

Financial Statements
Village of Elsie
Clinton County, Michigan

March 31, 2007



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF ELSIE	County CLINTON
Fiscal Year End 3-31-07	Opinion Date 11-14-07	Date Audit Report Submitted to State 1-4-08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

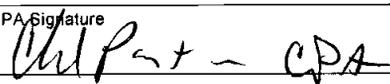
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No other reports required	
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue, Alma, MI 48801		City Alma	State Zip MI 48801
Authorizing CPA Signature 		Printed Name Chad Payton, CPA	License Number 21946

Village of Elsie
March 31, 2007

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Elsie
Clinton County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elsie (the Village), as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, 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 our report dated November 14, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, P.C
Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2007

MANAGEMENT'S DISCUSSION and ANALYSIS

Village of Elsie
Management's Discussion and Analysis
For the Fiscal Year Ended March 31, 2007

We, the Council of the Village of Elsie, offer citizens of the Village our financial statements with the narrative overview and analysis of the financial activities of the Village of Elsie for the fiscal year ended March 31, 2007.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village of Elsie as a whole, and present a longer-term view of the Village finances.

Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

Financial Highlights

The unrestricted net assets of the Village of Elsie governmental activities exceeded its liabilities at the close of the current fiscal year by \$158,822 which may be used to meet the Village's ongoing obligations to citizens and creditors.

Additionally, the Village governmental funds reported an ending fund balance of \$337,201, an increase of \$40,766 from the prior year fund balance.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

The Village adopts an annual appropriated budget for its general and major streets funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

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

Other information – In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information* as required by GASB statement 34 regarding the Village's budgetary comparison of the general and major streets funds. This supplementary information is contained behind its own tab following the notes to financial statements.

Village Highlights

During the 2007 fiscal year, the Village of Elsie:

- bought a newer dump truck.
- had new concrete floors poured in the dugouts at the park.
- had the Village offices painted and had new flooring put down.

Requests for Information

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances and to demonstrate the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact a Village of Elsie Councilperson at 989-862-4273, or write to us at:

Village of Elsie
P. O. Box 408
Elsie, MI 48831

**BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Village of Elsie
Government Wide Statement of Net Assets
March 31, 2007

	PRIMARY GOVERNMENT			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$217,632	\$152,436	\$370,068	\$173,015
Investments	180,505	226,258	406,763	-
Accounts receivable	3,650	31,528	35,178	-
Due from other governments	29,074	-	29,074	-
Internal balances - net	(85,539)	85,539	-	-
Total current assets	<u>345,322</u>	<u>495,761</u>	<u>841,083</u>	<u>173,015</u>
Noncurrent assets				
Special assessments receivable	-	1,690	1,690	-
Loan receivable	-	-	-	88,659
Capital assets - not depreciated	-	171,000	171,000	-
Capital assets - depreciated, net	121,397	5,899,380	6,020,777	-
Total noncurrent assets	<u>121,397</u>	<u>6,072,070</u>	<u>6,193,467</u>	<u>88,659</u>
TOTAL ASSETS	<u>466,719</u>	<u>6,567,831</u>	<u>7,034,550</u>	<u>261,674</u>
LIABILITIES				
Current liabilities				
Accounts payable	7,801	2,962	10,763	-
Accrued liabilities	320	931	1,251	-
Accrued interest payable	-	21,804	21,804	-
Current portion of long-term debt	-	56,482	56,482	-
Total current liabilities	<u>8,121</u>	<u>82,179</u>	<u>90,300</u>	<u>-</u>
Noncurrent liabilities				
Compensated absences	5,478	890	6,368	-
Noncurrent portion of long-term debt	-	2,076,054	2,076,054	-
Total noncurrent liabilities	<u>5,478</u>	<u>2,076,944</u>	<u>2,082,422</u>	<u>-</u>
TOTAL LIABILITIES	<u>13,599</u>	<u>2,159,123</u>	<u>2,172,722</u>	<u>-</u>
NET ASSETS				
Invested in capital assets, net of related debt	121,397	3,939,534	4,060,931	-
Restricted for:				
Streets and highways	56,485	-	56,485	-
Perpetual care	116,416	-	116,416	-
Unrestricted	158,822	469,174	627,996	261,674
TOTAL NET ASSETS	<u>\$453,120</u>	<u>\$4,408,708</u>	<u>\$4,861,828</u>	<u>\$261,674</u>

The notes to the financial statements are an integral part of this statement.

Village of Elise
Government Wide Statement of Activities
For The Year Ended March 31, 2007

