

**Village of Ovid
Clinton County, Michigan**

FINANCIAL STATEMENTS

December 31, 2003

Village of Ovid
Clinton County, Michigan

December 31, 2003

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Lasher	President
Mr. Marcus Tew	President Pro-Tem, Trustee
Mr. Gerald Meredith	Trustee
Mr. Author Price	Trustee
Mr. Charles Moore	Trustee
Mr. Larry Ordiway	Trustee
Ms. Ofelia Padilla	Trustee
Ms. Josefina Medina	Clerk
Ms. Cindy Fruchey	Treasurer

Village of Ovid

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ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined financial statements of the Village of Ovid, Michigan as of and for the year ended December 31, 2003, as listed in the Table of Contents. These combined 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. 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.

The Village has a current record of all assets owned, but this record does not include actual or estimated costs for each asset. Since the Village has not maintained a complete cost record of its general fixed assets, a statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not included in the financial statements. The amount that should be recorded in the General Fixed Asset Account Group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Village of Ovid, Michigan as of December 31, 2003, and the results of its operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 3, 2004

COMBINED FINANCIAL STATEMENTS

Village of Ovid

COMBINED BALANCE SHEET - ALL FUND TYPES

December 31, 2003

	Primary		
	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise
ASSETS			
Cash and cash equivalents	\$ 510,116	\$ 80,195	\$ 308,738
Cash and cash equivalents - restricted	-	-	222,871
Receivables			
Taxes	27,372	-	-
Accounts	7,444	-	23,404
Contracts	-	-	-
Due from other funds	27,729	5,082	1,367
Due from component unit	431	-	-
Due from other governmental units	28,998	16,915	-
Inventory	-	-	-
Unamortized expense	-	-	5,319
Fixed assets (net of accumulated depreciation)	-	-	2,682,005
TOTAL ASSETS	<u>\$ 602,090</u>	<u>\$ 102,192</u>	<u>\$ 3,243,704</u>

See accompanying notes to combined financial statements.

<u>Government</u>	<u>Component Unit</u>	<u>Reporting Entity Totals (Memorandum Only)</u>
Totals (Memorandum Only)	Downtown Development Authority	
\$ 899,049	\$ 87,361	\$ 986,410
222,871	3,310	226,181
27,372	-	27,372
30,848	-	30,848
-0-	42,803	42,803
34,178	-	34,178
431	-	431
45,913	-	45,913
-0-	78,152	78,152
5,319	-	5,319
<u>2,682,005</u>	<u>-</u>	<u>2,682,005</u>
<u>\$ 3,947,986</u>	<u>\$ 211,626</u>	<u>\$ 4,159,612</u>

Village of Ovid

COMBINED BALANCE SHEET - ALL FUND TYPES - CONTINUED

December 31, 2003

	Primary		
	Governmental Fund Types		Proprietary Fund Type
	General	Special Revenue	Enterprise
LIABILITIES			
Payables			
Accounts	\$ 11,545	\$ 217	\$ 5,160
Wages	3,078	211	498
Accrued interest	-	-	3,660
Payable from restricted cash - customer deposits	-	-	34,765
Due to other funds	6,449	11,889	15,840
Due to primary government	-	-	-
Deferred revenue	-	-	-
Revenue bonds	-	-	305,000
TOTAL LIABILITIES	21,072	12,317	364,923
FUND EQUITY			
Contributed capital			
Federal and State government	-	-	496,163
Taxpayers	-	-	749,733
Retained earnings			
Reserved for repairs	-	-	20,000
Unreserved	-	-	1,612,885
Fund balance			
Reserved for debt retirement	-	-	-
Reserved for justice training	1,160	-	-
Reserved for inventory	-	-	-
Unreserved			
Designated	39,591	-	-
Undesignated	540,267	89,875	-
TOTAL FUND EQUITY	581,018	89,875	2,878,781
TOTAL LIABILITIES AND FUND EQUITY	\$ 602,090	\$ 102,192	\$ 3,243,704

See accompanying notes to combined financial statements.

<u>Government</u>	<u>Component Unit</u>	<u>Reporting Entity Totals (Memorandum Only)</u>
Totals (Memorandum Only)	Downtown Development Authority	Totals (Memorandum Only)
\$ 16,922	\$ -	\$ 16,922
3,787	-	3,787
3,660	-	3,660
34,765	-	34,765
34,178	-	34,178
-0-	431	431
-0-	42,803	42,803
<u>305,000</u>	<u>-</u>	<u>305,000</u>
398,312	43,234	441,546
496,163	-	496,163
749,733	-	749,733
20,000	-	20,000
1,612,885	-	1,612,885
-0-	3,310	3,310
1,160	-	1,160
-0-	78,152	78,152
39,591	-	39,591
<u>630,142</u>	<u>86,930</u>	<u>717,072</u>
<u>3,549,674</u>	<u>168,392</u>	<u>3,718,066</u>
<u>\$ 3,947,986</u>	<u>\$ 211,626</u>	<u>\$ 4,159,612</u>

