

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 Elk Rapids	County Antrim
Fiscal Year End February 28, 2007	Opinion Date July 27, 2007	Date Audit Report Submitted to State August 3, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

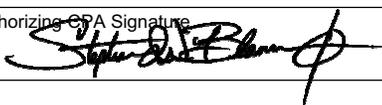
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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 type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (231) 946-3230		
Street Address 107 S. Cass Street, Suite A		City Traverse City	State MI	Zip 49684
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801

VILLAGE OF ELK RAPIDS, MICHIGAN

FINANCIAL STATEMENTS

**For the Fiscal Year Ended
February 28, 2007**

VILLAGE OF ELK RAPIDS, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

July 27, 2007

Village Council
Village of Elk Rapids
Elk Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the ***Village of Elk Rapids, Michigan*** (the "Village"), as of and for the year ended February 28, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons of the General, Major Street, Local Street and Municipal Street funds 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 July 27, 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis listed on pages 3-11 is not a required part of the basic financial statements but is 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 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 combining and individual fund financial statements 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 combining and individual fund financial statements 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.

A handwritten signature in cursive script that reads "Lehmann Johnson".

Management's Discussion and Analysis

As the Village Manager for the Village of Elk Rapids, and head of the Village's management team, it is my pleasure to welcome you to this review of our fiscal year ending February 28, 2007. Over the past three years, we have been incorporating financial reporting changes called for in the recently adopted GASB 34 standard. While there are many technical changes, the most important thing for the reviewer of this document to know is that the goal of GASB 34 is to give a more balanced picture of the Village's assets and liabilities. As an example, while it is important to know what assets the Village has, it is also important to know how old they are, how long they will last, and if funds are being set aside to replace them. The changes contained herein should help provide the reader with that better balance.

This is also our third year with a management's discussion and analysis. It is the goal of this analysis to help make the information contained in these statements more approachable and meaningful for those who review it. If you have any questions, comments or suggestions that would help us in that goal, please feel free to let me know.

As management of the Village of Elk Rapids, we offer readers of the Village of Elk Rapids' financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2007. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The assets of the Village (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$10,854,157 (net assets). Of this amount, \$1,591,574 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$354,154.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$312,027, an increase of \$164,443 from the prior year.
- At the end of the current fiscal year, the total General Fund balance was at a deficit of \$19,725. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.
- The Village's total long-term debt decreased by \$304,869 due to the scheduled repayments of debt.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the Village (known as the primary government), but also a legally separate entity - the Downtown Development Authority; which is a *discretely presented component unit* of the Village. Financial information for this *component unit* is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 12-14 of this report.

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

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

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

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

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

The basic governmental fund financial statements can be found on pages 15-24 of this report.

Proprietary Funds are also maintained by the Village. There are two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water, sewer, waste collection and harbor operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its motor pool. Because these services benefit general, major and local streets, and water, sewer, waste collection and harbor fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Village maintains four individual proprietary funds, all of which are considered to be major funds of the Village. Information is presented separately in the proprietary fund statement of net assets and in the proprietary fund statement of revenues, expenses and changes in net assets for the Water, Sewer, Waste Collection and Harbor Major Funds.

The basic proprietary fund financial statements can be found on pages 25-30 of this report and in the business-type activities in the government-wide financial statements.

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

The basic fiduciary fund financial statement can be found on page 31 of this report.

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. They should be read thoroughly as part of any review of the Village's financial statements. The notes to the financial statements can be found on pages 32-45 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 46-58 of this report.

Government-Wide Financial Analysis

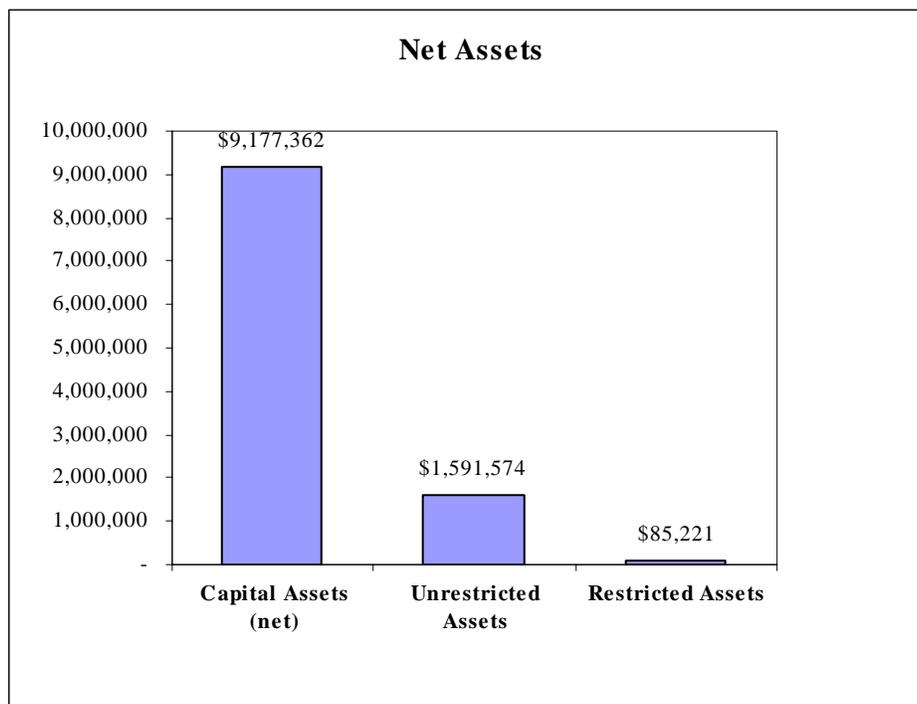
As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$10,854,157 at the close of the most recent fiscal year.

The largest portion of the Village's net assets (85%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Village of Elk Rapids, Michigan
Net Assets as of February 28, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 357,684	\$ 193,523	\$ 1,865,623	\$ 2,164,779	\$ 2,223,307	\$ 2,358,302
Capital assets, net	<u>2,308,276</u>	<u>2,376,156</u>	<u>8,865,887</u>	<u>8,747,727</u>	<u>11,174,163</u>	<u>11,123,883</u>
Total assets	<u>2,665,960</u>	<u>2,569,679</u>	<u>10,731,510</u>	<u>10,912,506</u>	<u>13,397,470</u>	<u>13,482,185</u>
Long-term liabilities outstanding	1,190,200	1,288,748	869,896	1,076,217	2,060,096	2,364,965
Other liabilities	<u>43,451</u>	<u>53,189</u>	<u>439,766</u>	<u>564,028</u>	<u>483,217</u>	<u>617,217</u>
Total liabilities	<u>1,233,651</u>	<u>1,341,937</u>	<u>1,309,662</u>	<u>1,640,245</u>	<u>2,543,313</u>	<u>2,982,182</u>
Net assets						
Invested in capital net of related debt	1,161,475	1,124,140	8,015,887	7,686,727	9,177,362	8,810,867
Restricted	-	-	85,221	193,084	85,221	193,084
Unrestricted	<u>270,834</u>	<u>103,602</u>	<u>1,320,740</u>	<u>1,392,450</u>	<u>1,591,574</u>	<u>1,496,052</u>
Total net assets	<u>\$1,432,309</u>	<u>\$ 1,227,742</u>	<u>\$9,421,848</u>	<u>\$ 9,272,261</u>	<u>\$10,854,157</u>	<u>\$10,500,003</u>

A portion of the Village's net assets (1%) represents resources that are subject to external restrictions on how they may be used both for the Village as a whole, as well as for its separate governmental and business-type activities. The balance in *restricted assets* reflects the Village's Bond Debt reserve. The remaining balance of *unrestricted net assets* (14%) may be used to meet the Village's ongoing obligations to citizens and creditors.



The government's net assets increased by \$354,154 during the current fiscal year. Governmental activities showed an increase of \$204,567 while business-type activities showed an increase of \$149,587.