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Total	
				Governmental Activities	Business-Type Activities			
Primary Government								
General government	\$222,138	\$50,609	-	(\$171,529)	-	-\$171,529	-	-
Public safety	139,070	-	-	(139,070)	-	(139,070)	-	-
Public works	138,890	-	\$79,278	(59,612)	-	(59,612)	-	-
Community and economic development	3,192	1,963	-	(1,229)	-	(1,229)	-	-
Recreation and culture	19,466	-	-	(19,466)	-	(19,466)	-	-
Total governmental activities	522,756	52,572	79,278	(390,906)	-	(390,906)	-	-
Business-type activities								
Sewer System	276,600	145,895	-	-\$130,705	-	(130,705)	-	-
Water System	129,628	130,733	-	-	1,105	1,105	-	-
Total business-type activities	406,228	276,628	-	-\$129,600	(129,600)	(129,600)	-	-
Total primary government	\$928,984	\$329,200	\$79,278	(390,906)	(129,600)	(520,506)	-	-
Component units								
Downtown development authority	\$29,762	-	-	-	-	-	-\$29,762	-
General Revenues								
Property taxes				275,283	-	275,283	80,247	
State shared revenues				112,714	-	112,714	-	
Unrestricted investment earnings				14,803	15,195	29,998	4,806	
Miscellaneous revenue				20,990	12,479	33,469	-	
Total general revenues				423,790	27,674	451,464	85,053	
Change in net assets				32,884	(101,926)	(69,042)	55,291	
Prior period adjustment				22,606	-	22,606	20,190	
Net assets - beginning of year				397,630	4,510,634	4,908,264	186,193	
Net assets - end of year				\$453,120	\$4,408,708	\$4,861,828	\$261,674	

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Village of Elsie
Governmental Funds Balance Sheet
March 31, 2007

	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$160,055	\$63,696	(\$6,119)	\$217,632
Investments	92,481	2,228	85,796	180,505
Accounts receivable	3,650	-	-	3,650
Due from other governments	22,519	4,843	1,712	29,074
Due from other funds	-	-	36,673	36,673
TOTAL ASSETS	<u>\$278,705</u>	<u>\$70,767</u>	<u>\$118,062</u>	<u>\$467,534</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$6,835	\$801	\$165	\$7,801
Accrued liabilities	-	122	198	320
Due to other funds	107,570	14,642	-	122,212
TOTAL LIABILITIES	<u>114,405</u>	<u>15,565</u>	<u>363</u>	<u>130,333</u>
FUND BALANCES				
Reserved for perpetual care	-	-	116,416	116,416
Unreserved, undesignated, reported in:				
General fund	164,300	-	-	164,300
Special revenue funds	-	55,202	1,283	56,485
TOTAL FUND BALANCES	<u>164,300</u>	<u>55,202</u>	<u>117,699</u>	<u>337,201</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$278,705</u>	<u>\$70,767</u>	<u>\$118,062</u>	<u>\$467,534</u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For the Year Ended March 31, 2007

Total fund balance - governmental funds	\$337,201
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	298,974
Deduct: accumulated depreciation	(177,577)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(5,478)</u>
Net assets of governmental activities	<u><u>\$453,120</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie
 Governmental Fund Statement of Revenue, Expenditures and Changes in Fund Balance
 For the Year Ended March 31, 2007

	General Fund	Major Street	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$205,329	\$30,080	\$39,874	\$275,283
Licenses and permits	1,963	-	-	1,963
State grants	112,714	58,568	20,710	191,992
Charges for services	50,609	-	-	50,609
Interest and rentals	7,532	1,488	5,783	14,803
Miscellaneous revenues	20,990	-	-	20,990
TOTAL REVENUES	<u>399,137</u>	<u>90,136</u>	<u>66,367</u>	<u>555,640</u>
EXPENDITURES				
Current				
General government	211,895	-	-	211,895
Public safety	127,345	-	-	127,345
Public works	-	55,737	75,249	130,986
Community and economic development	3,192	-	-	3,192
Recreation and cultural	19,466	-	-	19,466
Capital outlay	11,340	5,325	5,325	21,990
TOTAL EXPENDITURES	<u>373,238</u>	<u>61,062</u>	<u>80,574</u>	<u>514,874</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	25,899	29,074	(14,207)	40,766
OTHER FINANCING SOURCES (USES)				
Transfer in/(out)	-	(14,642)	14,642	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	25,899	14,432	435	40,766
FUND BALANCE, beginning of year	115,795	40,770	117,264	273,829
PRIOR PERIOD ADJUSTMENT	22,606	-	-	22,606
FUND BALANCE, end of year	<u>\$164,300</u>	<u>\$55,202</u>	<u>\$117,699</u>	<u>\$337,201</u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2007

Net change in fund balances - total governmental funds	\$40,766
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	21,990
Deduct: depreciation expense	(28,394)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(1,478)</u>
Change in net assets of governmental activities	<u><u>\$32,884</u></u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Statement of Net Assets
Proprietary Funds
March 31, 2007

	Business-Type Activities		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$100,438	\$51,998	\$152,436
Investments	206,208	20,050	226,258
Accounts receivable	16,507	15,021	31,528
Due from other funds	85,539	-	85,539
Total current assets	<u>408,692</u>	<u>87,069</u>	<u>495,761</u>
Noncurrent assets			
Special assessment receivable	1,690	-	1,690
Capital assets not being depreciated	153,000	18,000	171,000
Capital assets, net of accumulated depreciation	5,021,033	878,347	5,899,380
Total noncurrent assets	<u>5,175,723</u>	<u>896,347</u>	<u>6,072,070</u>
TOTAL ASSETS	<u>5,584,415</u>	<u>983,416</u>	<u>6,567,831</u>
LIABILITIES			
Current liabilities			
Accounts payable	1,993	969	2,962
Accrued liabilities	844	87	931
Accrued interest payable	6,409	15,395	21,804
Current portion of long-term debt	22,000	34,482	56,482
Total current liabilities	<u>31,246</u>	<u>50,933</u>	<u>82,179</u>
Noncurrent liabilities			
Compensated absences	-	890	890
Noncurrent portion of long-term debt	1,666,000	410,054	2,076,054
Total noncurrent liabilities	<u>1,666,000</u>	<u>410,944</u>	<u>2,076,944</u>
TOTAL LIABILITIES	<u>1,697,246</u>	<u>461,877</u>	<u>2,159,123</u>
NET ASSETS			
Invested in capital assets, net of related debt	3,487,723	451,811	3,939,534
Unreserved	399,446	69,728	469,174
TOTAL NET ASSETS	<u>\$3,887,169</u>	<u>\$521,539</u>	<u>\$4,408,708</u>

