

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**Village of Elsie
Clinton County, Michigan**

FINANCIAL STATEMENTS

March 31, 2004

Village of Elsie
Clinton County, Michigan

March 31, 2004

VILLAGE COUNCIL AND ADMINISTRATION

Ms. Ann Trierweiler	President
Mr. Donald Taylor	Trustee
Mr. Scott Carie	Trustee
Ms. Shannon Hurst	Trustee
Mr. James Ade	Trustee
Mr. Joe Menovske	Trustee
Ms. Brenda England	Clerk
Ms. Susanne Bensinger	Treasurer

Village of Elsie
TABLE OF CONTENTS
March 31, 2004

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS	
Combined Balance Sheet - All Fund Types and Account Groups	2-5
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	6-7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types	8-9
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/ Fund Balance - Proprietary Fund Types and Similar Trust Fund	10
Combined Statement of Cash Flows - Proprietary Fund Types and Similar Trust Fund	11
Notes to General Purpose Financial Statements	12-25
SUPPLEMENTAL FINANCIAL INFORMATION	
GENERAL FUND	
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	26-30
SPECIAL REVENUE FUNDS	
Combining Balance Sheet	31
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	32
Major Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	33
Local Street Fund Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	34
ENTERPRISE FUNDS	
Combining Balance Sheet	35-36
Combining Statement of Revenues, Expenses, and Changes in Retained Earnings	37
Combining Statement of Cash Flows	38
Comparative Balance Sheet - Sewer System	39-40
Comparative Statement of Revenues, Expenses, and Changes in Retained Earnings - Sewer System	41
Comparative Statement of Cash Flows - Sewer System	42

Village of Elsie

TABLE OF CONTENTS - CONTINUED

March 31, 2004

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

43-45

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Krinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable President
and Members of the Village Council
Village of Elsie
Elsie, Michigan

We have audited the accompanying general purpose financial statements of the Village of Elsie, Michigan as of and for the year ended March 31, 2004, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Elsie, Michigan as of March 31, 2004, and the results of its operations and cash flows of its proprietary and nonexpendable trust fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated June 18, 2004, on our consideration of the Village of Elsie's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund financial statements listed in the Table of Contents under Supplemental Financial Information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Elsie, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

Village of Elsie

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

	Primary		
	Governmental Fund Types		Proprietary Fund Types
	General	Special Revenue	Enterprise
ASSETS			
Cash and cash equivalents	\$ 232,152	\$ 35,551	\$ 415,842
Investments	-	-	-
Receivables			
Taxes	9,860	-	984
Accounts	-	-	29,099
Special assessments	-	-	3,646
Due from primary government	-	-	-
Due from other funds	35,951	11,076	65,690
Due from other governmental units-			
State	-	16,037	-
Local	-	-	-
Fixed assets (net of accumulated depreciation)	-	-	6,305,004
Amount to be provided for retirement of general long-term debt	-	-	-
TOTAL ASSETS	<u>\$ 277,963</u>	<u>\$ 62,664</u>	<u>\$ 6,820,265</u>

See accompanying notes to general purpose financial statements.

Fiduciary Fund Type	Government			Component Unit	
	Account Groups			Downtown Development Authority	Reporting Entity Totals (Memorandum Only)
Nonexpendable Trust Fund (Cemetery Perpetual Care)	General Fixed Assets	General Long-term Debt	Totals (Memorandum Only)		
\$ 117,743	\$ -	\$ -	\$ 801,288	\$ 123,925	\$ 925,213
-	-	-	-0-	43,551	43,551
-	-	-	10,844	-	10,844
-	-	-	29,099	-	29,099
-	-	-	3,646	-	3,646
-	-	-	-0-	8,298	8,298
23,620	-	-	136,337	-	136,337
-	-	-	16,037	-	16,037
-	-	-	-0-	29,020	29,020
-	1,128,217	-	7,433,221	-	7,433,221
-	-	143,135	143,135	-	143,135
<u>\$ 141,363</u>	<u>\$ 1,128,217</u>	<u>\$ 143,135</u>	<u>\$ 8,573,607</u>	<u>\$ 204,794</u>	<u>\$ 8,778,401</u>

Village of Elsie

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS - CONTINUED

March 31, 2004

	Primary		
	Governmental Fund Types		Proprietary Fund Types
	General	Special Revenue	Enterprise
LIABILITIES			
Payables			
Accounts	\$ 8,793	\$ 1,362	\$ 9,526
Wages and fringes	17,933	117	1,367
Compensated absences	-	-	2,882
Accrued interest	-	-	11,631
Due to other funds	89,941	20,227	26,169
Due to component unit	8,298	-	-
Leases payable	-	-	-
Bonds payable	-	-	1,983,000
TOTAL LIABILITIES	124,965	21,706	2,034,575
FUND EQUITY			
Contributed capital			
Federal Government	-	-	3,430,082
Taxpayers	-	-	608,593
Investment in general fixed assets	-	-	-
Retained earnings			
Reserved for debt service	-	-	4,526
Reserved for repairs and replacement	-	-	27,000
Unreserved	-	-	715,489
Fund balance			
Reserved for			
Perpetual care	-	-	-
Unreserved			
Undesignated	152,998	40,958	-
TOTAL FUND EQUITY	152,998	40,958	4,785,690
TOTAL LIABILITIES AND FUND EQUITY	\$ 277,963	\$ 62,664	\$ 6,820,265

See accompanying notes to general purpose financial statements.

Fiduciary Fund Type	Government			Component Unit	Reporting Entity Totals (Memorandum Only)
	Account Groups				
Nonexpendable Trust Fund (Cemetery Perpetual Care)	General Fixed Assets	General Long-term Debt	Totals (Memorandum Only)	Downtown Development Authority	
\$ -	\$ -	\$ -	\$ 19,681	\$ -	\$ 19,681
-	-	-	19,417	-	19,417
-	-	3,641	6,523	-	6,523
-	-	-	11,631	-	11,631
-	-	-	136,337	-	136,337
-	-	-	8,298	-	8,298
-	-	139,494	139,494	-	139,494
-	-	-	1,983,000	-	1,983,000
-0-	-0-	143,135	2,324,381	-0-	2,324,381
-	-	-	3,430,082	-	3,430,082
-	-	-	608,593	-	608,593
-	1,128,217	-	1,128,217	-	1,128,217
-	-	-	4,526	-	4,526
-	-	-	27,000	-	27,000
-	-	-	715,489	-	715,489
141,363	-	-	141,363	-	141,363
-	-	-	193,956	204,794	398,750
141,363	1,128,217	-0-	6,249,226	204,794	6,454,020
<u>\$ 141,363</u>	<u>\$ 1,128,217</u>	<u>\$ 143,135</u>	<u>\$ 8,573,607</u>	<u>\$ 204,794</u>	<u>\$ 8,778,401</u>

Village of Elsie

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

	Primary Government		Totals
	General	Special Revenue	(Memorandum Only)
REVENUES			
Taxes	\$ 213,101	\$ -	\$ 213,101
Licenses and permits	4,262	-	4,262
Intergovernmental	122,961	74,316	197,277
Charges for services	13,158	-	13,158
Fines and forfeits	-	-	-0-
Interest and rents	4,381	374	4,755
Other	8,945	120	9,065
TOTAL REVENUES	366,808	74,810	441,618
EXPENDITURES			
General government	234,866	-	234,866
Public safety	165,414	-	165,414
Public works	-	84,947	84,947
Community and economic development	-	-	-0-
Recreation and cultural	11,203	-	11,203
Debt service	9,324	-	9,324
TOTAL EXPENDITURES	420,807	84,947	505,754
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(53,999)	(10,137)	(64,136)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	20,272	20,272
Operating transfers out	(37,890)	(11,360)	(49,250)
Operating transfer in from component unit	10,000	-	10,000
Operating transfer out from component unit	-	-	-0-
Lease proceeds	26,454	-	26,454
TOTAL OTHER FINANCING SOURCES (USES)	(1,436)	8,912	7,476
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(55,435)	(1,225)	(56,660)
Fund balances, beginning of year	199,248	42,183	241,431
Prior period adjustment	9,185	-	9,185
Fund balances, end of year	\$ 152,998	\$ 40,958	\$ 193,956

See accompanying notes to general purpose financial statements.