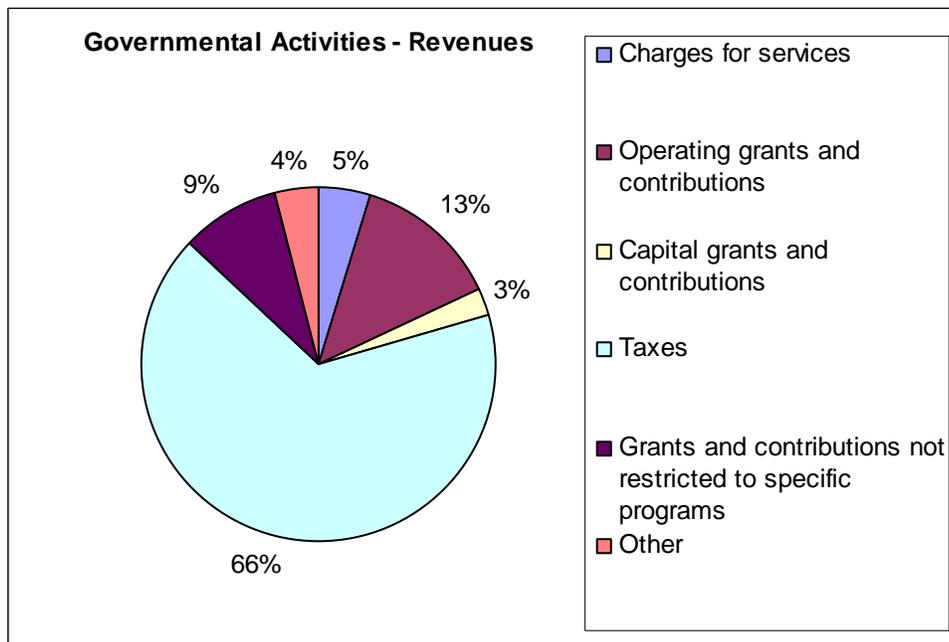
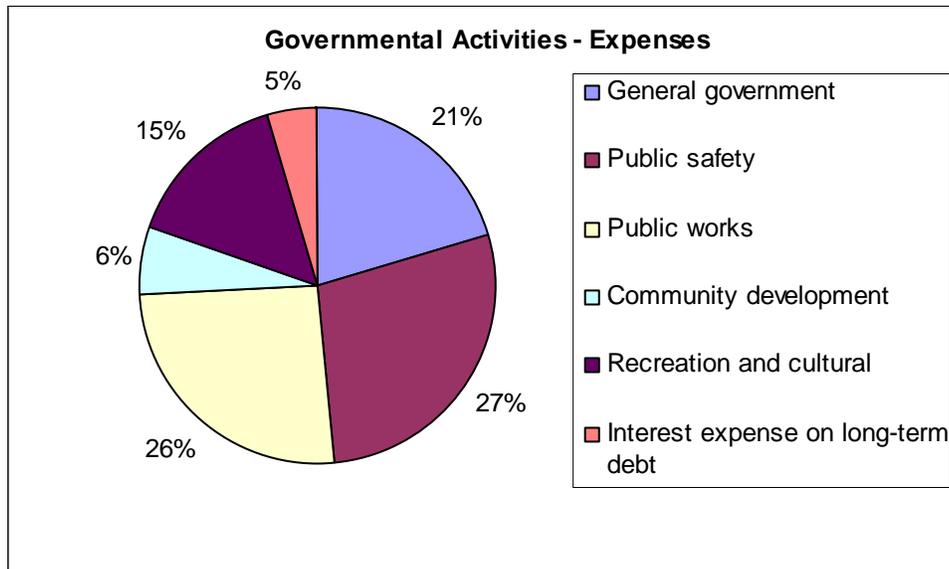
The following table illustrates and summarizes the aforementioned results of change in Net Assets for the Village and was derived from the Government-Wide Statement of Activities.

Village of Elk Rapids, Michigan
Change in Net Assets
For the Fiscal Year Ended February 28, 2007

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue						
Program revenue						
Charges for services	\$ 74,081	\$ 55,358	\$ 1,687,221	\$ 1,592,310	\$ 1,761,302	\$ 1,647,668
Operating grants and contributions	206,169	240,880	5,778	6,655	211,947	247,535
Capital grants and contrib.	19,375	42,050	19,375	-	-	42,050
General revenue						
Taxes	1,035,071	978,781	138,686	148,421	1,173,757	1,127,202
Grants and contributions not restricted to specific programs	144,315	147,035	-	-	144,315	147,035
Unrestricted investment earnings	19,843	11,175	73,375	57,922	93,218	69,097
Other revenues	<u>39,792</u>	<u>67,797</u>	<u>22,444</u>	<u>16,472</u>	<u>62,236</u>	<u>84,269</u>
Total revenue	<u>1,561,321</u>	<u>1,520,401</u>	<u>1,927,504</u>	<u>1,821,780</u>	<u>3,488,825</u>	<u>3,342,181</u>
Expenses						
General government	284,001	322,604	-	-	284,001	322,604
Public safety	382,011	360,663	-	-	382,011	360,663
Public works	353,576	415,341	-	-	353,576	415,341
Community development	84,242	82,845	-	-	84,242	82,845
Recreation and cultural	209,163	246,151	-	-	209,163	246,151
Interest on long-term debt	62,030	73,783	-	-	62,030	73,783
Water	-	-	261,494	270,974	261,494	270,974
Sewer	-	-	472,567	461,675	472,567	461,675
Waste Collection	-	-	203,727	199,968	203,727	199,968
Harbor	-	-	821,857	763,981	821,857	763,981
Total expenses	<u>1,375,026</u>	<u>1,501,387</u>	<u>1,759,645</u>	<u>1,696,598</u>	<u>3,134,671</u>	<u>3,197,985</u>
Increase in net assets before transfers	186,295	19,014	167,859	125,182	354,154	144,196
Transfers	<u>18,272</u>	<u>(15,887)</u>	<u>(18,272)</u>	<u>15,887</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>204,567</u>	<u>3,127</u>	<u>149,587</u>	<u>141,069</u>	<u>354,154</u>	<u>144,196</u>
Net assets – beginning of year	<u>1,227,742</u>	<u>1,224,615</u>	<u>9,272,261</u>	<u>9,131,192</u>	<u>10,500,003</u>	<u>10,355,807</u>
Net assets – end of year	<u>\$ 1,432,309</u>	<u>\$ 1,227,742</u>	<u>\$ 9,421,848</u>	<u>\$ 9,272,261</u>	<u>\$ 10,854,157</u>	<u>\$ 10,500,003</u>

Governmental Activities. Governmental activities increased the Village’s net assets by \$204,567, or 1.9%. Key elements of this performance are as follows:

- Property tax revenue rose slightly, while state shared revenue remained relatively flat.
- Expenses were largely held in check versus budget.



Business-Type Activities. Business-type activities increased the Village's net assets by \$149,587 or 1.4%. Key elements of this performance are as follows:

- The Water Fund – incremental water rate increase was implemented.
- The Harbor Fund – improved harbor revenue.

Financial Analysis of the Village's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$312,027, an increase of \$164,443 in comparison with the prior year. No single item contributed to this overall increase.

The General Fund is the chief operating fund of the Village. At the end of the current fiscal year, the total General Fund balance was at a deficit of \$19,725. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.

The General Fund balance increased by \$61,563 during the current fiscal year. This is primarily attributable to reduced expenditures in anticipation of reduced revenue.

The Major, Local and Municipal Street Funds have total fund balances of \$225,645, which increased by \$70,346 during the year. This increase is due to non-implementation of the street overlay program.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Waste Collection and Harbor Funds at the end of the year amounted to \$1,327,661, restricted assets of \$85,221 and capital assets net of related debt of \$8,015,887. The Water Fund had an increase in net assets for the year of \$100,148, the Sewer Fund had a decrease of \$41,120, the Waste Collection Fund had an increase of \$10,013 and the Harbor Fund had an increase of \$83,682.

Capital Asset and Debt Administration

Capital Assets. The Village's capital assets for its governmental and business type activities as of February 28, 2007, amounted to \$11,174,163 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, system improvements, vehicles, machinery and equipment, park facilities, roads, and sidewalks. The total increase in the Village's investment in capital assets for the current fiscal year was \$50,280 with governmental activity assets decreasing by \$67,880 and business-type assets increasing by \$118,160.

Major capital asset events during the current fiscal year included the following:

- Harbor gazebo fully constructed.
- Improvements to the Veteran's Memorial Park well.

Village of Elk Rapids' Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 585,021	\$ 26,430	\$ 611,451
Land improvements	110,973	-	110,973
Infrastructure	242,387	-	242,387
Buildings and structures	1,099,501	513,898	1,613,399
Improvements to systems	-	8,268,470	8,268,470
Vehicles	83,169	-	83,169
Furniture and equipment	<u>187,225</u>	<u>57,089</u>	<u>244,314</u>
Total	<u>\$ 2,308,276</u>	<u>\$ 8,865,887</u>	<u>\$ 11,174,163</u>

Additional information on the Village's capital assets can be found in Note III.C on pages 39-40 of this report.

Long-Term Debt. At the end of the current fiscal year, the Village had total bonded debt and note payables of \$1,996,801. Of this amount, \$895,000 comprises debt backed by the full faith and credit of the government (not including the DDA bonded debt). The remainder of the Village's debt represents notes payable and bonds secured solely by specified revenue sources (i.e., revenue bonds).

Village of Elk Rapids' Outstanding Debt General Obligation Notes / Bonds and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ 895,000	\$ -	\$ 895,000
Notes payable	251,801	-	251,801
Revenue bonds	<u>-</u>	<u>850,000</u>	<u>850,000</u>
Total	<u>\$ 1,146,801</u>	<u>\$ 850,000</u>	<u>\$ 1,996,801</u>

The Village's total long-term debt decreased by \$316,215 due to the scheduled repayments of debt and the early repayment of the 1989 water revenue bonds.

Additional information on the Village's long-term debt can be found in Note III.E on pages 42-43 of this report.