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended March 31, 2007

	Business-Type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$145,895	\$130,733	\$276,628
Other	2,544	9,935	12,479
TOTAL OPERATING REVENUES	148,439	140,668	289,107
OPERATING EXPENSES			
Salaries and wages	25,232	22,882	48,114
Fringe benefits	5,244	4,269	9,513
Contractual services	4,420	14,225	18,645
Supplies	6,732	9,693	16,425
Insurance	1,579	1,973	3,552
Utilities	12,599	10,350	22,949
Printing and publishing	14	652	666
Repairs and maintenance	1,530	4,005	5,535
Vehicle expense	3,435	906	4,341
Other	1,416	2,346	3,762
Depreciation	139,399	33,947	173,346
TOTAL OPERATING EXPENSES	201,600	105,248	306,848
OPERATING INCOME (LOSS)	(53,161)	35,420	(17,741)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	13,377	1,818	15,195
Interest expense	(75,000)	(24,380)	(99,380)
TOTAL NONOPERATING REVENUES (EXPENSES)	(61,623)	(22,562)	(84,185)
CHANGE IN NET ASSETS	(114,784)	12,858	(101,926)
TOTAL NET ASSETS, beginning of year	4,001,953	508,681	4,510,634
TOTAL NET ASSETS, end of year	\$3,887,169	\$521,539	\$4,408,708

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Statement of Cash Flows
Proprietary Funds
For the Year Ended March 31, 2007

	<u>Business-Type Activities</u>		
	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$144,925	\$134,023	\$278,948
Payments to employees	(30,477)	(27,154)	(57,631)
Payments to suppliers	(32,934)	(45,417)	(78,351)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>81,514</u>	<u>61,452</u>	<u>142,966</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(3,038)	(810)	(3,848)
Interest revenue	6,076	1,620	7,696
NET CASH FLOWS FROM INVESTING	<u>3,038</u>	<u>810</u>	<u>3,848</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal and interest paid on capital debt	(96,000)	(57,676)	(153,676)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,448)	4,586	(6,862)
CASH AND CASH EQUIVALENTS, beginning of year	<u>111,886</u>	<u>47,412</u>	<u>159,298</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$100,438</u>	<u>\$51,998</u>	<u>\$152,436</u>
Reconciliation of operating income (loss) to net cash provided (used) by Operating Activities			
Operating income (loss)	(\$53,161)	\$35,420	(\$17,741)
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation expense	139,399	33,947	173,346
Change in assets and liabilities			
(Increase) in accounts receivable	(4,693)	(6,645)	(11,338)
Decrease in taxes receivable	984	-	984
Decrease in special assessments receivable	195	-	195
(Decrease) in accounts payable	(1,209)	(1,267)	(2,476)
Increase (decrease) in accrued liabilities	737	(3)	734
(Decrease) in compensated absences	(738)	-	(738)
Net cash provided by operating activities	<u>\$81,514</u>	<u>\$61,452</u>	<u>\$142,966</u>

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Village of Elsie
Notes to Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Elsie (the Village) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Village.

Reporting Entity

The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Discretely Presented Component Units

The following component units are reported within the component unit column in the combined financial statements.

Downtown Development Authority - The Village of Elsie Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body is selected by the Village Council. In addition, the Authority's budget is subject to approval by the Village's Council. The Village is financially accountable for the Downtown Development Authority's activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Village of Elsie
Notes to Financial Statements

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Village of Elsie
Notes to Financial Statements

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements - The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for services provided. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The Village reports the following major governmental funds:

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

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

The Village reports the following major proprietary funds:

The Water and Sewer Funds account for the activities of the water distribution system and sewage collection system.

Village of Elsie
Notes to Financial Statements

Assets, Liabilities, and Net Assets or Equity

Cash and cash equivalents

The Village's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

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

Property Taxes

The Village's property tax is levied on July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31st.

Although the Village's 2006 ad valorem tax is levied and collectible on July 1st, 2006, it is the Village's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of property located in the Village totaled \$17.2 million, on which ad valorem taxes levied consisted of 11.6954 mills for operating purposes, 4.6782 mills for streets and highways and .9356 mills for cemetery maintenance, raising \$187 thousand for operating purposes, \$73 thousand for street and highways and \$14 thousand for cemetery maintenance. These amounts are recognized in the general fund as tax revenues.