Village of Ovid

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

Year Ended December 31, 2003

	Primary Government		Totals (Memorandum Only)
	General	Special Revenue	
REVENUES			
Taxes	\$ 314,227	\$ -	\$ 314,227
Licenses and permits	508	-	508
Intergovernmental	167,991	114,228	282,219
Charges for services	9,325	-	9,325
Interest and rents	56,159	549	56,708
Other	43,605	-	43,605
TOTAL REVENUES	591,815	114,777	706,592
EXPENDITURES			
General government	263,857	-	263,857
Public safety	189,411	-	189,411
Public works	120,788	105,840	226,628
Community and economic development	3,231	-	3,231
Recreation and cultural	45,808	5,001	50,809
TOTAL EXPENDITURES	623,095	110,841	733,936
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(31,280)	3,936	(27,344)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	19,343	19,343
Operating transfers out	-	(19,343)	(19,343)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(31,280)	3,936	(27,344)
Fund balances, beginning of year	612,298	85,939	698,237
Fund balances, end of year	\$ 581,018	\$ 89,875	\$ 670,893

See accompanying notes to combined financial statements.

Component Unit	Reporting Entity Totals (Memorandum Only)
Downtown Development Authority	
-	\$ 314,227
-	508
-	282,219
-	9,325
5,645	62,353
21,802	65,407
27,447	734,039
-	263,857
-	189,411
-	226,628
134,441	137,672
-	50,809
134,441	868,377
(106,994)	(134,338)
-	19,343
-	(19,343)
-0-	-0-
(106,994)	(134,338)
197,234	895,471
\$ 90,240	\$ 761,133

Village of Ovid

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

Year Ended December 31, 2003

	General Fund		
	Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable <u>(Unfavorable)</u>
REVENUES			
Taxes	\$ 302,000	\$ 314,227	\$ 12,227
Licenses and permits	600	508	(92)
Intergovernmental	177,042	167,991	(9,051)
Charges for services	9,268	9,325	57
Interest and rents	63,750	56,159	(7,591)
Other	1,400	43,605	42,205
TOTAL REVENUES	554,060	591,815	37,755
EXPENDITURES			
General government	272,301	263,857	8,444
Public safety	211,621	189,411	22,210
Public works	133,187	120,788	12,399
Community and economic development	8,125	3,231	4,894
Recreation and cultural	49,393	45,808	3,585
TOTAL EXPENDITURES	674,627	623,095	51,532
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(120,567)	(31,280)	89,287
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-0-
Operating transfers out	-	-	-0-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(120,567)	(31,280)	89,287
Fund balances, beginning of year	612,298	612,298	-0-
Fund balances, end of year	<u>\$ 491,731</u>	<u>\$ 581,018</u>	<u>\$ 89,287</u>

See accompanying notes to combined financial statements.

Special Revenue Funds

Amended <u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -0-
-	-	-0-
106,699	114,228	7,529
-	-	-0-
2,009	549	(1,460)
-	-	-0-
<u>108,708</u>	<u>114,777</u>	<u>6,069</u>
-	-	-0-
-	-	-0-
117,787	105,840	11,947
-	-	-0-
-	5,001	(5,001)
<u>117,787</u>	<u>110,841</u>	<u>6,946</u>
(9,079)	3,936	13,015
17,679	19,343	1,664
<u>(17,679)</u>	<u>(19,343)</u>	<u>(1,664)</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
(9,079)	3,936	13,015
<u>85,939</u>	<u>85,939</u>	<u>-0-</u>
<u>\$ 76,860</u>	<u>\$ 89,875</u>	<u>\$ 13,015</u>

Village of Ovid

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE

Year Ended December 31, 2003

	<u>Enterprise</u>
OPERATING REVENUES	
Charges for services	\$ 299,493
Other	<u>10,120</u>
TOTAL OPERATING REVENUES	309,613
OPERATING EXPENSES	
Salaries and wages	49,727
Fringe benefits	16,471
Administrative charges	8,092
Contractual services	19,732
Supplies	10,848
Utilities	16,460
Training	1,753
Insurance	6,361
Repairs and maintenance	16,694
Equipment rental	8,368
Other	2,727
Depreciation	<u>92,923</u>
TOTAL OPERATING EXPENSES	<u>250,156</u>
OPERATING INCOME	59,457
NON-OPERATING REVENUES (EXPENSES)	
Interest revenue	4,885
Interest expense	<u>(22,189)</u>
TOTAL NON-OPERATING (EXPENSES)	<u>(17,304)</u>
NET INCOME	42,153
Add depreciation on contributed fixed assets	<u>40,414</u>
INCREASE IN RETAINED EARNINGS	82,567
Retained earnings, beginning of year	<u>1,550,318</u>
Retained earnings, end of year	<u><u>\$ 1,632,885</u></u>

See accompanying notes to combined financial statements.