Economic Factors and Next Year's Budgets and Rates

The following significant factors were considered in preparing the Village's budget for the 2007-08 fiscal year:

- Flat State revenue sharing.
- Increased taxable value that would not be attributed to the DDA, TIFA districts.
- Village development of the Master Plan and Recreation Master Plan.
- Major and Local street overlay program.
- System connection of a third village well.
- Harbor dredging (hydraulic and mechanical).
- Sidewalk improvements.
- Sewer lift station improvements.
- DDA alley reconstruction (west side).
- Construction of Veteran's Memorial Park Restroom.
- River Street improvements (Pine to Oak Street).
- Water main reconstruction (various locations).
- Sanitary sewer inflow and infiltration study.
- Purchase of accounting software.
- Downtown Development Authority construction of Lake/Ames Street.
- Purchase of plow truck and pickup truck.
- Increase in water capital rate.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

	PRIMARY GOVERNMENT			COMPONENT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	UNIT DOWNTOWN DEVELOPMENT AUTHORITY
ASSETS				
Cash and cash equivalents	\$ 485,665	\$ 1,347,817	\$ 1,833,482	\$ 757,504
Receivables	58,020	62,261	120,281	-
Due from other governments	97,841	-	97,841	-
Prepaid items	10,275	5,338	15,613	99
Inventory	-	56,595	56,595	-
Restricted cash	-	85,221	85,221	-
Unamortized bond discount	-	14,274	14,274	-
Internal balances	(294,117)	294,117	-	-
Land	585,021	26,430	611,451	-
Capital assets, net	1,723,255	8,839,457	10,562,712	-
TOTAL ASSETS	2,665,960	10,731,510	13,397,470	757,603
LIABILITIES				
Accounts payable	7,902	22,232	30,134	112
Accrued expenses	18,958	9,407	28,365	344
Accrued interest payable	16,591	6,824	23,415	10,228
Unearned revenue	-	401,303	401,303	-
Long-term liabilities				
Due within one year	106,811	55,000	161,811	185,000
Due in more than one year	1,083,389	814,896	1,898,285	305,000
TOTAL LIABILITIES	1,233,651	1,309,662	2,543,313	500,684
NET ASSETS				
Invested in capital assets, net of related debt	1,161,475	8,015,887	9,177,362	-
Restricted for				
Debt service	-	85,221	85,221	-
Unrestricted	270,834	1,320,740	1,591,574	256,919
TOTAL NET ASSETS	\$ 1,432,309	\$ 9,421,848	\$ 10,854,157	\$ 256,919

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

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT					
Governmental activities					
General government	\$ 284,004	\$ 59,402	\$ 25,027	\$ -	\$ (199,575)
Public safety	382,011	14,679	1,188	-	(366,144)
Public works	353,576	-	178,754	42,050	(132,772)
Community development	84,242	-	-	-	(84,242)
Recreation and cultural	209,163	-	1,200	-	(207,963)
Interest expense on long-term debt	62,030	-	-	-	(62,030)
TOTAL GOVERNMENTAL ACTIVITIES	1,375,026	74,081	206,169	42,050	(1,052,726)
Business-type activities					
Water	261,494	340,057	5,778	-	84,341
Sewer	472,567	409,192	-	-	(63,375)
Waste collection	203,727	69,661	-	-	(134,066)
Harbor	821,857	868,311	-	-	46,454
TOTAL BUSINESS-TYPE ACTIVITIES	1,759,645	1,687,221	5,778	-	(66,646)
TOTAL PRIMARY GOVERNMENT	\$ 3,134,671	\$ 1,761,302	\$ 211,947	\$ 42,050	\$ (1,119,372)
COMPONENT UNIT					
Downtown development authority	\$ 352,209	\$ -	\$ -	\$ -	\$ (352,209)

Continued...

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

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2007

FUNCTIONS/PROGRAMS	PRIMARY GOVERNMENT			COMPONENT UNIT
	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTAL	DOWNTOWN DEVELOPMENT AUTHORITY
CHANGE IN NET ASSETS				
Net (expense) revenue	\$ (1,052,726)	\$ (66,646)	\$ (1,119,372)	\$ (352,209)
General revenues				
Taxes	1,035,071	138,686	1,173,757	636,678
Grants and contributions not restricted to specific programs	144,315	-	144,315	21,929
Unrestricted investment earnings	19,843	73,375	93,218	35,016
Other revenues	39,792	22,444	62,236	-
Internal transfers	18,272	(18,272)	-	-
TOTAL GENERAL REVENUES AND TRANSFERS	1,257,293	216,233	1,473,526	693,623
CHANGE IN NET ASSETS	204,567	149,587	354,154	341,414
NET ASSETS (DEFICIT), BEGINNING OF YEAR	1,227,742	9,272,261	10,500,003	(84,495)
NET ASSETS, END OF YEAR	\$ 1,432,309	\$ 9,421,848	\$ 10,854,157	\$ 256,919

Concluded

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

FUND FINANCIAL STATEMENTS

VILLAGE OF ELK RAPIDS, MICHIGAN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

FEBRUARY 28, 2007

	General Fund	Major Street Fund	Local Street Fund
ASSETS			
Cash and cash equivalents	\$ 202,357	\$ 35,373	\$ 73,555
Receivables			
Accounts	4,226	-	-
Taxes	39,516	-	-
Due from other governments	44,094	33,647	20,100
Prepaid items	7,847	925	609
	<u>\$ 298,040</u>	<u>\$ 69,945</u>	<u>\$ 94,264</u>
TOTAL ASSETS			
	<u>\$ 298,040</u>	<u>\$ 69,945</u>	<u>\$ 94,264</u>
LIABILITIES AND FUND BALANCES (DEFICIT)			
Liabilities			
Accounts payable	\$ 2,700	\$ 696	\$ 102
Accrued expenses	14,032	1,831	1,421
Advances from other funds	301,033	-	-
	<u>317,765</u>	<u>2,527</u>	<u>1,523</u>
Total liabilities	<u>317,765</u>	<u>2,527</u>	<u>1,523</u>
Fund balances (deficit)			
Reserved			
Prepaid items	-	925	609
Unreserved			
Designated for subsequent years' expenditures	-	-	-
Undesignated, reported in nonmajor			
Special revenue fund	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	-	-
Undesignated (deficit)	(19,725)	66,493	92,132
	<u>(19,725)</u>	<u>67,418</u>	<u>92,741</u>
Total fund balances (deficit)	<u>(19,725)</u>	<u>67,418</u>	<u>92,741</u>
	<u>\$ 298,040</u>	<u>\$ 69,945</u>	<u>\$ 94,264</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 298,040</u>	<u>\$ 69,945</u>	<u>\$ 94,264</u>

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

Municipal Street Fund	Nonmajor Governmental Funds	Total
\$ 53,655	\$ 105,965	\$ 470,905
-	-	4,226
11,831	2,447	53,794
-	-	97,841
-	-	9,381
\$ 65,486	\$ 108,412	\$ 636,147
\$ -	\$ 2,305	\$ 5,803
-	-	17,284
-	-	301,033
-	2,305	324,120
-	-	1,534
3,500	-	3,500
-	140	140
-	42,687	42,687
-	63,280	63,280
61,986	-	200,886
65,486	106,107	312,027
\$ 65,486	\$ 108,412	\$ 636,147

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

FEBRUARY 28, 2007

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 312,027

Amounts reported for governmental activities in the statement of net assets are different because:

Certain assets used in governmental activities, such as capital assets, are not financial resources, and therefore not reported in the funds.

Add: capital assets 2,781,092
Subtract: accumulated depreciation (694,570)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds 210,905

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable (895,000)
Subtract: notes payable (224,727)
Subtract: accrued interest on long-term liabilities (16,591)
Subtract: accrued compensated absences (40,827)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,432,309

Concluded

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

VILLAGE OF ELK RAPIDS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2007

	General Fund	Major Street Fund	Local Street Fund
REVENUES			
Taxes	\$ 741,769	\$ -	\$ -
State revenue	145,503	122,684	56,070
Contributions from local governments	21,487	-	-
Charges for services	6,214	-	-
Licenses and permits	38,469	-	-
Fines and forfeitures	8,877	-	-
Interest revenue	7,835	2,309	3,269
Refunds and reimbursements	3,279	-	-
Other revenue	10,235	-	-
TOTAL REVENUES	983,668	124,993	59,339
EXPENDITURES			
Current operations			
General government	206,303	-	-
Public safety	364,052	-	-
Public works	-	150,011	111,009
Community development	76,238	-	-
Recreation and cultural	201,445	-	-
Debt service			
Principal	29,004	-	-
Interest expense	15,975	-	-
Capital outlay	3,585	-	-
TOTAL EXPENDITURES	896,602	150,011	111,009
REVENUES OVER (UNDER) EXPENDITURES	87,066	(25,018)	(51,670)
OTHER FINANCING SOURCES (USES)			
Transfers in	20,500	35,705	94,515
Transfers out	(46,003)	(2,250)	(2,250)
TOTAL OTHER FINANCING SOURCES (USES)	(25,503)	33,455	92,265
NET CHANGE IN FUND BALANCES	61,563	8,437	40,595
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	(81,288)	58,981	52,146
FUND BALANCES (DEFICIT), END OF YEAR	\$ (19,725)	\$ 67,418	\$ 92,741

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

Municipal Street Fund	Nonmajor Governmental Funds	Total
\$ 240,321	\$ 52,981	\$ 1,035,071
-	-	324,257
-	-	21,487
-	20,521	26,735
-	-	38,469
-	-	8,877
1,784	3,499	18,696
-	-	3,279
19,140	10,501	39,876
261,245	87,502	1,516,747
-	39,470	245,773
-	-	364,052
60,618	-	321,638
-	-	76,238
-	-	201,445
-	50,000	79,004
-	45,205	61,180
-	17,661	21,246
60,618	152,336	1,370,576
200,627	(64,834)	146,171
-	99,368	250,088
(179,313)	(2,000)	(231,816)
(179,313)	97,368	18,272
21,314	32,534	164,443
44,172	73,573	147,584
\$ 65,486	\$ 106,107	\$ 312,027

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2007

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 164,443

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 and reported as depreciation expense.

Add: capital outlay 59,710
Subtract: depreciation expense (80,551)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 79,004

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 governmental funds.

Add: decrease in accrued interest on long-term liabilities 918
Subtract: increase in the accrual of compensated absences (5,801)

An internal service fund is used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net operating income of the internal service fund is partially reported with governmental activities.