Village of Elsie
Notes to Financial Statements

Receivables and Payables

In general, outstanding balances between funds are reported as “due to / from other funds”. Activity between funds that is representative of lending / borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to / from other funds”. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade receivables are shown as net of allowance for uncollectible amounts.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was incurred or capitalized.

Capital assets of the Village are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	15 - 50
Vehicles	5
Machinery and Equipment	3 - 20
Sewer system and improvements	20 - 75
Water system and improvements	40
Land	Not Applicable – Not Depreciated

Village of Elsie
Notes to Financial Statements

Compensated Absences (Vacation and Sick Leave)

It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. These compensated absences are accrued in the government-wide financial statements.

Long-Term Obligations

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

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

Village of Elsie
Notes to Financial Statements

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the first day of March of each year, a proposed budget for the next fiscal year is submitted to the budget committee. The budget committee compiles such information and submits it to the council, along with recommendations, in March of each year. This operating budget includes proposed expenditures and the means of financing them for the fiscal year commencing the following April 1st. The council holds public hearings and final budgets are adopted prior to April 1st.

Prior to April 1st, the budget is legally enacted pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978, as amended). Council must approve any revisions to the budget.

Formal budgetary integration is employed as a management control device during the year. The Village does not maintain a formalized encumbrance accounting system.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is at the function level.

Excess of Expenditures over Appropriations in Budgeted Funds

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as shown as negative variances in the Budgetary Comparison Schedules in this report.

Village of Elsie
Notes to Financial Statements

NOTE 3 – DETAIL NOTES

Cash and Investments

The Village has designated two banks for the deposit of Village funds. The investment policy adopted by the Village in accordance with Public Act 196 of 1997 has authorized investment in

- Bonds, securities and other obligations of the United States Government
- Certificates of deposit, savings accounts, and deposit accounts
- United States government or federal agency obligation repurchase agreements

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

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

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Unit
Cash and equivalents	\$217,632	\$152,436	\$370,068	\$173,015
Investments	180,505	226,258	406,763	-
Totals	\$398,137	\$378,694	\$776,831	\$173,015

The bank balance of the primary government's deposits is \$385,416, of which \$100,000 is covered by federal depository insurance. The remaining amount is uninsured and uncollateralized. The component units' deposits had a bank balance of \$173,015, of which \$100,000 is covered by federal depository insurance. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Village of Elsie
Notes to Financial Statements

Investments

As of March 31, 2007, the Village had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (years)	Rating	%
PRIMARY GOVERNMENT				
DWS U.S. Government Securities Fund - A	\$85,796	8	AAA	21%
Federated GNMA Instl Service	320,967	4.1	AAA	79%
Total fair value	\$406,763			100%
Portfolio weighted average maturity		.0027		
1 day maturity equals 0.0027, one year equals 1.00				

Interest rate risk. In accordance with its investment policy, the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Village's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Village of Elsie
Notes to Financial Statements

Concentration of credit risk. The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. See above for amount of deposits held by the Village that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the Village will do business.

Receivables

Receivables as of year-end for the Village's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street Fund	Non-Major Funds	Sewer Fund	Water Fund	Total
Accounts	\$3,650	-	-	-	-	\$3,650
Special Assessments	-	-	-	\$1,690	-	1,690
Other governments	22,519	\$4,843	\$1,712	-	-	29,074
Water and Sewer Billings	-	-	-	16,507	\$15,021	31,528
Totals	\$26,169	\$4,843	\$1,712	\$18,197	\$15,021	\$65,942

Village of Elsie
Notes to Financial Statements

Interfund Receivables, Payables and Transfers - The composition of interfund balances is as follows:

	Interfund Receivables	Interfund Payables
General Fund	-	\$107,570
Sewer Fund	\$85,539	-
Cemetery Perpetual Care	22,031	-
Major Street Fund	-	14,642
Local Street Fund	14,642	-
Totals	\$122,212	\$122,212

Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Buildings	\$95,013	-	-	\$95,013
Equipment	82,740	\$11,340	-	94,080
Vehicles	119,231	10,650	(\$20,000)	109,881
Subtotal	296,984	21,990	(20,000)	298,974
Less Accumulated Depreciation				
Buildings	(47,480)	(2,842)	-	(50,322)
Equipment	(35,164)	(8,463)	-	(43,627)
Vehicles	(86,539)	(17,089)	20,000	(83,628)
Subtotal	(169,183)	(28,394)	20,000	(177,577)
Total Capital Assets – Net of Depreciation	\$127,801	(\$6,404)	-	\$121,397

Village of Elsie
Notes to Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities – Sewer System Fund				
Land	\$153,000	-	-	\$153,000
Buildings & Sewer System	6,691,198	-	-	6,691,198
Equipment	185,323	-	-	185,323
Subtotal	7,029,521	-	-	7,029,521
Less Accumulated Depreciation				
Buildings & Sewer System	(1,644,789)	(\$120,953)	-	(1,765,742)
Equipment	(71,300)	(18,446)	-	(89,746)
Subtotal	(1,716,089)	(139,399)	-	(1,855,488)
Total Capital Assets – Net of Depreciation	\$5,313,432	(\$139,399)	-	\$5,174,033