Component Unit	Reporting Entity Totals (Memorandum Only)
Downtown Development Authority	
\$ 84,171	\$ 297,272
-	4,262
-	197,277
-	13,158
-	-
755	5,510
-	9,065
84,926	526,544
-	234,866
-	165,414
-	84,947
9,436	9,436
-	11,203
-	9,324
9,436	515,190
75,490	11,354
-	20,272
-	(49,250)
-	10,000
(10,000)	(10,000)
-	26,454
(10,000)	(2,524)
65,490	8,830
139,304	380,735
-	9,185
\$ 204,794	\$ 398,750

Village of Elsie

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Year Ended March 31, 2004

	General Fund		
	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 300,000	\$ 213,101	\$ (86,899)
Licenses and permits	6,100	4,262	(1,838)
Intergovernmental	91,070	122,961	31,891
Charges for services	15,400	13,158	(2,242)
Interest and rents	2,400	4,381	1,981
Other	-	8,945	8,945
TOTAL REVENUES	414,970	366,808	(48,162)
EXPENDITURES			
General government	266,327	234,866	31,461
Public safety	131,750	165,414	(33,664)
Public works	-	-	-0-
Recreation and cultural	21,783	11,203	10,580
Debt service	9,324	9,324	-0-
TOTAL EXPENDITURES	429,184	420,807	8,377
EXCESS OF REVENUES (UNDER) EXPENDITURES	(14,214)	(53,999)	(39,785)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-0-
Operating transfers out	-	(37,890)	(37,890)
Operating transfer in from component unit	-	10,000	10,000
Lease proceeds	-	26,454	26,454
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(1,436)	(1,436)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(14,214)	(55,435)	(41,221)
Fund balances, beginning of year	199,248	199,248	-0-
Prior period adjustment	-	9,185	9,185
Fund balances, end of year	\$ 185,034	\$ 152,998	\$ (32,036)

See accompanying notes to general purpose financial statements.

Special Revenue Funds		
Amended Budget	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -0-
-	-	-0-
77,230	74,316	(2,914)
-	-	-0-
600	374	(226)
-	120	120
77,830	74,810	(3,020)
-	-	-0-
-	-	-0-
132,486	84,947	47,539
-	-	-0-
-	-	-0-
132,486	84,947	47,539
(54,656)	(10,137)	44,519
17,864	20,272	2,408
-	(11,360)	(11,360)
-	-	-0-
-	-	-0-
17,864	8,912	(8,952)
(36,792)	(1,225)	35,567
42,183	42,183	-0-
-	-	-0-
\$ 5,391	\$ 40,958	\$ 35,567

Village of Elsie

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS/FUND BALANCE -
PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND

Year Ended March 31, 2004

	Proprietary Fund Types	Fiduciary Fund Type Cemetery Non- expendable Trust	Totals (Memorandum Only)
	Enterprise		
OPERATING REVENUES			
Charges for services	\$ 300,047	\$ -	\$ 300,047
Other	432	-	432
TOTAL OPERATING REVENUES	300,479	-0-	300,479
OPERATING EXPENSES			
Salaries and wages	52,532	-	52,532
Fringe benefits	12,746	-	12,746
Contractual services	45,890	-	45,890
Supplies	39,055	-	39,055
Insurance	805	-	805
Utilities	15,788	-	15,788
Training	500	-	500
Communications	1,321	-	1,321
Printing and publishing	561	-	561
Repairs and maintenance	4,036	-	4,036
Vehicle expense	2,711	-	2,711
Other	8,799	-	8,799
Depreciation	164,105	-	164,105
TOTAL OPERATING EXPENSES	348,849	-0-	348,849
OPERATING LOSS	(48,370)	-0-	(48,370)
NONOPERATING REVENUES (EXPENSES)			
Loss on investments	(1,074)	-	(1,074)
Interest revenue	5,686	1,635	7,321
Interest expense	(91,613)	-	(91,613)
TOTAL NONOPERATING REVENUES (EXPENSES)	(87,001)	1,635	(85,366)
INCOME (LOSS) BEFORE TRANSFERS	(135,371)	1,635	(133,736)
TRANSFERS IN			
Transfers in	25,976	3,002	28,978
NET INCOME (LOSS)	(109,395)	4,637	(104,758)
Retained earnings/fund balance, beginning of year	853,804	136,726	990,530
Prior period adjustment	2,606	-0-	2,606
Retained earnings/fund balance, end of year	\$ 747,015	\$ 141,363	\$ 888,378

See accompanying notes to general purpose financial statements.

Village of Elsie

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE AND SIMILAR TRUST FUND

Year Ended March 31, 2004

	Proprietary Fund Types	Fiduciary Fund Type Cemetery Non- expendable Trust	Totals (Memorandum Only)
	Enterprise		
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (48,370)	\$ -	\$ (48,370)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	164,105	-	164,105
(Increase) in accounts receivable	(9,414)	-	(9,414)
(Increase) in taxes receivable	(984)	-	(984)
Decrease in special assessment receivable	557	-	557
(Increase) decrease in due from other funds	13,640	(3,002)	10,638
Decrease in prepaid expenses	2,606	-	2,606
Increase in accounts payable	5,164	-	5,164
(Decrease) in accrued liabilities	(2,093)	-	(2,093)
(Decrease) in due to other funds	(71,218)	-	(71,218)
(Decrease) in accrued interest payable	(2,240)	-	(2,240)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	51,753	(3,002)	48,751
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest expense	(91,613)	-	(91,613)
Payments of borrowing	(23,000)	-	(23,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(114,613)	-0-	(114,613)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	25,976	3,002	28,978
CASH FLOWS FROM INVESTING ACTIVITIES			
Loss on investments	(1,074)	-	(1,074)
Interest revenue	5,686	1,635	7,321
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,612	1,635	6,247
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(32,272)	1,635	(30,637)
Cash and cash equivalents, beginning of year	448,114	116,108	564,222
Cash and cash equivalents, end of year	\$ 415,842	\$ 117,743	\$ 533,585

See accompanying notes to general purpose financial statements.

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Elsie is located in Clinton County, Michigan and has a population of approximately 1,000. The Village of Elsie operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and five (5) trustees who are selected at large for four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by generally accepted accounting principles; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of the Village of Elsie (primary government) and its component unit (Downtown Development Authority). The component unit described in Section 2 below is included in the Village's reporting entity because of the significance of the operational and financial relationship with the Village.

Based upon the application of these criteria, the general purpose financial statements of the Village of Elsie contain all the funds and account groups controlled by the Village Council.

2. Discretely Presented Component Unit

The component unit column in the general purpose financial statements includes the financial data of the Village's component unit (Downtown Development Authority). It is reported in a separate column to emphasize that it is legally separate from the Village.