Subtract: net loss of certain activities of the internal service fund reported with
governmental activities (13,156)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 204,567

Concluded

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

VILLAGE OF ELK RAPIDS, MICHIGAN

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

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
REVENUES				
Taxes	\$ 739,846	\$ 745,560	\$ 741,769	\$ (3,791)
State revenue	148,200	148,789	145,503	(3,286)
Contributions from local governments	18,170	21,681	21,487	(194)
Charges for services	3,350	5,861	6,214	353
Licenses and permits	25,775	38,287	38,469	182
Fines and forfeitures	8,500	8,500	8,877	377
Interest revenue	4,000	6,502	7,835	1,333
Refunds and reimbursements	-	2,869	3,279	410
Other revenue	1,700	8,583	10,235	1,652
TOTAL REVENUES	949,541	986,632	983,668	(2,964)
EXPENDITURES				
GENERAL GOVERNMENT				
Village manager				
Salary and wages	34,220	40,268	40,407	(139)
Fringes	16,010	12,632	12,580	52
Supplies	200	335	292	43
Workshops and conferences	1,000	1,000	903	97
Other charges	950	970	890	80
Total village manager	52,380	55,205	55,072	133
Elections				
Supplies	600	600	206	394
Contractual services	2,600	2,600	1,462	1,138
Printing and publishing	600	600	438	162
Total elections	3,800	3,800	2,106	1,694
General services administration				
Salary and wages	19,000	19,000	19,445	(445)
Fringes	1,495	1,525	1,544	(19)
Contractual services	9,000	10,984	9,177	1,807
Attorney fees	6,000	6,000	2,265	3,735
Audit fees	5,000	5,000	3,882	1,118
Workshops and conferences	3,000	3,000	2,134	866
Community promotion	2,700	2,980	2,975	5
Insurance	14,100	14,676	14,676	-
Other charges	1,360	8,525	8,184	341
Total general services administration	61,655	71,690	64,282	7,408

Continued...

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

VILLAGE OF ELK RAPIDS, MICHIGAN

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

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
EXPENDITURES (CONTINUED)				
GENERAL GOVERNMENT (Concluded)				
Village hall administration				
Salary and wages	\$ 38,125	\$ 38,125	\$ 39,116	\$ (991)
Fringes	18,110	18,295	17,057	1,238
Supplies	5,900	5,400	5,416	(16)
Contractual services	3,500	3,500	1,569	1,931
Printing and publishing	6,000	7,200	7,518	(318)
Postage	4,500	3,015	2,169	846
Workshops and conferences	2,500	2,800	2,858	(58)
Phone	1,000	1,000	822	178
Insurance	1,700	1,700	1,682	18
Repair and maintenance	200	500	569	(69)
Hydrant rental	6,000	6,000	6,000	-
Other charges	100	100	67	33
	<u>87,635</u>	<u>87,635</u>	<u>84,843</u>	<u>2,792</u>
Total Village hall administration	87,635	87,635	84,843	2,792
TOTAL GENERAL GOVERNMENT	205,470	218,330	206,303	12,027
PUBLIC SAFETY				
Police				
Salary and wages	227,300	227,300	224,958	2,342
Fringes	95,885	96,057	91,331	4,726
Uniforms	5,500	5,500	4,577	923
Supplies	4,800	4,800	3,500	1,300
Fuel	7,500	7,500	7,623	(123)
Repair and maintenance	9,000	9,300	9,107	193
Phone	3,500	3,500	3,490	10
Workshop and conferences	1,500	1,500	1,422	78
Printing and publishing	1,000	700	215	485
Insurance	9,205	9,529	9,529	-
Utilities	4,500	4,500	4,545	(45)
Other charges	7,100	6,550	3,755	2,795
	<u>376,790</u>	<u>376,736</u>	<u>364,052</u>	<u>12,684</u>
TOTAL PUBLIC SAFETY	376,790	376,736	364,052	12,684
COMMUNITY DEVELOPMENT				
Salary and wages	44,630	44,630	44,091	539
Fringes	20,845	20,845	20,546	299
Contractual services	2,000	1,000	744	256
Workshops and conferences	2,500	2,500	933	1,567
Printing and publishing	4,500	4,500	3,657	843
Other charges	6,675	10,875	6,267	4,608
	<u>81,150</u>	<u>84,350</u>	<u>76,238</u>	<u>8,112</u>
TOTAL COMMUNITY DEVELOPMENT	81,150	84,350	76,238	8,112

Continued...

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

VILLAGE OF ELK RAPIDS, MICHIGAN

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

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
EXPENDITURES (CONTINUED)				
RECREATION AND CULTURAL				
Parks maintenance expense				
Salary and wages	\$ 63,535	\$ 65,547	\$ 68,827	\$ (3,280)
Fringes	26,985	29,690	29,493	197
Supplies	5,750	5,750	4,135	1,615
Contractual services	16,500	16,385	15,461	924
Repair and maintenance	6,500	9,234	8,045	1,189
Insurance	1,685	1,685	1,663	22
Utilities	6,900	6,900	5,162	1,738
Equipment rental	55,000	55,000	55,000	-
Other charges	1,580	1,680	425	1,255
Total parks maintenance expense	<u>184,435</u>	<u>191,871</u>	<u>188,211</u>	<u>3,660</u>
Beautification department				
Supplies	1,350	2,033	2,032	1
Contractual services	8,950	9,250	9,245	5
Workshops and conferences	900	591	591	-
Other	1,701	1,617	1,366	251
Total beautification department	<u>12,901</u>	<u>13,491</u>	<u>13,234</u>	<u>257</u>
TOTAL RECREATION AND CULTURAL	<u>197,336</u>	<u>205,362</u>	<u>201,445</u>	<u>3,917</u>
DEBT SERVICE				
Principal	13,380	27,981	29,004	(1,023)
Interest expense	44,980	15,907	15,975	(68)
TOTAL DEBT SERVICE	<u>58,360</u>	<u>43,888</u>	<u>44,979</u>	<u>(1,091)</u>
CAPITAL OUTLAY	<u>4,000</u>	<u>7,285</u>	<u>3,585</u>	<u>3,700</u>
TOTAL EXPENDITURES	<u>923,106</u>	<u>935,951</u>	<u>896,602</u>	<u>39,349</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>26,435</u>	<u>50,681</u>	<u>87,066</u>	<u>36,385</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	22,000	22,000	20,500	(1,500)
Transfers out	(48,435)	(48,503)	(46,003)	2,500
TOTAL OTHER FINANCING SOURCES (USES)	<u>(26,435)</u>	<u>(26,503)</u>	<u>(25,503)</u>	<u>1,000</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	<u>24,178</u>	<u>61,563</u>	<u>37,385</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(81,288)	(81,288)	(81,288)	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (81,288)</u>	<u>\$ (57,110)</u>	<u>\$ (19,725)</u>	<u>\$ 37,385</u>

Concluded

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

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
MAJOR STREET FUND

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Original Budget	Amended Budget	Actual	Amended Budget to Actual Positive (Negative)
REVENUES				
State revenue	\$ 111,960	\$ 111,960	\$ 122,684	\$ 10,724
Interest revenue	500	2,096	2,309	213
TOTAL REVENUES	112,460	114,056	124,993	10,937
EXPENDITURES				
Public works				
Routine maintenance				
Salary and wages	33,615	34,115	30,326	3,789
Fringe benefits	14,170	14,355	11,847	2,508
Supplies	3,000	3,000	2,916	84
Contractual services	8,890	8,705	7,561	1,144
Repair and maintenance	12,500	13,103	12,224	879
Equipment rent	22,000	22,000	22,000	-
Other	820	820	-	820
Total routine maintenance	94,995	96,098	86,874	9,224
Winter maintenance				
Salary and wages	13,945	24,083	23,289	794
Fringe benefits	5,335	10,590	10,002	588
Supplies	4,000	4,000	2,206	1,794
Equipment rent	27,640	27,640	27,640	-
Total winter maintenance	50,920	66,313	63,137	3,176
TOTAL EXPENDITURES	145,915	162,411	150,011	12,400
REVENUES OVER (UNDER) EXPENDITURES	(33,455)	(48,355)	(25,018)	23,337
OTHER FINANCING SOURCES (USES)				
Transfers in	(35,705)	35,705	35,705	-
Transfers out	(2,250)	(2,250)	(2,250)	-
TOTAL OTHER FINANCING SOURCES (USES)	(37,955)	33,455	33,455	-
NET CHANGE IN FUND BALANCE	(71,410)	(14,900)	8,437	23,337
FUND BALANCE, BEGINNING OF YEAR	58,981	58,981	58,981	-
FUND BALANCE, END OF YEAR	\$ (12,429)	\$ 44,081	\$ 67,418	\$ 23,337

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

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
LOCAL STREET FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended Budget to Actual Positive (Negative)</u>
REVENUES				
State revenue	\$ 45,650	\$ 45,650	\$ 56,070	\$ 10,420
Interest revenue	500	2,821	3,269	448
TOTAL REVENUES	46,150	48,471	59,339	10,868
EXPENDITURES				
Public works				
Routine maintenance				
Salary and wages	30,400	30,400	26,361	4,039
Fringe benefits	12,645	12,900	10,359	2,541
Supplies	2,000	2,000	1,989	11
Contractual services	3,640	3,920	2,602	1,318
Repair and maintenance	12,700	12,288	11,611	677
Equipment rent	18,555	18,555	18,555	-
Other	1,035	712	-	712
Total routine maintenance	80,975	80,775	71,477	9,298
Winter maintenance				
Salary and wages	18,380	18,580	15,374	3,206
Fringe benefits	9,085	9,085	6,039	3,046
Supplies	3,000	3,000	1,144	1,856
Equipment rent	16,975	16,975	16,975	-
Total winter maintenance	47,440	47,640	39,532	8,108
Construction - street overlay	-	-	-	-
TOTAL EXPENDITURES	128,415	128,415	111,009	17,406
REVENUES OVER (UNDER) EXPENDITURES	(82,265)	(79,944)	(51,670)	28,274
OTHER FINANCING SOURCES (USES)				
Transfers in	94,515	94,515	94,515	-
Transfers out	(2,250)	(2,250)	(2,250)	-
TOTAL OTHER FINANCING SOURCES	92,265	92,265	92,265	-
NET CHANGE IN FUND BALANCE	10,000	12,321	40,595	28,274
FUND BALANCE, BEGINNING OF YEAR	52,146	52,146	52,146	-
FUND BALANCE, END OF YEAR	\$ 62,146	\$ 64,467	\$ 92,741	\$ 28,274