Village of Ovid

COMBINED STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

Year Ended December 31, 2003

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ 59,457
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	92,923
Decrease in receivables	3,773
Decrease in due from other funds	673
Decrease in unamortized expenses	887
Increase in due to other funds	2,168
(Decrease) in accounts payable	(3,228)
(Decrease) in accrued liabilities	(3,370)
(Decrease) in accrued interest payable	(541)
Increase in customer deposits	<u>3,414</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	156,156
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(293,795)
Interest expense	(22,189)
Payments of borrowing	<u>(45,000)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(360,984)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>4,885</u>
NET (DECREASE) IN CASH DURING YEAR	(199,943)
Cash, beginning of year	<u>731,552</u>
Cash, end of year	<u><u>\$ 531,609</u></u>

See accompanying notes to combined financial statements.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

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

The Village of Ovid is located in Clinton County, Michigan and has a population of approximately 1,500. The Village of Ovid 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 a maximum of six (6) trustees who are selected at large for overlapping two (2) 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 accounting principles generally accepted in the United States of America; GASB Statement 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 Ovid (primary government) and its component unit (Downtown Development Authority).

The component unit column in the combined financial statements includes the financial data of the Village's component unit (Downtown Development Authority). Although the governing body of the Downtown Development Authority is appointed by the Village Council and the Authority's budget is subject to the approval of the Village Council, it is reported in a separate column to emphasize that it is legally separate from the Village.

Based upon the application of these criteria, the combined financial statements of the Village of Ovid contain all the funds controlled by the Village Council.

2. Jointly Governed Organizations

The Village participates in the following activities which are considered to be jointly governed organizations in relation to the Village, due to there being no ongoing financial interest or responsibility:

Ovid-Middlebury Emergency Services Authority - The Village of Ovid, in conjunction with the Townships of Ovid and Middlebury, has entered into an agreement which created the Ovid-Middlebury Emergency Services Authority. The Ovid-Middlebury Emergency Services Authority board is composed of one (1) member appointed by the Village and three (3) members appointed by each of the Townships. The Townships have ongoing financial interest and responsibility to fund operations of the unit. The Village is required to pay a per run charge for fire calls within its boundaries. The Village paid \$2,313 for fire calls for the year ended December 31, 2003.

Ovid Public Library - Under Public Act 24 of 1989, the Village of Ovid, in conjunction with the Townships of Ovid and Middlebury, created the Ovid Public Library, which is considered a District Library. The Ovid Public Library board is composed of two (2) members appointed by each of the three municipalities. The Townships collect and distribute property taxes that are levied by the Library. The Village has no financial responsibility to the Library.

3. 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 three (3) fund types as follows:

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

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

3. Basis of Presentation - continued

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, Parks and Recreation) - 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.

COMPONENT UNIT FUNDS

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

4. 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. 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.

The proprietary 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 fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

5. 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 that 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 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.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

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

6. 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 January 1, the Village Budget Committee submits their proposed operating budgets for the fiscal year commencing the following January 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 January 1, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure (i.e., fund) level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. After the budget is adopted all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31, 2003 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

7. Cash and Cash Equivalents

Cash equivalents are temporary investments that consist of various money market checking accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

8. Restricted Cash

A portion of the cash and cash equivalents of the Sewer System and Water System Funds are classified as restricted cash because their use is limited. The Sewer System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at December 31, 2003. The Water System Fund's restriction is due to the amount of customer deposits held at December 31, 2003.

9. Contracts Receivable

The Downtown Development Authority (component unit) has loaned amounts to certain individuals and organizations that are payable over a long-term payment schedule. These amounts have been recorded as receivables with corresponding deferred revenue. Recognition of governmental fund type revenues represented by noncurrent receivables is deferred until they become current receivables.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

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

10. Inventory

Inventory is stated at cost. Inventory consists of property held for resale by the Downtown Development Authority. Reported inventory is equally offset by a fund balance reserve in the fund financial statements, which indicates that it does not constitute "available spendable resources" even though it is a component of total assets.

11. Property Tax

The Village of Ovid 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 Ovid 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 Current Tax Collections Agency 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 assessed valuation) for general governmental services and up to an additional 3 mills (\$3 per \$1,000 of assessed valuation) for garbage collection and disposal. For the year ended December 31, 2003, the Village levied 12.2137 mills for general governmental services and 0.3378 mills for garbage collection and disposal.

12. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between primary government and component unit 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.

The General Fund records charges for equipment rental and administrative costs to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

13. Compensated Absences

Accumulated vacation and sick pay amounts of Village employees are vested (i.e., are payable at termination) according to Village personnel guidelines. As of December 31, 2003, Village employees had no material accumulated unused vacation and sick amounts that needed to be recorded in the General Long-Term Debt Account Group.

14. 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 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. However, the Village has not included the General Fixed Assets Account Group for the primary government in this report.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

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

14. Fixed Assets and Long-Term Liabilities - continued

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Groups, 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 if donated, at fair market value at the date of donation. Expenditures that 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:

Sewer lines	40 years
Pump stations/mains	40 years
Equipment	5-40 years

15. Comparative Data

Comparative data for the prior year has not been presented in each of the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

16. 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 accounting principles generally accepted in the United States of America. 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 State or nationally chartered bank 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 States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong 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.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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.