The governing body of the Downtown Development Authority is appointed by the Village Council, the Authority's budget is subject to the approval of the Village Council, and the Village temporarily relinquishes part of its tax base to the Authority (tax increment revenues).

3. Joint Venture

The Village participates in the following activity, which is considered to be a joint venture in relation to the Village due to the formation of an organization by contractual agreement between two or more participants that maintain just control, financial interest, and financial responsibility.

Elsie Area Fire Association - The Village of Elsie, in conjunction with Duplain, Fairfield, and Chapin Townships, has entered into an agreement which created the Elsie Area Fire Association. Each municipality appoints one individual and the fire department appoints one individual at large to the governing body of the Fire Association. The at large member shall not be a member of, or associated with the fire department.

For the year ended March 31, 2004, the Village paid \$175 for fire supplies and \$10,000 for equipment to the Fire Association.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Related Organization

The Elsie Dairy Festival is a separate entity established to raise funds and sponsor the annual dairy festival and other activities held in the Village. The Village appoints one (1) of its Board Members to serve as the Village representative on the Committee that organizes the festival activities. The Village provides insurance coverage for the festival and allows festival activities to be held on Village owned properties. The Village also provides public works and police support for the festival at no cost. The Village did not contribute to the operational costs of the festival for the year ended March 31, 2004.

5. Basis of Presentation

The accounts of the Village primary government and component unit are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Village resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into four fund types and two account groups as follows:

GOVERNMENTAL FUNDS

- a. General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. Special Revenue Funds (Major Street, Local Street) - The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

PROPRIETARY FUNDS

- a. Enterprise Funds (Sewer System, Water System) - The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

FIDUCIARY FUND

- a. Nonexpendable Trust Fund (Cemetery Perpetual Care) - The Nonexpendable Trust Fund is used to account for assets held by the Village in a trustee capacity. Nonexpendable trust funds are reported similar to proprietary funds.

COMPONENT UNIT FUND

- a. Special Revenue - Downtown Development Authority Fund - The Downtown Development Authority Fund is used to account for the proceeds of specific revenue sources (tax increment financing revenue) that are legally restricted to expenditures for specified purposes.

ACCOUNT GROUPS

- a. General Fixed Assets Account Group - The General Fixed Assets Account Group is used to maintain control and cost information for all fixed assets other than those accounted for in the Proprietary Funds.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Presentation - continued

ACCOUNT GROUPS - CONTINUED

- b. General Long-Term Debt Account Group - The General Long-Term Debt Account Group is used to record the outstanding long-term obligations not otherwise recorded in the Proprietary Funds.

6. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and component unit funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet except for the component unit funds, which, with discrete presentation, include an amount for general fixed assets. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current and long-term assets.

All proprietary and similar trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary and similar trust fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

7. Basis of Accounting

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

All governmental and component unit funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary and similar trust funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

8. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Village President submits to Village Council the proposed operating budgets for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budget is legally adopted with passage by Council vote.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Budgets and Budgetary Accounting - continued

- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31, 2004 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council as required.

9. Cash and Cash Equivalents

The Village pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash equivalents consist of pooled temporary investments in mutual funds and certificates of deposit with an original maturity of 90 days or less from the date of purchase.

10. Property Tax

The Village of Elsie bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Elsie on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended March 31, 2004, the Village levied 15 mills per \$1,000 of assessed valuation for general governmental services. The total taxable value for the 2003 levy for property within the Village was \$17,062,872.

The Downtown Development Authority (component unit) receives "tax increment" revenue. The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured taxable value of all real and personal property located in the development area. The "captured taxable value" is basically defined as the amount in any one year by which the current taxable value of the project area exceeds the initial taxable value.

11. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Compensated Absences

Village employees are granted vacation, sick, and personal leave in varying amounts. In the event of termination, an employee is paid for one-half of accumulated sick days and all accumulated unused vacation and personal leave days.

For governmental funds, the cost of accumulated compensated absences along with the related payroll taxes are recorded in the General Long-Term Debt Account Group. For proprietary funds, the cost is recorded as a fund liability when earned.

13. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental and component unit funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their Balance Sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Fixed assets used in governmental and component unit fund type operations (general fixed assets) are accounted for in a General Fixed Assets Account Group rather than in the governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their Balance Sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components.

Fixed assets are recorded at cost or estimated historical cost, or if donated, at fair market value at the date of donation. For assets acquired before February 24, 1974, historical cost is based on insurable values as determined at February 24, 1974. Expenditures, which materially extend the useful life of existing assets, are capitalized. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, sidewalks, and drains, are not capitalized.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Water and sewer lines	40 years
Pump stations/mains	40-75 years
Equipment	10-40 years

14. Comparative Data

Comparative data for certain funds has been presented in the accompanying financial statements in order to provide an understanding of changes in the Fund's financial position and operations. However, comparative data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Total Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), or a credit union which is insured by the National Credit Union Administration or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United State government and which maintains a principal office or branch office located in this State under the laws of this State, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act no. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

As of March 31, 2004, the carrying amounts and bank balances for the bank accounts are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 451,320	\$ 453,378
COMPONENT UNIT		
Checking	123,925	123,925
Certificates of deposit	<u>43,551</u>	<u>43,551</u>
Total Component Unit	<u>167,476</u>	<u>167,476</u>
Total Reporting Entity	<u>\$ 618,796</u>	<u>\$ 620,854</u>

Deposits of the Village are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Village. As of March 31, 2004 the Village accounts were insured by the FDIC for \$243,551 and the amount of \$377,303 as uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

As of March 31, 2004 the carrying amount and market value for the mutual fund investments reported in the cash and cash equivalents caption on the combined balance sheet is as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT		
Uncategorized pooled investment funds	<u>\$ 349,968</u>	<u>\$ 349,968</u>

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The amount of primary government interfund receivables and payables at March 31, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General		General	
Local Street	\$ 10,601	Major Street	\$ 1,619
Water System	<u>25,350</u>	Sewer System	64,702
	35,951	Cemetery Perpetual Care	<u>23,620</u>
			89,941
Special Revenue		Special Revenue	
Major Street		Major Street	
General	1,619	Local Street	9,457
		Water System	<u>162</u>
			9,619

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE C: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Special Revenue - continued		Special Revenue - continued	
Local Street		Local Street	
Major Street	\$ 9,457	General	\$ 10,601
		Water System	7
	11,076		10,608
Enterprise			20,227
Sewer System			
General	64,702	Enterprise	
		Sewer System	
Water System		Water System	819
Major Street	162		
Local Street	7	Water System	
Sewer System	819	General	25,350
	988		26,169
	65,690		
Nonexpendable Trust			
Cemetery Perpetual Care			
General	23,620		
	\$ 136,337		\$ 136,337

NOTE D: INTERFUND RECEIVABLES AND PAYABLES - COMPONENT UNITS

The following schedule details interfund receivables and payables related to the Component Unit funds at March 31, 2004

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Downtown Development Authority		Primary Government	
Primary Government		General Fund	
General Fund	\$ 8,298	Downtown Development Authority	\$ 8,298

NOTE E: FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance Apr. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Mar. 31, 2004</u>
PRIMARY GOVERNMENT				
Land	\$ 9,500	\$ -	\$ -	\$ 9,500
Parking Lot	8,250	-	-	8,250
Buildings	85,000	-	-	85,000
Improvements	290,057	-	-	290,057
Furniture and fixtures	7,500	-	-	7,500
Equipment	328,910	-	-	328,910
Automobiles	385,214	26,454	12,668	399,000
	\$ 1,114,431	\$ 26,454	\$ 12,668	\$ 1,128,217

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE E: FIXED ASSETS - CONTINUED

A summary of Proprietary Fund Type fixed assets at March 31, 2004 follows:

	<u>Enterprise</u>
Land	\$ 171,000
System and improvements	7,711,002
Equipment	<u>254,438</u>
Total	8,136,440
Less: accumulated depreciation	<u>(1,831,436)</u>
Net fixed assets	<u>\$ 6,305,004</u>

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended March 31, 2004.

