has relied on the external auditors for this expertise. This condition adds to both the duration and complexity of the audit, as well as reduces the accuracy and usefulness of the interim financial data.

Views of Responsible Officials and Planned Corrective Action: The Village has evaluated the cost vs. benefit of establishing internal controls as noted above and determined it is in the best interest of the Village to

outsource this task to the its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. We would expect this to be ongoing in the future.

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's internal control to be a significant deficiency:

Finding 2013-2 – Separation of Duties

Criteria or Specific Requirement: Management is responsible for establishing effective internal controls to safeguard the Villages assets and to prevent or detect misstatements to the financial statements. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Ideally, no individual should be able to authorize a transaction, record the transaction, and maintain custody of the assets resulting from the transaction.

Condition: As is the case with many smaller and medium-sized entities, the Village lacks sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function, specifically in cash receipting and utility billing.

Cause: This condition is a result of the Village's limited resources.

Effect: As a result of this condition, the Village is exposed to increased risk that misstatements or misappropriations might occur and not be detected by management in a timely manner.

Views of Responsible Officials and Planned Corrective Action: Management and Council is aware of the risks associated with this condition, and has made the determination that given the Village's limited resources, full segregation of duties is not feasible at this time. Accordingly, Council and Management will continue to review monthly information to mitigate this risk and rely on the external audit to help identify and correct misstatements, as needed.

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

Willis & Jurasek, P.C

July 15, 2013