As of December 31, 2003, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Money market checking	\$ 1,121,920	\$ 1,133,422
COMPONENT UNIT		
Money market checking	<u>90,671</u>	<u>91,892</u>
Total Reporting Entity	<u>\$ 1,212,591</u>	<u>\$ 1,225,314</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 December 31, 2003, the primary government and component unit accounts were insured by the FDIC for \$369,816, and the amount of \$855,498 was 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.

The cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption on the combined balance sheet, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2003:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 899,049	\$ 87,361	\$ 986,410
Cash and cash equivalents - restricted	<u>222,871</u>	<u>3,310</u>	<u>226,181</u>
	<u>\$ 1,121,920</u>	<u>\$ 90,671</u>	<u>\$ 1,212,591</u>

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash, cash equivalents, and investments as of December 31, 2003:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Cash and cash equivalents			
Enterprise Funds	\$ 34,765	\$ 188,106	\$ 222,871
Component Unit Funds	<u>-</u>	<u>3,310</u>	<u>3,310</u>
	<u>\$ 34,765</u>	<u>\$ 191,416</u>	<u>\$ 226,181</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at December 31, 2003, are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General		General	
Water System	\$ 15,840	Special Revenue	
Major Street	<u>11,889</u>	Local Street	\$ 5,082
	27,729	Enterprise	
		Sewer System	<u>1,367</u>
Special Revenue			6,449
Local Street		Special Revenue	
General	5,082	Major Street	
Enterprise		General	11,889
Sewer System		Enterprise	
General	<u>1,367</u>	Water System	
		General	<u>15,840</u>
	<u>\$ 34,178</u>		<u>\$ 34,178</u>

NOTE E: COMPONENT UNIT LONG-TERM CONTRACTS RECEIVABLE

The Village has two (2) loans outstanding to individuals and organizations made through the Downtown Development Authority (component unit) Special Revenue Fund. The amounts attributable to these long-term contracts receivable have been recorded in the Downtown Development Authority (component unit) Special Revenue Fund as contracts receivable and deferred revenue. The following is a summary of the outstanding principal balance due from debtors that currently have promissory notes with the Village Downtown Development Authority. These contracts, which include interest at a rate of 6% per annum, all had balloon payments that were due during 2003 but they were not paid off and new contracts were not put in place.

Amount overdue \$ 42,803

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE F: FIXED ASSETS

A summary of Proprietary Fund Type fixed assets at December 31, 2003 follows:

	<u>Enterprise</u>
Land	\$ 134,322
Buildings	115,681
Tank	351,357
Mains	2,592,769
Lagoons	687,663
Equipment	<u>109,251</u>
Total	3,991,043
Less: accumulated depreciation	<u>(1,309,038)</u>
Net fixed assets	<u>\$ 2,682,005</u>

Depreciation expense for the year ended December 31, 2003 is \$92,923.

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended December 31, 2003:

	<u>Balance Jan. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2003</u>
PRIMARY GOVERNMENT				
Enterprise Funds				
Sewer System Fund				
1991 Sewer Revenue Bonds	\$ 10,000	\$ -	\$ 5,000	\$ 5,000
1997C Refunding Bonds	<u>340,000</u>	<u>-</u>	<u>40,000</u>	<u>300,000</u>
Total Primary Government	<u>\$ 350,000</u>	<u>\$ -0-</u>	<u>\$ 45,000</u>	<u>\$ 305,000</u>

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1989 Sewer 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 \$43,372.

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

PRIMARY GOVERNMENT

Sanitary Sewer System Refunding Bonds

\$495,000 Sewer Refunding Bonds dated October 16, 1997, due in annual installments ranging from \$40,000 to \$60,000 through May 1, 2009, with interest ranging from 4.25 to 5.10 percent, payable semi-annually.

\$ 300,000

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Sanitary Sewer System Improvement Revenue Bonds

\$65,000 Sewer Revenue Bonds dated April 1, 1991, due in annual installments of \$5,000 through November 1, 2004, with interest of 7.25 percent, payable semi-annually.

\$ 5,000

Total Primary Government

\$ 305,000

The annual requirements to pay the debt principal and interest outstanding for the bonds and contracts are as follows:

Year Ending <u>December 31,</u>	<u>Primary Government</u>		<u>Total</u>
	<u>Revenue Bonds</u>	<u>Refunding Bonds</u>	
2004	\$ 5,363	\$ 59,070	\$ 64,433
2005	-	59,513	59,513
2006	-	59,130	59,130
2007	-	56,768	56,768
2008	-	59,260	59,260
2009	-	61,470	61,470
	5,363	355,211	360,574
Less: interest	(<u>363</u>)	(<u>55,211</u>)	(<u>55,574</u>)
	\$ <u>5,000</u>	\$ <u>300,000</u>	\$ <u>305,000</u>