	<u>Balance</u> <u>Apr. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Mar. 31, 2004</u>
General Long-Term Debt				
Fire truck lease	\$ 132,149	\$ -	\$ 9,785	\$ 122,364
Police car lease	-	26,454	9,324	17,130
Accumulated compensated absences	8,139	-	4,498	3,641
Enterprise Funds				
Sewer System Fund				
2002 Revenue Bonds	1,766,000	-	18,000	1,748,000
Water System Fund				
1997C Refunding Bonds	<u>240,000</u>	<u>-</u>	<u>5,000</u>	<u>235,000</u>
	<u>\$ 2,146,288</u>	<u>\$ 26,454</u>	<u>\$ 46,607</u>	<u>\$ 2,126,135</u>

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1990 Water Revenue Bonds and replace them with the 1997C Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$49,303.

In 2000 the Village entered into a lease agreement with Kansas State Bank of Manhattan on behalf of the Elsie Area Fire Association to purchase a new fire truck. The Association has agreed to make all payments for the truck directly to the bank. Although the truck is titled to the Village, the Association operates and maintains the vehicle and made the lease payment for the year ended March 31, 2004.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Fire Truck Lease

\$150,857 Fire truck lease, dated June 6, 2000, due in annual installments of \$18,397 through April 30, 2012, including interest of 6.50% payable annually.

\$ 122,364

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE F: LONG-TERM DEBT - CONTINUED

Police Car Lease

\$26,454 Police car lease, dated June 17, 2003, due in annual installments of \$9,324 through June 17, 2005, including interest of 5.85% payable annually. \$ 17,130

Sewer System Revenue Bonds

\$1,800,000 Sewer System Revenue Bonds, dated the various dates delivered to the purchaser(s), due in annual installments to be set by the U.S. Department of Agriculture with a final maturity date no later than September 1, 2042, with interest not to exceed 4.50 percent, payable semi-annually. \$ 1,748,000

Water System Refunding Bonds

\$265,000 Water Refunding Bonds, dated October 16, 1997, due in annual installments ranging from \$5,000 to \$25,000 through May 1, 2020, with interest of 5.274 percent, payable semi-annually. \$ 235,000

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused compensated absences. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the financial statements either on the respective fund Balance Sheet or the General Long-Term Debt Account Group, amounted to approximately \$6,523 at March 31, 2004. Of this amount, \$2,882 is accrued as current liabilities within the Enterprise Funds in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Village's long-term debt is as follows:

<u>Year Ending March 31,</u>	<u>Revenue Bonds</u>	<u>Refunding Bonds</u>	<u>Fire Truck Lease</u>	<u>Police Car Lease</u>	<u>Total</u>
2005	\$ 97,232	\$ 17,067	\$ 18,397	\$ 9,324	\$ 142,020
2006	97,355	21,721	18,397	9,324	146,797
2007	97,433	21,256	18,397	-	137,086
2008	97,465	20,789	18,397	-	136,651
2009	97,452	20,311	18,397	-	136,160
2010-2014	485,500	103,495	73,588	-	662,583
2015-2019	485,764	109,262	-	-	595,026
2020-2024	484,677	47,553	-	-	532,230
2025-2029	483,648	-	-	-	483,648
2030-2034	482,860	-	-	-	482,860
2035-2039	481,300	-	-	-	481,300
2040-2041	192,369	-	-	-	192,369
	3,583,055	361,454	165,573	18,648	4,128,730
Less: interest	(1,835,055)	(126,454)	(43,209)	(1,518)	(2,006,236)
	<u>\$ 1,748,000</u>	<u>\$ 235,000</u>	<u>\$ 122,364</u>	<u>\$ 17,130</u>	<u>\$ 2,122,494</u>

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE G: RETIREMENT PLANPlan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System 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 System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended March 31, 2004, the Village's annual pension cost of \$8,625 for the plan was less than the Village's actuarially estimated annual contribution of \$8,656. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is eight (8) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 128,313	\$ 133,251	\$ 151,776
Actuarial accrued liability (AAL) (entry age)	163,190	184,268	172,236
Unfunded AAL	34,877	51,017	20,460
Funded ratio	79 %	72 %	88 %
Covered payroll	\$ 86,337	\$ 105,922	\$ 124,625
UAAL as a percentage of covered payroll	40 %	48 %	16 %

	Year Ended March 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 2,171	\$ 2,133	\$ 8,625
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE J: FUND EQUITY RESERVES

Reserved fund balance and retained earnings are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance and retained earnings reserves as of March 31, 2004:

Fund Balance

Cemetery Perpetual Care Fund	
Reserved for perpetual care	\$ 141,363

Retained Earnings

Enterprise Funds	
Water System Fund	
Reserved for debt service	\$ 4,526
Reserved for repairs and replacement	<u>27,000</u>
	<u>\$ 31,526</u>

NOTE K: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, workers' compensation, crime, and liability losses. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

NOTE L: PRIOR PERIOD ADJUSTMENTS

The following prior adjustments were made during the current period, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund equity. The effect on operations and other affected balances for the current year and prior period are as follows:

	March 31, <u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT			
General Fund			
Cash	\$ -	\$ 9,185	Correct understatement of cash
Revenues over/(under) expenditures	-	9,185	
Fund balance - beginning	9,185	-	
Enterprise Funds			
Water System			
Prepaid expenses	-	2,606	Correct understatement of prepaid expenses
Revenues over/(under) expenses	-	2,606	
Retained earnings - beginning	2,606	-	

Village of Elsie

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE H: SEGMENT INFORMATION

The Village operates the Sewer System and Water System utilities providing services to the various Village residents. Segment information for the fiscal year ended March 31, 2004, is as follows:

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
Operating revenues	\$ 167,638	\$ 132,841	\$ 300,479
Operating expenses			
Depreciation	129,990	34,115	164,105
Other	54,757	129,987	184,744
Operating loss	(17,109)	(31,261)	(48,370)
Transfers In	-	25,976	25,976
Net loss	(92,036)	(17,359)	(109,395)
Contributed capital	3,652,179	386,496	4,038,675
Net working capital	403,854	34,004	437,858
Total assets	5,996,727	823,538	6,820,265
Long-term liabilities			
Refunding bonds payable	1,730,000	-	1,730,000
Revenue bonds payable	-	230,000	230,000
Total equity	4,236,569	549,121	4,785,690

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended March 31, 2004, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Attorney	\$ 2,000	\$ 3,168	\$ 1,168
Treasurer	4,760	5,200	440
Public Safety			
Police department	126,550	150,795	24,245
Fire department	-	10,175	10,175
Other financing uses			
Operating transfers out	-	37,890	37,890

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

March 31, 2004

NOTE M: GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the Village of Elsie no later than the fiscal year ending March 31, 2005; the retroactive reporting of infrastructures is optional. If the Village elects to retroactively report infrastructure, it must be implemented no later than the year ending March 31, 2009.