Village of Elsie
Notes to Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
Business Type Activities – Water System Fund				
Land	\$18,000	-	-	\$18,000
Equipment	86,115	-	-	86,115
System	793,467	-	-	793,467
Tower	426,817	-	-	426,817
Subtotal	1,324,399	-	-	1,324,399
Less Accumulated Depreciation				
Equipment	(77,934)	(\$3,440)	-	(81,374)
System	(204,132)	(19,837)	-	(223,969)
Tower	(112,039)	(10,670)	-	(122,709)
Subtotal	(394,105)	(33,947)	-	(428,052)
Total Capital Assets – Net of Depreciation	\$930,294	(\$33,947)	-	\$896,347

Capital assets not being depreciated include land. Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$8,765
Public Safety	11,725
Public Works	7,904
Total Governmental Activities	28,394
Business-Type Activities	
Sewer System Fund	139,399
Water System Fund	33,947
Total Business-Type Activities	\$173,346

Village of Elsie
Notes to Financial Statements

The Village is considered a "Phase 3" Government, as defined by GASB 34. Accordingly, the Village has elected to not retroactively apply the reporting of major general infrastructure assets.

Long-Term Debt

The Village's long-term debt as of March 31, 2007 is as follows:

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 have been accrued on the government-wide financial statements. The total liability amounted to approximately \$6,368 at March 31, 2007. Of this amount, \$890 is shown as accrued liabilities within the Business-Type Activities.

Sewer System Revenue Bonds – In February, 2001, the Village issued \$1,800,000 in Sewer System Revenue Bonds. These are 40 year bonds in which principal is due in annual installments ranging from \$17,000 to \$94,000 through September 1, 2041, with interest of 4.50 percent, payable semi-annually.

Water System Refunding Bonds – In October, 1997, the Village issued \$265,000 in Water Refunding Bonds. These are 23 year bonds in which principal is due in annual installments ranging from \$5,000 to \$25,000 through May 1, 2020, with interest of 5.274 percent, payable semi-annually.

Installment Purchase – In May, 2004, the Village entered into a loan with Municipal Services Group, Inc. for a \$280,000 installment purchase in order to construct a water well. This loan is due in annual installments of \$36,420 through May 25, 2014, including interest of 5.09 percent, payable annually.

Village of Elsie
Notes to Financial Statements

Debt balances and transactions for the year ended March 31, 2007 are as follows for the Governmental Activities:

	Balance 4-1-2006	Additions	Retirements	Balance 3-31-2007	Due Within One Year
Governmental Activities:					
Compensated Absences	\$4,000	\$1,478	-	\$5,478	-

Debt balances and transactions for the year ended March 31, 2007 are as follows for the Business-Type Activities:

	Balance 4-1-2006	Additions	Retirements	Balance 3-31-2007	Due Within One Year
Business- Type Activities					
2002 Revenue Bonds	\$1,709,000	-	\$21,000	\$1,688,000	\$22,000
1997C Refunding Bonds	220,000	-	10,000	210,000	10,000
Installment Purchase	257,832	-	23,296	234,536	24,482
Compensated Absences	1,628	-	738	890	-
Subtotal	\$2,188,460	-	\$55,034	\$2,133,426	\$56,482

Village of Elsie
Notes to Financial Statements

Annual debt service requirements to maturity for the above note payable and enterprise fund bonds are as follows:

	Revenue Bonds		Refunding Bonds		Installment Purchase	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$22,000	\$75,465	\$10,000	\$10,789	\$24,482	\$11,938
2009	23,000	74,452	10,000	10,311	25,728	10,692
2010	24,000	73,395	10,000	9,821	27,038	9,382
2011	25,000	72,293	10,000	9,324	28,414	8,006
2012	26,000	71,145	10,000	8,816	29,860	6,560
2013-2017	148,000	336,735	75,000	32,933	99,014	10,246
2018-2022	187,000	299,228	85,000	9,548	-	-
2023-2027	231,000	252,427	-	-	-	-
2028-2032	289,000	194,063	-	-	-	-
2033-2037	361,000	121,252	-	-	-	-
2038-2042	352,000	32,580	-	-	-	-
Totals	\$1,688,000	\$1,603,035	\$210,000	\$91,542	\$234,536	\$56,824

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, crime, and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

Village of Elsie
Notes to Financial Statements

Related Party Transaction

As of March 31, 2007, the Village of Elsie Downtown Development Authority has a note receivable from an entity owned by a member of the Board of the Downtown Development Authority in the amount of \$23,572.

Subsequent Events

Subsequent to March 31, 2007, the Village of Elsie Downtown Development Authority's agreement for the recapture of property taxes was repealed. This agreement was established in 1992 and was ended in June 2007. Therefore, the Downtown Development Authority will no longer recapture property taxes from the Village of Elsie.

Also, subsequent to March 31, 2007, the Village of Elsie purchased another police vehicle with available funds.

Employee Retirement and Benefit Systems

Plan Description

The Village participates in a Simple IRA plan under section 408(p) of the Internal Revenue Code.

All employees of the Village are eligible to participate in the plan. As of March 31, 2007, the plan's current membership was 5 employees.

A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. The amounts participant's receive depend solely on the amounts contributed to the participant's account and the returns earned on those contributions.

Funding Policy

Participants can contribute through a salary reduction contribution. The Village matches participant contribution up to a limit of 3% of the employee's compensation for the calendar year. Participants are 100% vested in all contributions.