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

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL
MUNICIPAL STREET FUND**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Amended Budget to Actual Positive (Negative)</u>
REVENUES				
Taxes	\$ 235,755	\$ 241,585	\$ 240,321	\$ (1,264)
Interest revenue	500	1,454	1,784	330
Other revenue	3,235	21,607	19,140	(2,467)
TOTAL REVENUES	<u>239,490</u>	<u>264,646</u>	<u>261,245</u>	<u>(3,401)</u>
EXPENDITURES				
Public works				
Street lighting	29,000	37,626	37,624	2
Other	23,279	23,279	22,994	285
TOTAL EXPENDITURES	<u>52,279</u>	<u>60,905</u>	<u>60,618</u>	<u>287</u>
REVENUES OVER EXPENDITURES	<u>187,211</u>	<u>203,741</u>	<u>200,627</u>	<u>(3,114)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(179,245)	(179,313)	(179,313)	-
NET CHANGE IN FUND BALANCE	<u>7,966</u>	<u>24,428</u>	<u>21,314</u>	<u>(3,114)</u>
FUND BALANCE, BEGINNING OF YEAR	44,172	44,172	44,172	-
FUND BALANCE, END OF YEAR	<u>\$ 52,138</u>	<u>\$ 68,600</u>	<u>\$ 65,486</u>	<u>\$ (3,114)</u>

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

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

FEBRUARY 28, 2007

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
ASSETS			
Current assets			
Cash and cash equivalents	\$ 217,177	\$ 362,037	\$ 42,206
Cash and cash equivalents	-	-	-
Accounts receivable	29,714	25,718	-
Taxes receivable	-	-	6,829
Prepaid items	1,150	845	980
Inventory	31,380	3,780	1,700
Total current assets	279,421	392,380	51,715
Noncurrent assets			
Land	25,800	630	-
Capital assets (net of accumulated depreciation)	2,073,562	2,143,893	22,252
Unamortized bond discount	-	-	-
Advances to other funds	-	-	-
Total noncurrent assets	2,099,362	2,144,523	22,252
TOTAL ASSETS	2,378,783	2,536,903	73,967
LIABILITIES			
Current liabilities			
Accounts payable	499	18,908	2,296
Accrued expenses	2,351	2,060	1,862
Accrued interest	-	-	-
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Total current liabilities	2,850	20,968	4,158
Long term liabilities			
Accrued compensated absences	4,322	2,813	1,951
Advances from other funds	-	-	44,269
Bonds payable less current portion	-	-	-
Total long term liabilities	4,322	2,813	46,220
TOTAL LIABILITIES	7,172	23,781	50,378
NET ASSETS			
Invested in capital assets, net of related debt	2,099,362	2,144,523	22,252
Restricted for debt service	-	-	-
Unrestricted	272,249	368,599	1,337
TOTAL NET ASSETS	\$ 2,371,611	\$ 2,513,122	\$ 23,589

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

Harbor Fund	Total	Governmental Activities Internal Service Fund
\$ 726,397	\$ 1,347,817	\$ 14,760
85,221	85,221	-
-	55,432	-
-	6,829	-
2,368	5,343	894
19,735	56,595	-
833,721	1,557,237	15,654
-	26,430	14,012
4,599,750	8,839,457	207,742
14,274	14,274	-
345,302	345,302	-
4,959,326	9,225,463	221,754
5,793,047	10,782,700	237,408
529	22,232	2,099
3,134	9,407	1,674
6,824	6,824	-
401,303	401,303	-
55,000	55,000	27,074
466,790	494,766	30,847
10,810	19,896	2,577
-	44,269	-
795,000	795,000	-
805,810	859,165	2,577
1,272,600	1,353,931	33,424
3,749,750	8,015,887	194,680
85,221	85,221	-
685,476	1,327,661	9,304
\$ 4,520,447	\$ 9,428,769	\$ 203,984

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

FEBRUARY 28, 2007

**RECONCILIATION OF NET ASSETS ON THE STATEMENT OF NET ASSETS FOR ENTERPRISE FUNDS
TO NET ASSETS OF BUSINESS-TYPE ACTIVITIES ON THE STATEMENT OF NET ASSETS**

NET ASSETS - TOTAL ENTERPRISE FUNDS \$ 9,428,769

Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain assets and liabilities of the internal service fund are included in business-type activities in the statement of net assets.

Subtract: net assets of business-type activities accounted for in internal service funds (6,921)

NET ASSETS OF BUSINESS-TYPE ACTIVITIES \$ 9,421,848

Concluded

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

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Business-Type Activities</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Waste Collection Fund</u>
OPERATING REVENUES	\$ 340,057	\$ 409,192	\$ 69,661
OPERATING EXPENSES			
Water operations	186,499	-	-
Sewer operations	-	384,084	-
Waste collection operations	-	-	198,577
Harbor operations	-	-	-
Motor pool operations	-	-	-
Depreciation and amortization	65,814	83,475	3,207
TOTAL OPERATING EXPENSES	252,313	467,559	201,784
OPERATING INCOME (LOSS)	87,744	(58,367)	(132,123)
NON-OPERATING REVENUE (EXPENSE)			
Taxes	-	-	138,686
State revenue	1,005	-	-
Interest revenue	13,505	18,385	1,840
Other revenue	8,611	6,372	6,333
Interest expense	(7,399)	(4,192)	(1,405)
TOTAL NON-OPERATING REVENUE (EXPENSE)	15,722	20,565	145,454
Net income (loss) before transfers	103,466	(37,802)	13,331
TRANSFERS			
Transfers out	(3,318)	(3,318)	(3,318)
CHANGE IN NET ASSETS	100,148	(41,120)	10,013
NET ASSETS, BEGINNING OF YEAR	2,271,463	2,554,242	13,576
NET ASSETS, END OF YEAR	\$ 2,371,611	\$ 2,513,122	\$ 23,589

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

Harbor Fund	Total	Governmental Activities Internal Service Fund
\$ 868,311	\$ 1,687,221	\$ 174,205
-	186,499	-
-	384,084	-
-	198,577	-
612,617	612,617	-
-	-	141,088
165,997	318,493	50,169
778,614	1,700,270	191,257
89,697	(13,049)	(17,052)
-	138,686	-
-	1,005	-
39,645	73,375	1,147
5,901	27,217	1,379
(43,243)	(56,239)	(1,766)
2,303	184,044	760
92,000	170,995	(16,292)
(8,318)	(18,272)	-
83,682	152,723	(16,292)
4,436,765	9,276,046	220,276
\$ 4,520,447	\$ 9,428,769	\$ 203,984

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN NET ASSETS
PROPRIETARY FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 2007

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET
ASSETS OF ENTERPRISE FUNDS TO THE STATEMENT OF ACTIVITIES

CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS \$ 152,723

Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. Certain revenues and expenses of the internal service fund are reported with business-type activities.

Subtract: net loss of certain activities of the internal service fund reported with business-type activities (3,136)

CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES \$ 149,587

Concluded

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

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 340,461	\$ 409,434	\$ 69,661
Cash received from interfund services provided	-	-	-
Cash payments to employees	(66,215)	(50,588)	(54,313)
Cash payments to suppliers for goods and services	(103,450)	(321,592)	(145,840)
Cash payments for interfund services	(18,200)	(8,335)	(5,500)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	152,596	28,919	(135,992)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Taxes	-	-	138,218
Other revenue	8,611	6,372	6,333
State revenue	1,005	-	-
Transfers out to other funds	(3,318)	(3,318)	(3,318)
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	6,298	3,054	141,233
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(108,050)	(13,834)	-
Repayments of advances (from) to other funds	-	-	(1,968)
Principal payments	(161,000)	-	-
Interest payments	(10,288)	(4,192)	(1,405)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	(279,338)	(18,026)	(3,373)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	13,505	18,385	1,840
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106,939)	32,332	3,708
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	324,116	329,705	38,498
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 217,177	\$ 362,037	\$ 42,206
STATEMENT OF NET ASSETS CLASSIFICATION OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	\$ 217,177	\$ 362,037	\$ 42,206
Restricted assets - cash and cash equivalents	-	-	-
	\$ 217,177	\$ 362,037	\$ 42,206

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

		Governmental Activities
Harbor Fund	Total	Internal Service Fund
\$ 844,995	\$ 1,664,551	\$ -
-	-	174,205
(142,322)	(313,438)	(46,363)
(557,634)	(1,128,516)	(94,918)
-	(32,035)	-
145,039	190,562	32,924
-	138,218	-
5,901	27,217	1,379
-	1,005	-
(8,318)	(18,272)	-
(2,417)	148,168	1,379
(313,580)	(435,464)	(3,130)
15,348	13,380	-
(50,000)	(211,000)	(26,211)
(43,643)	(59,528)	(1,766)
(391,875)	(692,612)	(31,107)
39,645	73,375	1,147
(209,608)	(280,507)	4,343
1,021,226	1,713,545	10,417
\$ 811,618	\$ 1,433,038	\$ 14,760
\$ 726,397	\$ 1,347,817	\$ 14,760
85,221	85,221	-
\$ 811,618	\$ 1,433,038	\$ 14,760