SUPPLEMENTAL FINANCIAL INFORMATION

Village of Elsie

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Taxes				
General property taxes	\$ 300,000	\$ 210,249	\$ (89,751)	\$210,057
Penalties and interest	-	270	270	211
Tax collection fees	-	2,582	2,582	2,543
Total taxes	300,000	213,101	(86,899)	212,811
Licenses and permits				
Zoning permits	3,500	1,672	(1,828)	3,477
Cable franchise fees	2,600	2,590	(10)	2,558
Total licenses and permits	6,100	4,262	(1,838)	6,035
Intergovernmental				
State shared revenue				
Sales tax	90,000	121,888	31,888	133,314
Liquor licenses	1,070	1,073	3	1,068
Total intergovernmental	91,070	122,961	31,891	134,382
Charges for services				
Cemetery fees and lot sales	15,400	13,158	(2,242)	16,191
Fines and forfeits				
Parking	-	-	-0-	36
Interest and rents				
Interest	1,500	3,631	2,131	8,227
Rent	900	750	(150)	900
Total interest and rents	2,400	4,381	1,981	9,127
Other				
Contributions	-	4,275	4,275	-
Reimbursements	-	2,666	2,666	5,798
Miscellaneous	-	2,004	2,004	4,764
Total other	-0-	8,945	8,945	10,562
TOTAL REVENUES	414,970	366,808	(48,162)	389,144
OTHER FINANCING SOURCES				
Operating transfer in from component unit	-	10,000	10,000	-
Lease proceeds	-	26,454	26,454	-
TOTAL OTHER FINACING SOURCES	-0-	36,454	36,454	-0-
TOTAL REVENUE AND OTHER FINANCING SOURCES	414,970	403,262	(11,708)	389,144

Village of Elsie

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004
With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES				
General government				
Legislative				
Salaries and wages	\$ 10,500	\$ 8,745	\$ 1,755	\$ 7,500
Fringe benefits	820	900	(80)	578
Dues and subscriptions	200	-	200	108
Contributions	5,250	1,883	3,367	4,148
Miscellaneous	600	-	600	-
Total legislative	17,370	11,528	5,842	12,334
Elections				
Contracted services	600	455	145	-
Supplies	650	162	488	-
Printing and publishing	200	522	(322)	-
Miscellaneous	-	34	(34)	-
Total elections	1,450	1,173	277	-0-
Assessor				
Fringe benefits	4,000	1,855	2,145	3,694
Attorney				
Professional services	2,000	3,168	(1,168)	-
Clerk				
Salary and wages	2,500	2,292	208	2,708
Fringe benefits	200	400	(200)	207
Supplies	350	328	22	-
Dues and subscriptions	100	115	(15)	65
Miscellaneous	350	-	350	103
Total clerk	3,500	3,135	365	3,083
Treasurer				
Salaries and wages	3,500	3,500	-0-	3,792
Fringe benefits	270	954	(684)	335
Supplies	740	681	59	669
Dues and subscriptions	150	55	95	150
Miscellaneous	100	10	90	60
Total treasurer	4,760	5,200	(440)	5,006

Village of Elsie

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004
With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
General government - continued				
Buildings and grounds				
Salaries and wages	\$ 5,000	\$ 2,908	\$ 2,092	\$ 5,415
Fringe benefits	580	322	258	461
Supplies	1,000	282	718	1,065
Contracted services	1,500	157	1,343	3,240
Insurance	220	220	-0-	-
Miscellaneous	1,500	270	1,230	-
Total buildings and grounds	9,800	4,159	5,641	10,181
Cemetery				
Salaries and wages	14,300	7,624	6,676	13,836
Fringe benefits	5,772	3,791	1,981	5,624
Supplies	1,450	1,901	(451)	2,343
Insurance	1,200	1,200	-0-	500
Communications	200	55	145	100
Repairs and maintenance	1,350	442	908	1,235
Utilities	200	85	115	105
Contracted services	-	2,733	(2,733)	1,231
Capital outlay	1,000	-	1,000	604
Miscellaneous	2,000	3,725	(1,725)	135
Vehicle expense	1,500	513	987	170
Total cemetery	28,972	22,069	6,903	25,883
Other village services				
Salaries and wages	46,800	42,476	4,324	39,324
Fringe benefits	19,900	17,532	2,368	15,386
Insurance and bonds	19,000	18,819	181	12,979
Supplies	6,500	6,621	(121)	5,586
Printing and publishing	2,200	2,529	(329)	4,167
Communications	2,200	2,438	(238)	2,321
Education	500	565	(65)	270
Contractual services	34,000	30,597	3,403	45,304
Garbage collection	34,325	33,744	581	30,543
Repairs and maintenance	5,000	2,906	2,094	4,861
Utilities	22,000	22,776	(776)	27,277
Capital outlay	-	-	-0-	13,777
Miscellaneous	2,050	1,576	474	2,711
Total other village services	194,475	182,579	11,896	204,506
Total general government	266,327	234,866	31,461	264,687

Village of Elsie

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
Public safety				
Police department				
Salaries and wages	\$ 92,356	\$ 85,486	\$ 6,870	\$ 83,582
Fringe benefits	13,950	13,557	393	11,280
Supplies	7,704	9,482	(1,778)	2,378
Printing and publishing	100	-	100	145
Transportation	250	144	106	-
Dues and subscriptions	250	100	150	-
Uniforms	1,600	2,238	(638)	1,705
Communications	2,890	1,582	1,308	2,617
Education	550	706	(156)	748
Vehicle expense	4,000	3,894	106	3,996
Contractual services	600	1,687	(1,087)	-
Repairs and maintenance	1,800	964	836	3,126
Capital outlay	-	26,454	(26,454)	100
Miscellaneous	500	4,501	(4,001)	550
Total police department	126,550	150,795	(24,245)	110,227
Fire department				
Operating supplies	-	175	(175)	-
Equipment	-	10,000	(10,000)	-
Total fire department	-0-	10,175	(10,175)	-0-
Zoning				
Salaries and wages	2,500	2,815	(315)	2,600
Fringe benefits	200	184	16	199
Contractual services	2,500	1,445	1,055	2,920
Total zoning	5,200	4,444	756	5,719
Total public safety	131,750	165,414	(33,664)	115,946

Village of Elsie

General Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - CONTINUED

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
EXPENDITURES - CONTINUED				
Recreation and cultural				
Parks and recreation				
Salaries and benefits	\$ 7,000	\$ 1,633	\$ 5,367	\$ 5,076
Fringe benefits	5,128	3,000	2,128	4,526
Supplies	1,125	882	243	1,192
Insurance	230	230	-0-	300
Vehicle expense	1,300	460	840	726
Communications	100	55	45	100
Repair and maintenance	1,800	634	1,166	700
Capital outlay	3,000	-	3,000	1,000
Contracted services	1,000	3,328	(2,328)	5,430
Utilities	500	307	193	526
Miscellaneous	600	674	(74)	-
Total recreation and cultural	21,783	11,203	10,580	19,576
Debt service				
Principal retirement	9,324	9,324	-0-	-
TOTAL EXPENDITURES	429,184	420,807	8,377	400,209
EXCESS OF REVENUES (UNDER) EXPENDITURES	(14,214)	(17,545)	(20,085)	(11,065)
OTHER FINANCING USES				
Operating transfers out				
Cemetery	-	(3,002)	(3,002)	(5,115)
Local Street	-	(8,912)	(8,912)	(7,015)
Water	-	(25,976)	(25,976)	(56,541)
TOTAL OTHER FINANCING USES	-0-	(37,890)	(37,890)	(68,671)
EXCESS OF REVENUES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(14,214)	(55,435)	(41,221)	(79,736)
Fund balance, beginning of year	199,248	199,248	-0-	278,984
Prior period adjustment	-	9,185	9,185	-
Fund balance, end of year	<u>\$ 185,034</u>	<u>\$ 152,998</u>	<u>\$ (32,036)</u>	<u>\$ 199,248</u>