During the year, the actual contributions to the plan amounted to \$8,770, which includes \$5,317 of employer contributions, and \$3,453 of employee contributions.

Village of Elsie
Notes to Financial Statements

Prior Period Adjustment

The following transactions were recognized in these financial statements as prior period adjustments:

Description	2007	2006
Primary Government: Adjustment for State Shared Revenues receivable	\$22,606	-
Component Unit: Adjustment to beginning loan receivable	\$20,190	-

REQUIRED SUPPLEMENTAL INFORMATION

Village of Elsie
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$239,415	\$239,415	\$205,329	(\$34,086)
Licenses and permits	2,000	2,000	1,963	(37)
State grants	100,360	100,360	112,714	12,354
Charges for services	29,250	29,250	50,609	21,359
Interest and rentals	1,700	1,700	7,532	5,832
Miscellaneous revenues	10,072	10,072	20,990	10,918
TOTAL REVENUES	382,797	382,797	399,137	16,340
EXPENDITURES				
Current				
General government	225,153	225,455	211,895	13,560
Public safety	129,973	129,973	127,345	2,628
Community and economic development	3,600	3,600	3,192	408
Recreation and cultural	15,847	15,847	19,466	(3,619)
Capital outlay	16,500	16,500	11,340	5,160
TOTAL EXPENDITURES	391,073	391,375	373,238	18,137
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,276)	(8,578)	25,899	34,477
OTHER FINANCING SOURCES (USES)				
Transfers out	(69,880)	(69,880)	-	69,880
TOTAL OTHER FINANCING SOURCES (USES)	(69,880)	(69,880)	-	69,880
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(78,156)	(78,458)	25,899	104,357
FUND BALANCES, beginning of year	115,795	115,795	115,795	-
PRIOR PERIOD ADJUSTMENT	-	-	22,606	22,606
FUND BALANCES, end of year	\$37,639	\$37,337	\$164,300	\$126,963

The notes to the financial statements are an integral part of this statement.

Village of Elsie
 Budgetary Comparison Schedule for the Major Street Fund
 For the Year Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$25,000	\$25,000	\$30,080	\$5,080
State grants	59,000	59,000	58,568	(432)
Interest and rentals	600	600	1,488	888
TOTAL REVENUES	84,600	84,600	90,136	5,536
EXPENDITURES				
Current				
Public works	98,400	98,330	55,737	42,593
Capital outlay	-	-	5,325	(5,325)
TOTAL EXPENDITURES	98,400	98,330	61,062	37,268
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(13,800)	(13,730)	29,074	42,804
OTHER FINANCING SOURCES (USES)				
Transfers out	(14,750)	(14,750)	(14,642)	108
TOTAL OTHER FINANCING SOURCES (USES)	(14,750)	(14,750)	(14,642)	108
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(28,550)	(28,480)	14,432	42,912
FUND BALANCES, beginning of year	40,770	40,770	40,770	-
FUND BALANCES, end of year	\$12,220	\$12,290	\$55,202	\$42,912

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Village of Elsie
Combining Balance Sheet
Non-Major Governmental Funds
March 31, 2007

	Special Revenue	Permanent	
	Local Street	Cemetery Perpetual Care	Totals
ASSETS			
Cash and cash equivalents	(\$14,708)	\$8,589	(\$6,119)
Investments	-	85,796	85,796
Due from other funds	14,642	22,031	36,673
Due from other governments	1,712	-	1,712
TOTAL ASSETS	\$1,646	\$116,416	\$118,062
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$165	-	\$165
Accrued liabilities	198	-	198
TOTAL LIABILITIES	363	-	363
FUND BALANCES			
Reserved for perpetual care	-	\$116,416	116,416
Unreserved, undesignated	1,283	-	1,283
TOTAL FUND BALANCES	1,283	116,416	117,699
TOTAL LIABILITIES AND FUND BALANCES	\$1,646	\$116,416	\$118,062

The notes to the financial statements are an integral part of this statement.

Village of Elsie
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended March 31, 2007

	<u>Special Revenue</u>	<u>Permanent</u>	
	<u>Local Street</u>	<u>Cemetery Perpetual Care</u>	<u>Totals</u>
REVENUES			
Taxes	\$39,874	-	\$39,874
State grants	20,710	-	20,710
Interest and rentals	730	\$5,053	5,783
TOTAL REVENUES	<u>61,314</u>	<u>5,053</u>	<u>66,367</u>
EXPENDITURES			
Current			
Public works	75,249	-	75,249
Capital outlay	5,325	-	5,325
TOTAL EXPENDITURES	<u>80,574</u>	<u>-</u>	<u>80,574</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,260)	5,053	(14,207)
OTHER FINANCING SOURCES			
Transfer in	14,642	-	14,642
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(4,618)	5,053	435
FUND BALANCES, beginning of year	<u>5,901</u>	<u>111,363</u>	<u>117,264</u>
FUND BALANCES, end of year	<u><u>\$1,283</u></u>	<u><u>\$116,416</u></u>	<u><u>\$117,699</u></u>

The notes to the financial statements are an integral part of this statement.