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Business-Type Activities		
	Water Fund	Sewer Fund	Waste Collection Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 87,744	\$ (58,367)	\$ (132,123)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	65,814	83,475	3,207
Changes in assets and liabilities			
Accounts receivable	404	242	-
Prepaid items	404	224	(305)
Inventory	(239)	-	-
Accounts payable	(1,684)	3,092	(7,666)
Accrued expenses	203	171	348
Unearned revenue	-	-	-
Accrued compensated absences	(50)	82	547
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 152,596</u>	<u>\$ 28,919</u>	<u>\$ (135,992)</u>

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

Harbor Fund	Total	Governmental Activities Internal Service Fund
\$ 89,697	\$ (13,049)	\$ (17,052)
165,997	318,493	50,169
-	646	-
1,471	1,794	119
(789)	(1,028)	-
(92,332)	(98,590)	(1,711)
211	933	529
(23,316)	(23,316)	-
4,100	4,679	870
\$ 145,039	\$ 190,562	\$ 32,924

Concluded

VILLAGE OF ELK RAPIDS, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES AGENCY FUNDS

FEBRUARY 28, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 6,765
Accounts receivable	4,103
	<hr/>
TOTAL ASSETS	<u><u>\$ 10,868</u></u>
LIABILITIES	
Accounts payable	\$ 1,160
Deposits payable	9,708
	<hr/>
TOTAL LIABILITIES	<u><u>\$ 10,868</u></u>

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

VILLAGE OF ELK RAPIDS, MICHIGAN

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Notes to the Financial Statements

February 28, 2007

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VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *Village of Elk Rapids* ("Village") is directed by a Village Council elected by the community at large. This legislative body appoints a Village Manager to administer the affairs of the Village. The Village provides the following services as authorized by its charter: public safety (police), public works, parks and recreation, community development and general administrative services. The Village has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, regarding the definition of the reporting entity.

Discretely Presented Component Unit

Downtown Development Authority ("DDA") – The members of the governing board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village Council also has the ability to significantly influence operations of the DDA. A complete financial statement of the DDA can be obtained from the Village Manager, Village of Elk Rapids, 315 Bridge Street, P.O. Box 398, Elk Rapids, Michigan 49629-0398.

Joint Operation

The Village participates in the Elk Rapids Township and Village Joint Building Authority. The joint authority operates with a separate treasurer. Separate financial statements for the Joint Building Authority are available by written request to Elk Rapids Township and Village Joint Building Authority, PO Box 398, Elk Rapids, MI 49629.

B. 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 unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

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

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

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

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 use of motor fuel taxes and trunkline maintenance funds, which are earmarked by State statute for major street and highway purposes.

The *Local Street Fund* accounts for the use of motor fuel taxes, which are earmarked by State statute for local street and highway purposes.

The *Municipal Street Fund* accounts for the use of property taxes, which are earmarked for municipal street purposes.

The Village reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the Village's water distribution system.

The *Sewer Fund* accounts for the activities of the Village's sewage disposal and treatment system.

The *Waste Collection Fund* accounts for the Village's waste collection operations.

The *Harbor Fund* accounts for the activities of the Village's Harbor operations.

Additionally, the Village reports the following fund types:

The *Government Building Operating Special Revenue Fund* accounts for the activities involved in operating the Village's building that is shared with Elk Rapids Township.

The *Debt Service Funds* account for the accumulation of resources for, and the payment of, principal, interest, and related costs.

The *Capital Projects Funds* account for the acquisition or construction of capital assets.

The *Internal Service Fund* accounts for motor vehicle and equipment management to other departments of the Village on a cost reimbursement basis.

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

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water, Sewer, Waste Collection and Harbor Enterprise Funds and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Deposits and investments

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Restricted Assets

Cash is restricted by bond debt requirements in the amount of \$85,221.

3. Receivables and payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

4. Inventory and Prepaid Items

Inventory held by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

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

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component unit are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Public domain infrastructure	20
Systems and improvements	50-60
Land Improvements	15
Vehicles	5-12
Equipment	5-15

6. *Compensated absences*

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

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

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

8. *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.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Appropriations are approved by the Village Council at the activity level for the General Fund and at the functional level for the Special Revenue Funds.

No later than February 28th of the preceding fiscal year the Village Council shall, by resolution, adopt the budget for the next year.

The Village Manager is authorized to transfer budgeted amounts between accounts within the same activity in the General Fund. Revisions that alter the total expenditures of any fund or total department activity in the General Fund must be approved by the Village Council.

B. Deficit fund equity

At February 28, 2007, the General Fund had a deficit unreserved fund balance of \$19,725. During the fiscal year ended February 29, 2004, expenditures were incurred by the fund for the construction of the Village Hall, which were paid with long-term advances from the enterprise funds. The deficit fund balance will be eliminated through future release of captured taxes.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Cash and cash equivalents and restricted assets are reported in the financial statements as follows:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Unit
Cash and cash equivalents	\$ 485,665	\$ 1,347,817	\$ 1,833,482	\$ 6,765	\$ 757,504
Restricted assets	-	85,221	85,221	-	-
Total	\$ 485,665	\$ 1,433,038	\$ 1,918,703	\$ 6,765	\$ 757,504

Cash and cash equivalents reported above include \$585 of cash on hand that is not considered deposits for footnote purposes.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At February 28, 2007, the Village had two certificates of deposit outstanding, one at \$1,000,000 and another at \$30,000, both of which mature in May 2007.

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

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village's investment policy does not have specific limits in excess of state law pertaining to custodial credit risk. As of year-end, \$2,603,091 of the bank balance of \$2,734,283 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk 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 possession of an outside party. State law does not require and the Village does not have a specific policy pertaining to investment custodial credit risk which is more restrictive than state law. As of February 28, 2007, the Village has no investment custodial credit risk as the Village has no investments.

Concentrations of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk. The Village's investment policy does not have specific limits in excess of state law on concentration of credit risk.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

B. Receivables

Receivables in the Village's governmental activities consist of 93% taxes receivable and 7% other receivables. Receivables in the business-type activities consist of 89% due from customers and 11% taxes receivable.

C. Capital assets

Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since March 1, 2004. All other infrastructure is not included in these financial statements.

Capital assets activity in the governmental and business-type activities was as follows for the year ended February 28, 2007:

	<u>March 1, 2006</u>	<u>Increases/ Decreases</u>	<u>February 28, 2007</u>
Governmental activities			
Capital assets not being depreciated			
Land	\$ 585,021	\$ -	\$ 585,021
Capital assets being depreciated			
Land improvements	249,319	7,253	256,572
Infrastructure	234,784	42,050	276,834
Buildings and structures	1,648,991	4,000	1,652,991
Vehicles	466,513	-	466,513
Furniture and equipment	<u>515,556</u>	<u>9,538</u>	<u>525,093</u>
Total capital assets being depreciated	<u>3,115,163</u>	<u>62,840</u>	<u>3,178,003</u>
Less accumulated depreciation for			
Land improvements	(131,377)	(14,222)	(145,599)
Infrastructure	(19,019)	(15,428)	(34,447)
Buildings and structures	(514,417)	(39,073)	(553,490)
Vehicles	(359,756)	(23,588)	(383,344)
Furniture and equipment	<u>(299,459)</u>	<u>(38,409)</u>	<u>(337,868)</u>
Total accumulated depreciation	<u>(1,324,028)</u>	<u>(130,720)</u>	<u>(1,454,748)</u>
Total capital assets being depreciated, net	<u>1,791,135</u>	<u>(67,880)</u>	<u>1,723,255</u>
Governmental activities capital assets, net	<u>\$2,376,156</u>	<u>\$ (67,880)</u>	<u>\$ 2,308,276</u>

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

	March 1, 2006	Increases/ Decreases	February 28, 2007
Business-type activities			
Capital assets not being depreciated			
Construction in progress	\$ 267,563	\$ (267,563)	\$ -
Land	26,430	-	26,430
Total capital assets not being depreciated	293,993	(267,563)	26,430
Capital assets being depreciated			
Buildings and structures	63,362	506,881	570,243
Improvements to systems	12,233,360	167,183	12,400,543
Machinery and equipment	137,525	28,963	166,488
Total capital assets being depreciated	12,434,247	703,027	13,137,274
Less accumulated depreciation for			
Buildings and structures	(47,949)	(8,366)	(56,345)
Improvements to systems	(3,836,611)	(295,462)	(4,132,073)
Machinery and equipment	(95,923)	(13,476)	(109,399)
Total accumulated depreciation	(3,980,513)	(317,304)	(4,297,817)
Total capital assets being depreciated, net	8,453,734	118,160	8,839,457
Business-type activities capital assets, net	\$8,747,727	\$ 118,160	\$ 8,865,887

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

Governmental activities	
General government	\$ 31,667
Public safety	10,667
Public works	22,735
Community development	8,317
Recreation and cultural	7,165
Capital assets held by the Village's internal service fund charged to the various functions based on their usage of the assets	50,169
Total depreciation expense – governmental activities	\$ 130,720
Business-type activities	
Water	\$ 65,814
Sewer	83,475
Waste Collection	3,207
Harbor	164,808
Total depreciation expense – business-type activities	\$ 317,304

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

D. Interfund receivables, payables and transfers

The long term interfund receivables and payables are as follows as of February 28, 2007:

<u>Advances to</u>	<u>Advances from Harbor Fund</u>
General Fund	\$ 301,033
Enterprise Fund	
Waste collection	<u>44,269</u>
Total	<u>\$ 345,302</u>

These long term advances were entered into to finance the construction of the new Village hall during the year ended February 29, 2004. Each fund has scheduled payments until 2023 at an interest rate of 3.04%. The future payments including principal and interest to the Harbor Fund from the General Fund and the Waste Collection Enterprise Fund are \$22,937 and \$3,373, respectively.