Village of Elsie
Special Revenue Funds
COMBINING BALANCE SHEET
March 31, 2004

	Major Street	Local Street	Total
ASSETS			
Cash and cash equivalents	\$ 29,339	\$ 6,212	\$ 35,551
Due from other funds	1,619	9,457	11,076
Due from other governmental units - State	11,827	4,210	16,037
TOTAL ASSETS	<u>\$ 42,785</u>	<u>\$ 19,879</u>	<u>\$ 62,664</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 694	\$ 668	\$ 1,362
Accrued wages and fringes	61	56	117
Due to other funds	9,619	10,608	20,227
TOTAL LIABILITIES	10,374	11,332	21,706
FUND BALANCES			
Unreserved			
Undesignated	32,411	8,547	40,958
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,785</u>	<u>\$ 19,879</u>	<u>\$ 62,664</u>

Village of Elsie

Special Revenue Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended March 31, 2004

	Major Street	Local Street	Total
REVENUES			
Intergovernmental - State	\$ 54,836	\$ 19,480	\$ 74,316
Interest	374	-	374
Other	120	-	120
TOTAL REVENUES	55,330	19,480	74,810
EXPENDITURES			
Public works			
Highways and streets	53,665	31,282	84,947
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,665	(11,802)	(10,137)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	20,272	20,272
Operating transfers out	(11,360)	-	(11,360)
TOTAL OTHER FINANCING SOURCES (USES)	(11,360)	20,272	8,912
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES OTHER FINANCING USES	(9,695)	8,470	(1,225)
Fund balances, beginning of year	42,106	77	42,183
Fund balances, end of year	\$ 32,411	\$ 8,547	\$ 40,958

Village of Elsie

Major Street Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Intergovernmental				
State - gas and weight tax	\$ 57,000	\$ 54,836	\$ (2,164)	\$ 57,605
Interest	600	374	(226)	-
Other				
Miscellaneous	-	120	120	-
TOTAL REVENUES	57,600	55,330	(2,270)	57,605
EXPENDITURES				
Public works				
Routine maintenance				
Salaries and wages	19,156	16,252	2,904	19,371
Fringe benefits	6,820	5,470	1,350	6,745
Supplies	4,500	5,309	(809)	4,094
Contractual services	11,000	9,060	1,940	5,951
Insurance	518	518	-0-	300
Utilities	240	264	(24)	443
Repairs and maintenance	40,918	11,856	29,062	4,866
Capital outlay	2,000	-	2,000	3,000
Miscellaneous	1,680	707	973	402
Total routine maintenance	86,832	49,436	37,396	45,172
Winter maintenance				
Salaries and wages	2,070	3,425	(1,355)	1,830
Fringe benefits	190	418	(228)	251
Supplies	2,000	46	1,954	852
Contractual services	3,000	250	2,750	1,953
Repairs and maintenance	300	-	300	243
Miscellaneous	-	90	(90)	-
Total winter maintenance	7,560	4,229	3,331	5,129
TOTAL EXPENDITURES	94,392	53,665	40,727	50,301
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(36,792)	1,665	38,457	7,304
OTHER FINANCING USES				
Operating transfers out	-	(11,360)	(11,360)	-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(36,792)	(9,695)	27,097	7,304
Fund balances, beginning of year	42,106	42,106	-0-	34,802
Fund balances, end of year	\$ 5,314	\$ 32,411	\$ 27,097	\$ 42,106

Village of Elsie

Local Street Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

Year Ended March 31, 2004

With Actual Amounts for Year Ended March 31, 2003

	Amended Budget	2004 Actual	Variance Favorable (Unfavorable)	2003 Actual
REVENUES				
Intergovernmental				
State - gas and weight tax	\$ 20,230	\$ 19,480	\$ (750)	\$ 20,444
Other				
Miscellaneous	-	-	-0-	2,846
TOTAL REVENUES	20,230	19,480	(750)	23,290
EXPENDITURES				
Public works				
Routine maintenance				
Salaries and wages	17,818	16,081	1,737	17,788
Fringe benefits	5,911	5,215	696	5,903
Supplies	1,400	3,925	(2,525)	2,650
Contractual services	2,000	639	1,361	-
Insurance	210	210	-0-	300
Utilities	200	85	115	292
Repairs and maintenance	5,100	1,288	3,812	3,793
Miscellaneous	1,360	495	865	166
Total street maintenance	33,999	27,938	6,061	30,892
Winter maintenance				
Salaries and wages	2,070	2,873	(803)	1,894
Fringe benefits	525	350	175	543
Supplies	1,000	46	954	359
Miscellaneous	500	75	425	-
Total winter maintenance	4,095	3,344	751	2,796
TOTAL EXPENDITURES	38,094	31,282	6,812	33,688
EXCESS OF REVENUES (UNDER) EXPENDITURES	(17,864)	(11,802)	6,062	(10,398)
OTHER FINANCING SOURCES				
Operating transfers in	17,864	20,272	2,408	7,015
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	-0-	8,470	8,470	(3,383)
Fund balances, beginning of year	77	77	-0-	3,460
Fund balances, end of year	\$ 77	\$ 8,547	\$ 8,470	\$ 77

Village of Elsie
Enterprise Funds
COMBINING BALANCE SHEET
March 31, 2004

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 351,951	\$ 63,891	\$ 415,842
Accounts receivable	15,557	13,542	29,099
Due from other funds	64,702	988	65,690
Taxes receivable	984	-	984
Special assessments receivable - current	818	-	818
Total current assets	434,012	78,421	512,433
Other assets			
Special assessments receivable - long-term	2,828	-	2,828
Fixed assets			
Land	153,000	18,000	171,000
System and improvements	6,691,198	1,019,804	7,711,002
Equipment	168,323	86,115	254,438
Accumulated depreciation	(1,452,634)	(378,802)	(1,831,436)
Net fixed assets	5,559,887	745,117	6,305,004
TOTAL ASSETS	\$ 5,996,727	\$ 823,538	\$ 6,820,265

Village of Elsie

Enterprise Funds

COMBINING BALANCE SHEET - CONTINUED

March 31, 2004

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 3,043	\$ 6,483	\$ 9,526
Accrued wages	517	850	1,367
Accrued compensated absences	1,224	1,658	2,882
Due to other funds	819	25,350	26,169
Accrued interest payable	6,555	5,076	11,631
Current portion of long-term debt	<u>18,000</u>	<u>5,000</u>	<u>23,000</u>
Total current liabilities	30,158	44,417	74,575
Noncurrent liabilities			
Bonds payable	<u>1,730,000</u>	<u>230,000</u>	<u>1,960,000</u>
TOTAL LIABILITIES	1,760,158	274,417	2,034,575
FUND EQUITY			
Contribution in aid of construction			
Federal Government	3,043,586	386,496	3,430,082
Taxpayers	608,593	-	608,593
Retained earnings			
Reserved for debt service	-	4,526	4,526
Reserved for repairs and replacement	-	27,000	27,000
Unreserved	<u>584,390</u>	<u>131,099</u>	<u>715,489</u>
TOTAL FUND EQUITY	<u>4,236,569</u>	<u>549,121</u>	<u>4,785,690</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 5,996,727</u>	<u>\$ 823,538</u>	<u>\$ 6,820,265</u>