NOTE H: DEFERRED COMPENSATION PLAN

The Village of Ovid offers its employees a deferred compensation plan sponsored by Prudential Insurance Company of America, which was created in accordance with IRS Section #457. The plan, available to all full time employees, permits them to defer a portion of their current salary until future years. In addition, after completion of ninety (90) days of employment, the Village will match employee contributions, up to 5% of current salary. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Elected officials are not eligible to participate. For the year ended December 31, 2003, the Village contributed \$2,217 to the plan and employees contributed \$2,303.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE I: 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 ending December 31, 2003, is as follows:

	<u>Sewer System</u>	<u>Water System</u>	<u>Total</u>
Operating revenues	\$ 191,527	\$ 118,086	\$ 309,613
Operating expenses			
Depreciation	43,189	49,734	92,923
Other	59,285	97,948	157,233
Operating income (loss)	89,053	(29,596)	59,457
Net income (loss)	69,155	(27,002)	42,153
Contributed capital	-	1,245,896	1,245,896
Net increase (decrease) in fixed assets	(25,439)	226,311	200,872
Net working capital	102,584	159,400	261,984
Total assets	1,435,662	1,808,042	3,243,704
Long-term liabilities			
Revenue bonds payable	305,000	-	305,000
Total equity	1,102,893	1,775,888	2,878,781

NOTE J: 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 fund level for the Special Revenue Funds.

During the year ended December 31, 2003, the Village incurred expenditures in the General Fund and two (2) Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General Government			
Financial administration	\$ 111,452	\$ 112,399	\$ 947
Public Safety			
Fire Department	800	2,313	1,513
Special Revenue Funds			
Major Street			
Expenditures	60,240	60,429	189
Operating transfers out	17,679	19,343	1,664
Parks and Recreation	-	5,001	5,001

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE K: FUND EQUITY RESERVES AND DESIGNATIONS

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. Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following are the various fund balance and retained earnings reserves as of December 31, 2003:

Fund Balance

PRIMARY GOVERNMENT

General Fund

Reserved for justice training \$ 1,160

COMPONENT UNIT

Special Revenue - Downtown Development Fund

Reserved for debt retirement 3,310

\$ 4,470

Retained Earnings

Enterprise Funds

Sewer System Fund

Reserved for repairs \$ 20,000

The following is the fund balance designation as of December 31, 2003:

PRIMARY GOVERNMENT

General

Designated for subsequent year's expenditures \$ 39,591

NOTE L: RISK MANAGEMENT

The Village participates in a pool, the Michigan Township Participating Plan, with other municipalities for property, liability, wrongful acts, law enforcement, auto, crime, in-land marine, boiler, and bonding losses. The pool is organized under Public Act 138 of 1982, as amended. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

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. The Village has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

Village of Ovid

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2003

NOTE M: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the general fund. The following is the required information as it relates to this activity for the year ended December 31, 2003:

REVENUES		
Building Permits	\$	508
EXPENDITURES		
Salary and fringes		1,524
Contracted services		1,275
Supplies		192
Publications and notices		<u>240</u>
TOTAL EXPENDITURES		<u>3,231</u>
EXCESS OF REVENUES UNDER EXPENDITURES	\$	<u>(2,723)</u>

NOTE N: 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 Ovid no later than the fiscal year ending December 31, 2004; 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 December 31, 2008.

SUPPLEMENTARY FINANCIAL INFORMATION

Village of Ovid

General Fund

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

Year Ended December 31, 2003
With Actual Amounts for Year Ended December 31, 2002

	Amended Budget	2003 Actual	Variance Favorable (Unfavorable)	2002 Actual
REVENUES				
Taxes	\$ 302,000	\$ 314,227	12,227	\$ 299,727
Licenses and permits	600	508	(92)	7,151
Intergovernmental	177,042	167,991	(9,051)	181,165
Charges for services	9,268	9,325	57	8,221
Interest and rents	63,750	56,159	(7,591)	56,841
Other	1,400	43,605	42,205	10,180
TOTAL REVENUES	554,060	591,815	37,755	563,285
EXPENDITURES				
General government				
Legislative	16,883	15,630	1,253	11,061
Executive	9,823	9,476	347	5,729
Financial administration	111,452	112,399	(947)	102,649
Elections	1,552	1,391	161	2,035
Hall and grounds	31,740	29,696	2,044	70,884
Equipment rental	100,851	95,265	5,586	27,835
Total general government	272,301	263,857	8,444	220,193
Public safety				
Police department	210,821	187,098	23,723	203,701
Fire department	800	2,313	(1,513)	9,924
Total public safety	211,621	189,411	22,210	213,625
Public works	133,187	120,788	12,399	174,657
Health and welfare				
Ambulance	-	-	-0-	7,118
Community and economic development				
Planning/zoning commission	8,125	3,231	4,894	5,280
Recreation and cultural				
Parks and recreation	43,741	40,156	3,585	22,025
Community promotion	5,652	5,652	-0-	8,597
Total recreation and cultural	49,393	45,808	3,585	30,622
TOTAL EXPENDITURES	674,627	623,095	51,532	651,495