The composition of interfund transfers is as follows:

<u>Transfers Out</u>	<u>Transfers In</u>				Total
	General Fund	Major Street Fund	Local Street Fund	Nonmajor Govt. Funds	
General Fund	\$ -	\$ -	\$ -	\$ 46,003	\$ 46,003
Major Street Fund	2,250	-	-	-	2,250
Local Street Fund	2,250	-	-	-	2,250
Municipal Street Fund	-	35,705	94,515	49,093	179,313
Nonmajor Gov. Funds	2,000	-	-	-	2,000
Sewer Fund	2,250	-	-	1,068	3,318
Water Fund	2,250	-	-	1,068	3,318
Waste Collection Fund	2,250	-	-	1,068	3,318
Harbor Fund	<u>7,250</u>	<u>-</u>	<u>-</u>	<u>1,068</u>	<u>8,318</u>
Total	<u>\$ 20,500</u>	<u>\$ 35,705</u>	<u>\$ 94,515</u>	<u>\$ 99,368</u>	<u>\$ 250,088</u>

Transfers are used to (1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, (2) transfer amounts to debt service funds to make bond payments, (3) transfer amounts to the Major and Local Street Funds to finance the annual street overlay, (4) cover administrative costs incurred in the General Fund on behalf of other funds and (5) to transfer amounts to the capital projects fund to finance the purchase of a new copier.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

E. Long-term debt

General obligation debt. The Village issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the Village and the Village has pledged the full faith and credit. The Village obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

The business-type activities have revenue bonds. These bonds' principal and interest are to be paid from the net revenues from the harbor operations.

The DDA component unit's bonds payable are also general obligations of the Village. The component unit's payables were issued by the component unit on behalf of the primary government. No debt agreements were issued by the component unit during the year ended February 28, 2007.

Following is a summary of bonds and notes payable of the Village including the DDA component unit for the year ending February 28, 2007:

<u>Purpose</u>	<u>Maturity Date</u>	<u>Interest Rates</u>	<u>Amount</u>
<u>Governmental activities</u>			
2000 General Obligation Water Bonds	2021	6.0%	\$ 450,000
2003 Capital Improvement Bonds - Bridge Street	2019	2.25-4.45%	445,000
Note payable - land purchase	2009	2.5%	224,727
Note payable - John Deere utility loader	2008	3.25%	<u>27,074</u>
			<u>\$ 1,146,801</u>
<u>Business-type activities</u>			
2000 Marina Revenue Bonds	2019	4.75-5.25%	<u>\$ 850,000</u>
<u>Downtown Development Authority Component Unit</u>			
1996 Michigan Transportation Fund Bonds	2011	4.15-5.16%	\$ 175,000
1994 DDA, Series A Bonds	2008	5.0-8.0%	225,000
1994 DDA, Series B Bonds	2008	7.1-8.0%	<u>90,000</u>
			<u>\$ 490,000</u>

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

The annual requirements to pay principal and interest on long-term debt obligations are as follows:

Fiscal Year	Governmental Activities General Obligation Bonds		Governmental Activities Notes Payable		Business-Type Activities Revenue Bonds		DDA Component Unit General Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2008	\$ 50,000	\$ 42,668	\$ 56,811	\$ 6,575	\$ 55,000	\$ 40,945	\$ 185,000
2009	55,000	40,436	194,990	4,987	55,000	38,498	195,000	15,928
2010	55,000	38,024	-	-	60,000	35,880	35,000	5,110
2011	60,000	35,504	-	-	65,000	32,973	35,000	3,203
2012	60,000	32,842	-	-	65,000	29,869	40,000	1,120
2013-17	355,000	116,228	-	-	375,000	95,676	-	-
2018-21	260,000	20,516	-	-	175,000	9,319	-	-
	<u>\$ 895,000</u>	<u>\$326,218</u>	<u>\$ 251,801</u>	<u>\$ 11,562</u>	<u>\$ 850,000</u>	<u>\$ 283,160</u>	<u>\$ 490,000</u>	<u>\$ 51,646</u>

Changes in long-term liabilities. Long-term liability activity was as follows:

	March 1, 2006	Additions	Reductions	February 28, 2007	Due Within One Year
Primary Government					
Governmental activities					
General obligation bonds	\$ 945,000	\$ -	\$ (50,000)	\$ 895,000	\$ 50,000
Notes payable	307,016	-	(55,215)	251,801	56,811
Compensated absences	<u>36,732</u>	<u>32,640</u>	<u>(25,973)</u>	<u>43,399</u>	<u>-</u>
	<u>\$1,288,748</u>	<u>\$ 32,640</u>	<u>\$(131,188)</u>	<u>\$ 1,190,200</u>	<u>\$ 106,811</u>
Business-type activities					
Revenue bonds	\$1,061,000	\$ -	\$(211,000)	\$ 850,000	\$ 55,000
Compensated absences	<u>15,217</u>	<u>16,178</u>	<u>(11,499)</u>	<u>19,896</u>	<u>-</u>
	<u>\$ 1,076,217</u>	<u>\$ 16,178</u>	<u>\$(222,499)</u>	<u>\$ 869,896</u>	<u>\$ 55,000</u>
Downtown Development Authority Component Unit					
General obligation bonds	<u>\$ 665,000</u>	<u>\$ -</u>	<u>\$(175,000)</u>	<u>\$ 490,000</u>	<u>\$ 185,000</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2007, the Village carried commercial insurance to cover all risk of losses. The worker's compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Village. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in the past three fiscal years.

B. Property taxes

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. The Village levies taxes for general operating purposes, waste collection services and municipal streets.

Real property taxes not collected as of September 14 are assessed a penalty and turned over to Antrim County on February 28 for collection. The County remits the collections to the Village until the delinquent tax settlement date. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding July 1, the lien date) over base year assessed valuations on certain property located in the Village, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

C. Defined Contribution Plan

The Village sponsors the "Village of Elk Rapids Employee Pension Plan and Trust" defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The plan is available to all full-time employees who have completed one year of service. Participants vest 20% each year for the first five years of service and are 100% vested thereafter. Participants are required to contribute 10% of their base pay and the Village is required to contribute an amount equal to 10% of the participant's base pay.

The plan is administered by third-party trustees. Plan provisions and contribution requirements were established and can only be amended by authorization of the Village Council. For the year ended February 28, 2007, the Village and eligible employees each contributed \$68,154.

D. Contingencies

Under the terms of State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. However, Village management does not believe such disallowances, if any, will be material to the financial position of the Village.

VILLAGE OF ELK RAPIDS, MICHIGAN

Notes to the Financial Statements

E. Subsequent Event / Commitment

Subsequent to February 28, 2007, the Village entered into a contract with Elmer's Crane & Dozer, Inc. to make improvements to the River Street alley. The total amount of the contract entered into is \$374,088.

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SUPPLEMENTARY INFORMATION

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

FEBRUARY 28, 2007

	Government Building Operating Special Revenue Fund	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,445	\$ 40,240	\$ 63,280	\$ 105,965
Taxes receivable	-	2,447	-	2,447
TOTAL ASSETS	\$ 2,445	\$ 42,687	\$ 63,280	\$ 108,412
LIABILITIES				
Accounts payable	\$ 2,305	-	-	\$ 2,305
FUND BALANCES				
Unreserved	140	42,687	63,280	106,107
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,445	\$ 42,687	\$ 63,280	\$ 108,412

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Government Building Operating Special Revenue Fund	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ 52,981	\$ -	\$ 52,981
Charges for services	20,521	-	-	20,521
Interest revenue	17	965	2,517	3,499
Other revenue	-	-	10,501	10,501
TOTAL REVENUES	20,538	53,946	13,018	87,502
EXPENDITURES				
Current operations				
General government	39,470	-	-	39,470
Debt service				
Principal	-	50,000	-	50,000
Interest expense	-	45,205	-	45,205
Capital outlay	-	-	17,661	17,661
TOTAL EXPENDITURES	39,470	95,205	17,661	152,336
REVENUES OVER (UNDER) EXPENDITURES	(18,932)	(41,259)	(4,643)	(64,834)
OTHER FINANCING SOURCES (USES)				
Transfers in	19,000	48,025	32,343	99,368
Transfers out	(2,000)	-	-	(2,000)
TOTAL OTHER FINANCING SOURCES (USES)	17,000	48,025	32,343	97,368
NET CHANGE IN FUND BALANCES	(1,932)	6,766	27,700	32,534
FUND BALANCES, BEGINNING OF YEAR	2,072	35,921	35,580	73,573
FUND BALANCES, END OF YEAR	\$ 140	\$ 42,687	\$ 63,280	\$ 106,107

VILLAGE OF ELK RAPIDS, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR DEBT SERVICE FUNDS

FEBRUARY 28, 2007

	<u>Bridge Street</u>	<u>River Crossing</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,274	\$ 38,966	\$ 40,240
Taxes receivable	-	2,447	2,447
TOTAL ASSETS	<u>\$ 1,274</u>	<u>\$ 41,413</u>	<u>\$ 42,687</u>
 FUND BALANCES			
Unreserved	<u>\$ 1,274</u>	<u>\$ 41,413</u>	<u>\$ 42,687</u>