Village of Elsie

Enterprise Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS

Year Ended March 31, 2004

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 167,206	\$ 132,841	\$ 300,047
Other	432	-	432
TOTAL OPERATING REVENUES	167,638	132,841	300,479
OPERATING EXPENSES			
Salaries and wages	19,987	32,545	52,532
Fringe benefits	5,677	7,069	12,746
Contractual services	1,745	44,145	45,890
Supplies	12,919	26,136	39,055
Insurance	230	575	805
Utilities	8,311	7,477	15,788
Training	-	500	500
Communications	1,209	112	1,321
Printing and publishing	-	561	561
Repairs and maintenance	1,327	2,709	4,036
Vehicle expense	1,640	1,071	2,711
Other	1,712	7,087	8,799
Depreciation	129,990	34,115	164,105
TOTAL OPERATING EXPENSES	184,747	164,102	348,849
OPERATING LOSS	(17,109)	(31,261)	(48,370)
NONOPERATING REVENUES (EXPENSES)			
Loss on investments	(892)	(182)	(1,074)
Interest revenue	4,962	724	5,686
Interest expense	(78,997)	(12,616)	(91,613)
TOTAL NONOPERATING REVENUES (EXPENSES)	(74,927)	(12,074)	(87,001)
LOSS BEFORE TRANSFERS	(92,036)	(43,335)	(135,371)
TRANSFERS IN			
Transfers in	-	25,976	25,976
NET LOSS	(92,036)	(17,359)	(109,395)
Retained earnings, beginning of year	676,426	177,378	853,804
Prior period adjustment	-	2,606	2,606
Retained earnings, end of year	\$ 584,390	\$ 162,625	\$ 747,015

Village of Elsie

Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended March 31, 2004

	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating loss	\$ (17,109)	\$ (31,261)	\$ (48,370)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	129,990	34,115	164,105
(Increase) in accounts receivable	(2,786)	(6,628)	(9,414)
(Increase) in taxes receivable	(984)	-	(984)
Decrease in special assessment receivable	557	-	557
Decrease in due from other funds	13,640	-	13,640
Decrease in prepaid expenses	-	2,606	2,606
Increase in accounts payable	2,054	3,110	5,164
(Decrease) in accrued liabilities	(1,100)	(993)	(2,093)
(Decrease) in due to other funds	-	(71,218)	(71,218)
(Decrease) in accrued interest payable	(68)	(2,172)	(2,240)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	124,194	(72,441)	51,753
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Interest expense	(78,997)	(12,616)	(91,613)
Payments of borrowing	(18,000)	(5,000)	(23,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(96,997)	(17,616)	(114,613)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in from other funds	-	25,976	25,976
CASH FLOWS FROM INVESTING ACTIVITIES			
Loss on investments	(892)	(182)	(1,074)
Interest revenue	4,962	724	5,686
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,070	542	4,612
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	31,267	(63,539)	(32,272)
Cash and cash equivalents, beginning of year	320,684	127,430	448,114
Cash and cash equivalents, end of year	\$ 351,951	\$ 63,891	\$ 415,842

Village of Elsie

Enterprise Funds

COMPARATIVE BALANCE SHEET - SEWER SYSTEM

March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 351,951	\$ 320,684
Accounts receivable	15,557	12,771
Due from other funds	64,702	78,342
Taxes receivable	984	-
Special assessments receivable - current	<u>818</u>	<u>818</u>
Total current assets	434,012	412,615
Other assets		
Special assessments receivable - long-term	2,828	3,385
Fixed assets		
Land	153,000	153,000
System and improvements	6,691,198	6,691,198
Equipment	168,323	168,323
Accumulated depreciation	<u>(1,452,634)</u>	<u>(1,322,644)</u>
Net fixed assets	<u>5,559,887</u>	<u>5,689,877</u>
TOTAL ASSETS	<u><u>\$ 5,996,727</u></u>	<u><u>\$ 6,105,877</u></u>

Village of Elsie

Enterprise Funds

COMPARATIVE BALANCE SHEET - SEWER SYSTEM - CONTINUED

March 31, 2004 and 2003

	2004	2003
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Current liabilities		
Accounts payable	\$ 3,043	\$ 989
Accrued wages	517	561
Accrued compensated absences	1,224	2,280
Accrued interest payable	6,555	6,623
Due to other funds	819	819
Current portion of long-term debt	18,000	17,000
Total current liabilities	30,158	28,272
Noncurrent liabilities		
Revenue bonds payable	1,730,000	1,749,000
TOTAL LIABILITIES	1,760,158	1,777,272
FUND EQUITY		
Contribution in aid of construction		
Federal Government	3,043,586	3,043,586
Taxpayers	608,593	608,593
Retained earnings		
Unreserved	584,390	676,426
TOTAL FUND EQUITY	4,236,569	4,328,605
TOTAL LIABILITIES AND FUND EQUITY	\$ 5,996,727	\$ 6,105,877

Village of Elsie

Enterprise Funds

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS - SEWER SYSTEM

Years Ended March 31, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Charges for services	\$ 167,206	\$ 178,616
Other	432	20,309
TOTAL OPERATING REVENUES	167,638	198,925
OPERATING EXPENSES		
Salaries and wages	19,987	31,800
Fringe benefits	5,677	7,319
Contractual services	1,745	4,723
Supplies	12,919	3,228
Insurance	230	1,000
Utilities	8,311	6,508
Training	-	345
Communications	1,209	1,020
Printing and publishing	-	855
Repairs and maintenance	1,327	2,141
Vehicle expense	1,640	2,000
Other	1,712	-
Depreciation	129,990	129,895
TOTAL OPERATING EXPENSES	184,747	190,834
OPERATING INCOME (LOSS)	(17,109)	8,091
NONOPERATING REVENUES (EXPENSES)		
Loss on investments	(892)	-
Federal grants	-	134,969
Interest revenue	4,962	8,885
Interest expense	(78,997)	(79,789)
TOTAL NONOPERATING REVENUES (EXPENSES)	(74,927)	64,065
NET INCOME (LOSS)	(92,036)	72,156
Retained earnings, beginning of year	676,426	604,270
Retained earnings, end of year	\$ 584,390	\$ 676,426

Village of Elsie

Enterprise Funds

COMPARATIVE STATEMENT OF CASH FLOWS - SEWER SYSTEM

Years Ended March 31, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income (loss)	\$ (17,109)	\$ 8,091
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	129,990	129,895
(Increase) decrease in accounts receivable	(2,786)	432
(Increase) decrease in due from other governmental units	-	81,031
(Increase) in taxes receivable	(984)	-
Decrease in special assessment receivable	557	1,077
(Increase) decrease in due from other funds	13,640	(78,342)
Increase (decrease) in accounts payable	2,054	(120,668)
Increase (decrease) in accrued liabilities	(1,100)	893
(Decrease) in accrued interest payable	(68)	(63)
(Decrease) in due to other funds	-	(18,227)
NET CASH PROVIDED BY OPERATING ACTIVITIES	124,194	4,119
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal grants	-	134,969
Capital purchases	-	(157,913)
Interest expense	(78,997)	(79,789)
Payments on borrowing	(18,000)	(17,000)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(96,997)	(119,733)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loss on investments	(892)	-
Interest revenue	4,962	8,885
NET CASH PROVIDED BY INVESTING ACTIVITIES	4,070	8,885
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	31,267	(106,729)
Cash and cash equivalents, beginning of year	320,684	427,413
Cash and cash equivalents, end of year	\$ 351,951	\$ 320,684

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Krinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and
Members of the Village Council
Village of Elsie
Elsie, Michigan

We have audited the general purpose financial statements of the Village of Elsie as of and for the year ended March 31, 2004, and have issued our report thereon dated June 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Elsie's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. We noted the following instances of noncompliance.