Village of Ovid

General Fund

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

Year Ended December 31, 2003
With Actual Amounts for Year Ended December 31, 2002

	<u>Amended Budget</u>	<u>2003 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2002 Actual</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (120,567)	\$ (31,280)	\$ 89,287	\$ (88,210)
Fund balance, beginning of year	612,298	612,298	-0-	751,008
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-0-</u>	<u>(50,500)</u>
Fund balance, end of year	<u>\$ 491,731</u>	<u>\$ 581,018</u>	<u>\$ 89,287</u>	<u>\$ 612,298</u>

Village of Ovid

Special Revenue Funds

COMBINING BALANCE SHEET

December 31, 2003

	Major Street	Local Street	Parks and Recreation	Total
ASSETS				
Cash and cash equivalents	\$ 27,044	\$ 52,042	\$ 1,109	\$ 80,195
Due from other funds	-	5,082	-	5,082
Due from other governmental units - State	12,386	4,529	-	16,915
TOTAL ASSETS	\$ 39,430	\$ 61,653	\$ 1,109	\$ 102,192
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 193	\$ 24	\$ -	\$ 217
Accrued wages	130	81	-	211
Due to other funds	11,889	-	-	11,889
TOTAL LIABILITIES	12,212	105	-0-	12,317
FUND BALANCES				
Unreserved Undesignated	27,218	61,548	1,109	89,875
TOTAL FUND BALANCES	27,218	61,548	1,109	89,875
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,430	\$ 61,653	\$ 1,109	\$ 102,192

Village of Ovid

Special Revenue Funds

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

Year Ended December 31, 2003

	Major Street	Local Street	Parks and Recreation	Total
REVENUES				
Intergovernmental	\$ 79,030	\$ 29,198	\$ 6,000	\$ 114,228
Interest	412	137	-	549
TOTAL REVENUES	79,442	29,335	6,000	114,777
EXPENDITURES				
Public works				
Highways and streets	60,429	45,411	-	105,840
Recreation and cultural				
Parks and recreation	-	-	5,001	5,001
TOTAL EXPENDITURES	60,429	45,411	5,001	110,841
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	19,013	(16,076)	999	3,936
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	19,343	-	19,343
Operating transfers out	(19,343)	-	-	(19,343)
TOTAL OTHER FINANCING SOURCES (USES)	(19,343)	19,343	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(330)	3,267	999	3,936
Fund balances, beginning of year	27,548	58,281	110	85,939
Fund balances, end of year	<u>\$ 27,218</u>	<u>\$ 61,548</u>	<u>\$ 1,109</u>	<u>\$ 89,875</u>

Village of Ovid

Major Street Fund

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

Year Ended December 31, 2003
With Actual Amounts for Year Ended December 31, 2002

	<u>Budget</u>	<u>2003 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2002 Actual</u>
REVENUES				
Intergovernmental -State				
Gas and weight tax	\$ 76,719	\$ 79,030	\$ 2,311	\$ 74,919
Other	-	-	-0-	3,001
Interest	1,200	412	(788)	1,108
	<u>77,919</u>	<u>79,442</u>	<u>1,523</u>	<u>79,028</u>
TOTAL REVENUES				
EXPENDITURES				
Administrative	3,060	3,026	34	2,900
Street maintenance	57,180	57,403	(223)	46,495
	<u>60,240</u>	<u>60,429</u>	<u>(189)</u>	<u>49,395</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES				
	17,679	19,013	1,334	29,633
OTHER FINANCING (USES)				
Operating transfers out	(17,679)	(19,343)	(1,664)	(18,866)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	-0-	(330)	(330)	10,767
Fund balance, beginning of year	27,548	27,548	-0-	16,781
Fund balance, end of year	<u>\$ 27,548</u>	<u>\$ 27,218</u>	<u>\$ (330)</u>	<u>\$ 27,548</u>

Village of Ovid

Local Street Fund

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

Year Ended December 31, 2003
With Actual Amounts for Year Ended December 31, 2002

	Amended Budget	2003 Actual	Variance Favorable (Unfavorable)	2002 Actual
REVENUES				
Intergovernmental - Federal/State				
Gas and weight tax	\$ 27,980	\$ 29,198	\$ 1,218	\$ 27,313
Interest	809	137	(672)	369
	<u>28,789</u>	<u>29,335</u>	<u>546</u>	<u>27,682</u>
EXPENDITURES				
Administrative	1,948	1,504	444	1,650
Street maintenance	55,599	43,907	11,692	43,622
	<u>57,547</u>	<u>45,411</u>	<u>12,136</u>	<u>45,272</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(28,758)	(16,076)	12,682	(17,590)
OTHER FINANCING SOURCES				
Operating transfers in	17,679	19,343	1,664	18,866
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(11,079)	3,267	14,346	1,276
Fund balance, beginning of year	58,281	58,281	-0-	57,005
Fund balance, end of year	<u>\$ 47,202</u>	<u>\$ 61,548</u>	<u>\$ 14,346</u>	<u>\$ 58,281</u>