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

Village Council
Village of Elsie
Elsie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elsie (the Village) as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated November 14, 2007. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies. These significant deficiencies are described in the accompanying schedule of findings as items 2007-1, 2007-2, 2007-3, 2007-4, 2007-5 and 2007-6.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. Of the significant deficiencies described in the accompanying schedule of findings, we consider items 2007-1, 2007-2, 2007-3, 2007-4 and 2007-5 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Village in a separate letter dated November 14, 2007.

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

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2007

Village of Elsie Schedule of Findings

2007-1: Preparation of Financial Statements

Effective for the year ended March 31, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

The annual financial statements for the year ended March 31, 2007, required several audit adjustments, most of which the staff were not aware needed to be recorded. The staff of the Village does not understand all information included in the annual financial statements or the footnotes to the annual financial statements.

We recommend changes to this situation at this time, including, but not limited to, additional training for Village staff regarding accounting and software related matters.

2007-2: Fully Implement Use of General Ledger Accounting System

During the 2007 fiscal year, the Village installed a new general ledger accounting software to be used in all aspects of accounting for the transactions of the Village. However, as of the time of the audit, the Village had not begun to utilize this software to its fullest capacity. We noted that cash accounts are still maintained on a manual ledger and related reconciliations are prepared outside of the system. We recommend that management reevaluate the use of the general ledger system and determine what efficiencies could be gained by utilizing the system for its intended use. Also, we recommend additional training for employees of the Village in order to be able to understand issues as they relate to the software.

2007-3: Budgeting

During our audit, we noted that journal entries were made toward year-end to "shift expenses" from line items that had gone over budget to line items that were still under budget in an attempt to make expenses incurred by the Village more in line with the budget established by the Village Council. Also, we noted adjustments to the budget after the end of the fiscal year.

Village of Elsie Schedule of Findings

The purpose of a budget is to establish the goals and objectives of management as well as aid in planning for the most economical use of labor, facilities, and capital. Budgets are also used as a tool for early identification of operational problems and help ensure that timely decisions are made in order to resolve those problems. By "shifting expenses" among line items, and adjusting the budget after the end of the fiscal year, the budget then becomes ineffective in identifying problem areas and is no longer a useful tool to management in planning. Additionally, when expenses are "shifted" among accounts, the general ledger does not reflect the true activity that occurred.

We recommend the Village take steps necessary to ensure that expenses are no longer "shifted" as noted above. Also, we recommend that adjustments to the budget be made during the year, as expenses are incurred and reported, rather than after year-end.

2007-4: Cash Balances

During our audit, we noted that certain cash activity was not included in the general ledger, such as 941 payments and certain manual checks. Also, we noted that cash reconciliations did not balance with the general ledger. We recommend that all cash activity be reported in the general ledger and that the cash balance noted in the general ledger be reconciled with bank records on a monthly basis.

2007-5: Transfers

During our audit we noted that certain cash transfers were treated as revenues. Cash transfers simply move cash from one account or fund to another account or fund and do not meet the criteria for revenue recognition. We recommend that all cash transfers be reviewed and posted to correct accounts based on underlying circumstances requiring the transfer.

2007-6: Adjustments to Water/Sewer Billing System

During our audit we noted a significant number of adjustments made to the water/sewer billing system. This situation requires close review by members of the Village Council and the reason for the adjustments needs to be identified and corrected. We would encourage additional training on the billing system for employees of the Village, if needed, for a better working knowledge of the system in order to reduce the need for additional adjustments.



Management Letter

To The Village Council
Village of Elsie
Elsie, Michigan

In planning and performing our audit of the financial statements of the Village of Elsie for the fiscal year ended March 31, 2007, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our audit report dated November 14, 2007 on the financial statements of the Village of Elsie.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 14, 2007

Organizational Structure

The size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Village Council remain involved in the financial affairs of the organization to provide oversight and independent review functions.

Additionally, we recommend all Village Council review on a regular basis, the monthly bank statements, actual disbursement checks and deposit tickets, and related bank reconciliation forms.

Timeliness of Financial Reporting

Currently, management is able to supply summarized financial information to the Village Council on a monthly basis based on manual and computerized information. The audit, however, has been delayed for various reasons including, but not limited to, difficulty in reconciling items to the general ledger after a change in accounting software and not all items necessary to complete the audit being readily available. One of the objectives of timely reporting is to equip the Village Council, Management and Village Residents with the information needed to make informed decisions about issues that face the Village.

Also, because the audit and corresponding issuance of the related financial statements was delayed, reporting required by the State of Michigan has also been delayed. Financial statements of the Village were due to the State of Michigan by September 30, 2007, per Public Act 2 of 1968, as amended. As a result, the filing of the Michigan Department of Transportation's (MDOT) ACT 51 Report and the Michigan Department of Treasury's F-65 Report, which are completed based on information derived from the audited financial statements, have also been delayed. When deadlines for reporting to the State of Michigan are not met, the State has the right to withhold funding to the Village until those reports are submitted. We noted during that during the 2007 year the Village did not receive State revenue sharing funds for Major and Local Streets for six months (as a result of untimely submission of last year's audit report). When funding is interrupted for this length of time, the Village runs the risk of cash flow shortages and an inability to meet the needs of the residents. Additionally, interest income is permanently reduced.