BUDGETS

During the course of our audit, we noted expenditures in some of the budgeted activities of the Village exceeded the amount appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We recommend the Village monitor budgeted expenditures against actual on a more frequent basis to alleviate any future budget variances.

CREDIT CARD POLICY

During the course of the audit it was noted that the Village had used credit cards to purchase supplies. An inquiry of Village personnel indicated that the Village Council had not adopted a formal written credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

We recommend that the Village adopt a formal credit card policy as soon as possible to comply with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment
- h. The balance including interest must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the local unit considers advisable.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Elsie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Elsie's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions.

AUTHORIZED PAY RATES

It was noted during our payroll test that individual pay rates, including increases in pay rates, were not approved by the Village Council or documented in the minutes to the Council meetings or in individual personnel files.

We recommend pay rates are approved at Council level and recorded in the minutes to the council meetings stating the pay rate and employee name. A copy of the Council minutes should be placed in the individual personnel files.

UTILITY BILLINGS

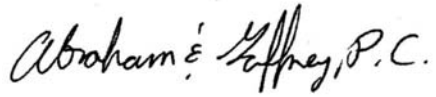
During the course of our audit, we noted that the Village did not retain reports to verify the meter readings that were billed to individual residents.

We recommend the Village retain these reports and have them available for audit purposes as well as inspection by the residents of the Village.

A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the Village of Elsie in a separate letter dated June 18, 2004.

This report is intended solely for the information and use of management and Village Council of the Village of Elsie, Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive, flowing script.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2004

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Krinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguleit, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL STRUCTURE

To the Honorable President
and Members of the Village Council
Village of Elsie
Elsie, Michigan

We have audited the general purpose financial statements of the Village of Elsie, Michigan as of and for the year ended March 31, 2004 and have issued our report thereon dated June 18, 2004.

In planning and performing our audit of the general purpose financial statements of the Village of Elsie for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure.

The management of the Village of Elsie is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use of disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions.

BUDGETS

During the course of our audit, we noted expenditures in some of the budgeted activities of the Village exceeded the amount appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

Michigan Public Act 621 of 1978, as amended, provides that the Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

We recommend the Village monitor budgeted expenditures against actual on a more frequent basis to alleviate any future budget variances.

ALL PAY RATES SHOULD BE AUTHORIZED AT COUNCIL LEVEL

It was noted during our payroll test that individual pay rates, including increases in pay rates, were not approved by the Village Council or documented in the minutes to the Council meetings or in individual personnel files.

We recommend pay rates be approved at Council level and recorded in the minutes to the council meetings stating the pay rate and employee name. A copy of the Council minutes should be placed in the individual personnel files.

UTILITY BILLINGS

During the course of our audit, we noted that the Village did not retain reports to verify the meter readings that were billed to individual residents.

We recommend the Village retain these reports and have them available for audit purposes as well as inspection by the residents of the Village.

CREDIT CARD POLICY.

During the course of the audit it was noted that the Village had used credit cards to purchase supplies. An inquiry of Village personnel indicated that the Village Council had not adopted a formal written credit card policy as required by P.A. 266 of 1995 (MCL 129.241).

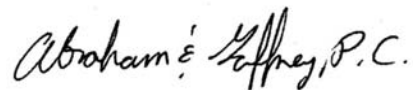
We recommend that the Village adopt a formal credit card policy as soon as possible to comply with the State of Michigan requirements. The policy must include and/or address the following items:

- a. An officer or employee designated to oversee credit card issuance, accounting, monitoring, and compliance with the policy;
- b. The use of the credit card only for the purchase of goods and services for the official business of the local unit;
- c. User of the credit card must submit documentation of what goods and services were purchased, the cost, the date of purchase, and the official business for which purchase was made;
- d. Office or employee is responsible for credit card protection and custody and must report lost or stolen cards;
- e. Credit card to be returned to local unit at termination of official or employee;
- f. Internal control systems over the use of credit cards;
- g. Approval of credit card invoices prior to payment
- h. The balance including interest must be paid within 60 days of the initial statement date;
- i. Disciplinary measures for unauthorized use of a credit card; and
- j. Other matters the local unit considers advisable.

A material weakness is a condition in which the design or operation of one (1) or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described above are not believed to be material weaknesses.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Elsie and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2004

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Krinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguleit, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Elsie
Elsie, Michigan

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Elsie, Michigan as of and for the year ended March 31, 2004. In connection with the audit, we feel that a certain change in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control structure and our discussions with management.

1. The Village should review its identifying information currently being utilized by financial institutions.

During the course of our audit, it was noted that organizations/entities independent of the Village hold deposit accounts with local banks under the name and/or employer identification number of the Village.

We suggest the Village contact the local banks with which it does business and take the necessary steps to have the Village's identifying information removed from all accounts not under the control of the Village.

2. The Village should utilize the Fund Balance accounting software to its fullest capacity.

During the course of our audit, it was noted that the Village was not using Fund Balance software to its fullest capacity in all aspects of budgeting. Revenue budget information adopted by the Council had not been entered into the accounting system.

We suggest the Village evaluate the capabilities of the Fund Balance accounting software and obtain sufficient training so that the software package may be appropriately utilized as a budgeting and management tool. By having the accounting system generate the appropriate financial reports, Council will be able to provide better oversight and ultimately, better internal control.

3. The drug forfeiture activity should be recorded in a separate Special Revenue Fund.

During the course of our audit, it was noted that the drug forfeiture activity has historically been recorded in the General Fund. Michigan Department of Treasury Numbered Letter 1999-5 states, "All money, negotiable instruments, securities or any thing of value must be deposited with the treasurer of the local unit... into special revenue fund number 265 – Drug Law Enforcement Fund". Michigan Compiled Law 333.7521 through 333.7524a provide additional details of the requirements for the handling of funds related to the forfeiture of money and property seized.

We suggest a Drug Law Enforcement Fund be established in accordance with the Michigan Department of Treasury Numbered Letter 1999-5 to account for the receipt and disbursement of forfeited money and seized property. We also suggest that an annual budget for this special revenue fund is prepared, adopted, and amended (as necessary) by Council.

4. The Village should take physical inventory of their general fixed assets.

During our analysis of general fixed assets activity for the year and through discussions with management related to general fixed assets, we noted that although the Village has maintained historical cost information for general fixed assets on a year-to-year basis, a detailed record of general fixed asset balances by governmental function has not been maintained by the Village.

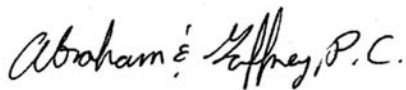
The Village is required to implement GASB Statement No. 34 no later than fiscal year ending March 31, 2005, which will require government-wide financial statements prepared on the full accrual basis of accounting. Under the full accrual basis of accounting, capital assets are depreciated over their estimated useful lives. To the extent possible, the depreciation expense should be allocated to the appropriate function of the government.

We suggest the Village inventory their capital assets, determine historical cost or estimated historical cost, and estimated useful lives of those capital assets. Such information should then be used to calculate accumulated depreciation for the capital assets through March 31, 2005. Compiling this data related to the Village's capital assets will not only facilitate the implementation of GASB Statement No. 34, it will also increase your internal control over capital assets and lessen the risk of misappropriation of assets.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements dated June 18, 2004.

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

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 18, 2004