Village of Ovid

Parks and Recreation Fund

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

Year Ended December 31, 2003
With Actual Amounts for Year Ended December 31, 2002

	<u>Budget</u>	<u>2003 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2002 Actual</u>
REVENUES				
Intergovernmental - Local	\$ 2,000	\$ 6,000	\$ 4,000	\$ 4,080
EXPENDITURES				
Recreation and cultural Improvements	<u>-</u>	<u>5,001</u>	<u>(5,001)</u>	<u>4,093</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	2,000	999	(1,001)	(13)
Fund balance, beginning of year	<u>110</u>	<u>110</u>	<u>-0-</u>	<u>123</u>
Fund balance, end of year	<u><u>\$ 2,110</u></u>	<u><u>\$ 1,109</u></u>	<u><u>\$ (1,001)</u></u>	<u><u>\$ 110</u></u>

Village of Ovid

Enterprise Funds

COMBINING BALANCE SHEET

December 31, 2003

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash	\$ 139,108	\$ 169,630	\$ 308,738
Accounts receivable	15,306	8,098	23,404
Total current assets	154,414	177,728	332,142
Other assets			
Cash - restricted	209,045	13,826	222,871
Due from other funds	1,367	-	1,367
Unamortized expense	5,319	-	5,319
Total other assets	215,731	13,826	229,557
Fixed assets			
Land	76,800	57,522	134,322
Buildings	-	115,681	115,681
Tank	-	351,357	351,357
Mains	949,975	1,642,794	2,592,769
Lagoons	687,663	-	687,663
Equipment	75,161	34,090	109,251
Accumulated depreciation	(724,082)	(584,956)	(1,309,038)
Net fixed assets	1,065,517	1,616,488	2,682,005
TOTAL ASSETS	\$ 1,435,662	\$ 1,808,042	\$ 3,243,704

Village of Ovid

Enterprise Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2003

	Sewer System	Water System	Total
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 2,977	\$ 2,183	\$ 5,160
Accrued wages	193	305	498
Due to other funds	-	15,840	15,840
Accrued interest payable	3,660	-	3,660
Current portion of long-term debt	45,000	-	45,000
Total current liabilities	51,830	18,328	70,158
Non-current liabilities			
Payable from restricted cash - customer deposits payable	20,939	13,826	34,765
Revenue bonds payable	260,000	-	260,000
Total non-current liabilities	280,939	13,826	294,765
TOTAL LIABILITIES	332,769	32,154	364,923
FUND EQUITY			
Contribution in aid of construction			
Federal Government	-	496,163	496,163
Taxpayers	-	749,733	749,733
Retained earnings			
Reserved for repairs	20,000	-	20,000
Unreserved	1,082,893	529,992	1,612,885
TOTAL FUND EQUITY	1,102,893	1,775,888	2,878,781
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,435,662	\$ 1,808,042	\$ 3,243,704

Village of Ovid

Enterprise Funds

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

Year Ended December 31, 2003

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services			
Usage fees	\$ 161,536	\$ 104,997	\$ 266,533
Tap in fees	29,960	3,000	32,960
Other	31	10,089	10,120
	<u>191,527</u>	<u>118,086</u>	<u>309,613</u>
OPERATING EXPENSES			
Salaries and wages	18,041	31,686	49,727
Fringe benefits	7,452	9,019	16,471
Administrative charge	5,174	2,918	8,092
Contractual services	6,367	13,365	19,732
Supplies	3,434	7,414	10,848
Utilities	3,198	13,262	16,460
Training	770	983	1,753
Insurance	2,960	3,401	6,361
Repairs and maintenance	8,041	8,653	16,694
Equipment rental	3,507	4,861	8,368
Other	341	2,386	2,727
Depreciation	43,189	49,734	92,923
	<u>102,474</u>	<u>147,682</u>	<u>250,156</u>
OPERATING INCOME (LOSS)	89,053	(29,596)	59,457
NON-OPERATING REVENUES (EXPENSES)			
Interest revenue	2,291	2,594	4,885
Interest expense	(22,189)	-	(22,189)
	<u>(19,898)</u>	<u>2,594</u>	<u>(17,304)</u>
NET INCOME (LOSS)	69,155	(27,002)	42,153
Add depreciation on contributed fixed assets	-	40,414	40,414
	<u>69,155</u>	<u>13,412</u>	<u>82,567</u>
INCREASE IN RETAINED EARNINGS	69,155	13,412	82,567
Retained earnings, beginning of year	1,033,738	516,580	1,550,318
	<u>1,033,738</u>	<u>516,580</u>	<u>1,550,318</u>
Retained earnings, end of year	<u>\$ 1,102,893</u>	<u>\$ 529,992</u>	<u>\$ 1,632,885</u>