We recommend that the Village Council and Management review current accounting policies and procedures and take the additional steps necessary to facilitate reporting on a timely basis.

Update Investment Policy

We noted that the Village has an outdated investment policy, which warrants changes to comply with *Governmental Accounting Standards Board (GASB) Statement #40*. GASB Statement #40 requires that notes to the financial statements of the Village disclose how the Village's investment policy addresses various kinds of risk related to common deposits and investments. We recommend that the Village review their investment policy and make the changes necessary to address these related risks.

Develop an Accounting Procedures Manual

We noted that the Village does not have an accounting procedures manual which details accounting policies to be followed by the employees/Management/Council of the Village. The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

Additionally, the following policy's should be included in the manual:

Credit Card Policy

We recommend that the Village Council evaluate use of the credit card and formally adopt a policy relating to expected use and limitations of the credit card as well as expectations relating to submission of receipts for expenses incurred on the credit card.

Capital Asset Policy

With the implementation of GASB # 34, local governments are now required to report capital assets in the Statement of Net Assets. We recommend that the Village formally adopt a policy which will outline the criteria for asset capitalization. For example, if the asset cost is over \$5,000 and has an estimated useful life of over one year, the asset meets criteria to be capitalized in the statement of net assets. By doing this, expectations of the Council are clearly defined and agreed upon and formally adopted for future reference.

By developing an accounting procedures manual and including items detailed above, a clear communication of the expected accounting procedures and related reporting responsibilities have been established and passed along to employees, Management and Council of the Village.

Prepare Listing of Accounts Receivable and Payable

We noted that the Village does not prepare a regular listing of accounts receivable or accounts payable as of March 31st. We recommend that these listings be prepared periodically (at a minimum for year-end purposes) to allow for proper review of amounts due to the Village, or payable by the Village as of year-end.

Separately Code Capital Equipment Purchases

Currently the Village does not capitalize property and equipment acquisitions during the year. Instead, the expenditures are recorded in one expense account, along with small equipment purchases. Then, when the annual financial statements are prepared, equipment purchases that require capitalization are reclassified.

In order to identify those purchases that will be capitalized and subsequently depreciated, we recommend those purchases be coded to a separate general ledger account. This will allow the depreciation schedule of the Village to be more easily maintained in the future.

Expense Documentation

We noted that paid invoices do not indicate which general ledger accounts the disbursement was posted to. We recommend that all supporting documentation include not only the date paid, but also an indication as to which general ledger account(s) the disbursement was posted to.

Fully Implement Use of General Ledger Accounting System

During the 2007 fiscal year, the Village installed a new general ledger accounting software to be used in all aspects of accounting for the transactions of the Village. However, as of the time of the audit, the Village had not begun to utilize this software to its fullest capacity. We noted that cash accounts are still maintained on a manual ledger and related reconciliations are prepared outside of the system. We recommend that management reevaluate the use of the general ledger system and determine what efficiencies could be gained by utilizing the system for its intended use. Also, we recommend additional training for employees of the Village in order to be able to understand issues as they relate to the software.

Budgeting

We noted that journal entries were made toward year-end to “shift expenses” from line items that had gone over budget to line items that were under budget in an attempt to make expenses incurred by the Village more in line with the budget established by the Village Council. Also, we noted adjustments to the budget after the end of the fiscal year.

The purpose of a budget is to establish the goals and objectives of management as well as aid in planning for the most economical use of labor, facilities, and capital. Budgets are also used as a tool for early identification of operational problems and help ensure that timely decisions are made in order to resolve those problems. By “shifting expenses” among line items, and adjusting the budget after the end of the fiscal year, the budget then becomes ineffective in identifying problem areas and is no longer a useful tool to management. Additionally, when expenses are “shifted” among accounts, the general ledger does not reflect the true activity that occurred.

We recommend the Village take steps necessary to ensure that expenses are no longer “shifted” as noted above. Also, we recommend that adjustments to the budget be made during the year, as expenses are incurred and reported, rather than after year-end.

Cash / Investment Accounts

We noted that certain cash accounts of the various funds are pooled into one account at the bank. We recommend that each fund of the Village maintain its own cash/investment account. In this way, cash activity, including interest income can be specifically identified to, and posted directly to, that fund throughout the year without the need for an additional reconciliation.

Cash Balances

We noted that certain cash activity was not included in the general ledger, including tax deposit payments and certain manual checks. Also, we noted that cash reconciliations did not balance with the general ledger. We recommend that all cash activity be reported in the general ledger and that the cash balance noted in the general ledger be reconciled with bank records on a monthly basis.

Transfers

We noted that certain cash transfers were treated as revenues. Cash transfers simply move cash from one account or fund to another account or fund and do not meet the criteria for revenue recognition. We recommend that all cash transfers be reviewed and posted to correct accounts based on underlying circumstances requiring the transfer.

Adjustments to Water/Sewer Billing System

We noted a significant number of adjustments made to the water/sewer billing system during the 2007 fiscal year. This situation requires close review by members of the Village Council and the reason for the adjustments needs to be identified and corrected. We would encourage additional training on the billing system for employees of the Village, if needed, for a better working knowledge of the billing system in order to reduce the need for additional adjustments.