Village of Ovid

Enterprise Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2003

	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 89,053	\$ (29,596)	\$ 59,457
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	43,189	49,734	92,923
Decrease in receivables	2,007	1,766	3,773
Decrease in due from other funds	673	-	673
Decrease in unamortized expenses	887	-	887
Increase in due to other funds	-	2,168	2,168
Increase (decrease) in accounts payable	2,507	(5,735)	(3,228)
(Decrease) in accrued liabilities	(596)	(2,774)	(3,370)
(Decrease) in accrued interest payable	(541)	-	(541)
Increase in customer deposits	2,056	1,358	3,414
	<u>139,235</u>	<u>16,921</u>	<u>156,156</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	(17,750)	(276,045)	(293,795)
Interest expense	(22,189)	-	(22,189)
Payments of borrowing	(45,000)	-	(45,000)
	<u>(84,939)</u>	<u>(276,045)</u>	<u>(360,984)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	2,291	2,594	4,885
	<u>2,291</u>	<u>2,594</u>	<u>4,885</u>
NET INCREASE (DECREASE) IN CASH DURING YEAR			
	56,587	(256,530)	(199,943)
Cash, beginning of year	<u>291,566</u>	<u>439,986</u>	<u>731,552</u>
Cash, end of year	<u><u>\$ 348,153</u></u>	<u><u>\$ 183,456</u></u>	<u><u>\$ 531,609</u></u>

Village of Ovid

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2003

	<u>Special Revenue</u>
	<u>Downtown Development</u>
ASSETS	
Cash	\$ 87,361
Cash - restricted	3,310
Contracts receivable	42,803
Inventory	<u>78,152</u>
TOTAL ASSETS	<u>\$ 211,626</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Due to primary government	\$ 431
Deferred revenue	<u>42,803</u>
TOTAL LIABILITIES	43,234
FUND BALANCE	
Reserved for debt retirement	3,310
Reserved for inventory	78,152
Unreserved	
Undesignated	<u>86,930</u>
TOTAL FUND BALANCE	<u>168,392</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 211,626</u>

Principals

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REPORT ON INTERNAL CONTROL STRUCTURE

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

We have audited the combined financial statements of the Village of Ovid as of and for the year ended December 31, 2003, and have issued our report thereon dated February 3, 2004.

In planning and performing our audit of the combined financial statements of the Village of Ovid for the year ended December 31, 2003, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control structure.

The management of the Village of Ovid 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 or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

However, we noted certain items 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 entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the combined financial statements.

BUDGETS

As noted in the combined financial statements, the expenditures in certain funds had budgeted activities which exceeded the amounts appropriated. It was also noted that no formal budget was adopted for the Parks and Recreation (Special Revenue) Fund. This issue was noted and reported in our audit comments last year.

The 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 adopt budgets for all applicable funds and monitor the budgets monthly and amend as necessary.

FIXED ASSETS

As noted in the financial statements, the Village has not recorded general fixed assets in the financial statements as required by accounting principles generally accepted in the United States of America. This issue was noted and reported in our audit comments last year.

It is important that the Village establish controls over the addition, disposal, and inventory process related to fixed assets to assure accountability. We recommend the Village set a capitalization threshold and complete a physical inventory of all applicable fixed assets and determine the historical or estimated historical cost of each applicable item.

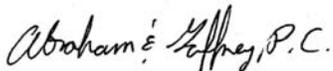
Completion of an asset inventory including compilation of historical or estimated historical cost must be completed as of December 31, 2004 due to the requirements of GASB Statement #34. We have historically issued a qualified opinion on the Village's financial statements due to this omission. Under the requirements of GASB #34, the qualification of our opinion in this circumstance will no longer be possible. Under GASB #34, our opinion on the Village's governmental activities would be adverse, indicating that the statements are not prepared in conformity with accounting principles generally accepted in the United States of America. For this reason, it is important that the Village take steps to identify and value its capital assets before next year's audit. This would include completing the capital asset list as of January 1, 2004, along with corresponding accumulated and current depreciation, current year additions and deletions and ending December 31, 2004 balances.

A material weakness is a condition in which the design or operation of one 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 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, none of the reportable conditions referred to above are believed to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the administration of the Village of Ovid in a separate letter dated February 3, 2004.

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



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 3, 2004

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MANAGEMENT LETTER

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

Dear Ladies/Gentlemen:

As you know, we have recently completed our audit of the records of the Village of Ovid, Michigan, as of and for the year ended December 31, 2003. In connection with the audit we feel that a certain change in 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 Downtown Development Authority should assure that all loans have current promissory notes.

During our testing we noted an outstanding loan of the Downtown Development Authority (DDA) that had a promissory note prepared on December 21, 2002 (which was not signed by either the debtor or by the DDA President). The loan called for balloon payments that were past due. These balloon payments were not made in 2003 and an appropriate new promissory note was not executed. The loan was therefore in default at December 31, 2003. The other outstanding contract did not have a current promissory note in place either. This issue had been noted and reported in our audit comments last year.

We suggest that the DDA execute valid promissory notes on all loans and keep them updated as necessary.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the combined financial statements, and this report does not affect our report on the financial statements dated February 3, 2004.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Ovid and is not intended to 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

February 3, 2004