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Bridge Street</u>	<u>River Crossing</u>	<u>Total</u>
REVENUES			
Taxes	\$ -	\$ 52,981	\$ 52,981
Interest revenue	-	965	965
TOTAL REVENUES	<u>-</u>	<u>53,946</u>	<u>53,946</u>
EXPENDITURES			
Debt service			
Principal	30,000	20,000	50,000
Interest expense	17,775	27,430	45,205
TOTAL EXPENDITURES	<u>47,775</u>	<u>47,430</u>	<u>95,205</u>
REVENUES OVER (UNDER) EXPENDITURES	(47,775)	6,516	(41,259)
OTHER FINANCING SOURCES			
Transfers in	48,025	-	48,025
NET CHANGE IN FUND BALANCES	250	6,516	6,766
FUND BALANCES, BEGINNING OF YEAR	1,024	34,897	35,921
FUND BALANCES, END OF YEAR	<u><u>\$ 1,274</u></u>	<u><u>\$ 41,413</u></u>	<u><u>\$ 42,687</u></u>

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING BALANCE SHEET
NONMAJOR CAPITAL PROJECT FUNDS**

FEBRUARY 28, 2007

	<u>General Capital Projects</u>	<u>Southwest Village Project</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents (equal to unreserved fund balances)	<u>\$ 63,230</u>	<u>\$ 50</u>	<u>\$ 63,280</u>

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECT FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	General Capital Projects	Southwest Village Project	Total
REVENUES			
Interest revenue	\$ 2,515	\$ 2	\$ 2,517
Other revenue	10,501	-	10,501
TOTAL REVENUES	13,016	2	13,018
EXPENDITURES			
Capital outlay	17,661	-	17,661
REVENUES (UNDER) OVER EXPENDITURES	(4,645)	2	(4,643)
OTHER FINANCING SOURCES (USES)			
Transfers in	32,343	-	32,343
NET CHANGE IN FUND BALANCES	27,698	2	27,700
FUND BALANCES, BEGINNING OF YEAR	35,532	48	35,580
FUND BALANCES, END OF YEAR	\$ 63,230	\$ 50	\$ 63,280

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING BALANCE SHEET
AGENCY FUNDS**

FEBRUARY 28, 2007

ASSETS	Payroll	Health Insurance	Birch Lake Sewer	Employee Trust	Totals
Cash and cash equivalents	\$ 2,840	\$ 1,160	\$ 2,684	\$ 81	\$ 6,765
Accounts receivable	-	-	4,103	-	4,103
TOTAL ASSETS	\$ 2,840	\$ 1,160	\$ 6,787	\$ 81	\$ 10,868
LIABILITIES					
Accounts payable	\$ -	\$ 1,160	\$ -	\$ -	\$ 1,160
Deposits payable	2,840	-	6,787	81	9,708
TOTAL LIABILITIES	\$ 2,840	\$ 1,160	\$ 6,787	\$ 81	\$ 10,868

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance February 28, 2007</u>
<u>PAYROLL</u>				
ASSETS				
Cash and cash equivalents	\$ 2,661	\$ 1,633,011	\$ 1,632,832	\$ 2,840
LIABILITIES				
Deposits payable	\$ 2,661	\$ 1,633,011	\$ 1,632,832	\$ 2,840
<u>HEALTH INSURANCE</u>				
ASSETS				
Cash and cash equivalents	\$ 3,209	\$ -	\$ 2,049	\$ 1,160
LIABILITIES				
Accounts payable	\$ 3,209	\$ -	\$ 2,049	\$ 1,160
<u>BIRCH LAKE SEWER</u>				
ASSETS				
Cash and cash equivalents	\$ 11,795	\$ 40,956	\$ 50,067	\$ 2,684
Accounts receivable	2,179	52,331	50,407	4,103
TOTAL ASSETS	\$ 13,974	\$ 93,287	\$ 100,474	\$ 6,787
LIABILITIES				
Deposits payable	\$ 13,974	\$ 93,287	\$ 100,474	\$ 6,787

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	<u>Balance March 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance February 28, 2007</u>
<u>EMPLOYEE TRUST</u>				
ASSETS				
Cash and cash equivalents	\$ 63,009	\$ 406	\$ 63,334	\$ 81
LIABILITIES				
Deposits payable	\$ 63,009	\$ 406	\$ 63,334	\$ 81
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and cash equivalents	\$ 80,674	\$ 1,674,373	\$ 1,748,282	\$ 6,765
Accounts receivable	2,179	52,331	50,407	4,103
TOTAL ASSETS	\$ 82,853	\$ 1,726,704	\$ 1,798,689	\$ 10,868
LIABILITIES				
Accounts payable	\$ 3,209	-	\$ 2,049	\$ 1,160
Deposits payable	79,644	1,726,704	1,796,640	9,708
TOTAL LIABILITIES	\$ 82,853	\$ 1,726,704	\$ 1,798,689	\$ 10,868

VILLAGE OF ELK RAPIDS, MICHIGAN

**GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET ASSETS
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**

FEBRUARY 28, 2007

	<u>Westside DDA District</u>	<u>Eastside DDA District</u>	<u>MDOT Ames St. Debt Service</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS						
Cash and cash equivalents	\$ 553,830	\$ 203,015	\$ 659	\$ 757,504	\$ -	\$ 757,504
Prepaid items	99	-	-	99	-	99
TOTAL ASSETS	<u>\$ 553,929</u>	<u>\$ 203,015</u>	<u>\$ 659</u>	<u>\$ 757,603</u>	<u>\$ -</u>	<u>\$ 757,603</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 112	\$ -	\$ -	\$ 112	\$ -	\$ 112
Accrued expenses	344	-	-	344	-	344
Accrued interest payable	-	-	-	-	10,228	10,228
Long-term liabilities						
Due within one year	-	-	-	-	185,000	185,000
Due in more than one year	-	-	-	-	305,000	305,000
TOTAL LIABILITIES	<u>456</u>	<u>-</u>	<u>-</u>	<u>456</u>	<u>500,228</u>	<u>500,684</u>
FUND BALANCES / NET ASSETS						
Reserved for prepaid items	99	-	-	99	(99)	-
Unreserved and undesignated	553,374	221,621	(17,947)	757,048	(757,048)	-
TOTAL FUND BALANCES	<u>553,473</u>	<u>221,621</u>	<u>(17,947)</u>	<u>757,147</u>	<u>(757,147)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 553,929</u>	<u>\$ 221,621</u>	<u>\$ (17,947)</u>	<u>\$ 757,603</u>		
NETS ASSETS						
Unrestricted					<u>\$ 256,919</u>	<u>\$ 256,919</u>

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

BALANCE SHEET
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT

FEBRUARY 28, 2007

RECONCILIATION OF FUND BALANCES ON THE GOVERNMENTAL FUND BALANCE SHEET FOR
THE DOWNTOWN DEVELOPMENT AUTHORITY TO THE STATEMENT OF NET ASSETS

FUND BALANCES - TOTAL DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT \$ 757,147

Amounts reported for the Downtown Development Authority Component Unit in the statement
of net assets are different because:

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore
are not reported in the funds.

Subtract: bonds payable (490,000)

Subtract: accrued interest on long-term liabilities (10,228)

NET ASSETS OF DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT \$ 256,919

Concluded

VILLAGE OF ELK RAPIDS, MICHIGAN

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND
STATEMENT OF ACTIVITIES
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**

FOR THE YEAR ENDED FEBRUARY 28, 2007

	Westside DDA District	Eastside DDA District	MDOT Ames St. Debt Service	Total	Adjustments	Statement of Activities
EXPENDITURES / EXPENSES						
Public works	\$ 260,729	\$ 58,412	\$ -	\$ 319,141	\$ -	\$ 319,141
Debt service						
Principal	145,000	-	30,000	175,000	(175,000)	-
Interest expense	26,425	-	10,535	36,960	(3,892)	33,068
TOTAL EXPENDITURES / EXPENSES	432,154	58,412	40,535	531,101	(178,892)	352,209
GENERAL REVENUES						
Taxes	514,527	122,151	-	636,678	-	636,678
Grants and contributions not restricted to specific programs	-	-	21,929	21,929	-	21,929
Interest revenue	26,087	8,877	52	35,016	-	35,016
TOTAL GENERAL REVENUES	540,614	131,028	21,981	693,623	-	693,623
CHANGE IN FUND BALANCES / NET ASSETS	108,460	72,616	(18,554)	162,522	178,892	341,414
FUND BALANCE / NET ASSETS (DEFICIT), BEGINNING OF YEAR	445,013	149,005	607	594,625	(679,120)	(84,495)
FUND BALANCE / NET ASSETS, END OF YEAR	\$ 553,473	\$ 221,621	\$ (17,947)	\$ 757,147	\$ (500,228)	\$ 256,919

Continued...

VILLAGE OF ELK RAPIDS, MICHIGAN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
DOWNTOWN DEVELOPMENT AUTHORITY COMPONENT UNIT**

FOR THE YEAR ENDED FEBRUARY 28, 2007

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF THE DOWNTOWN DEVELOPMENT
AUTHORITY COMPONENT UNIT TO THE STATEMENT OF ACTIVITIES**

NET CHANGE IN FUND BALANCES - TOTAL DOWNTOWN DEVELOPMENT
AUTHORITY COMPONENT UNIT \$ 162,522

Amounts reported for the Downtown Development Authority Component Unit in the statement
of activities are different because:

Bond proceeds provide current financial resources to governmental funds in the period issued,
but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of
bond principal is an expenditure in the governmental funds, but the repayment reduces long-term
liabilities in the statement of net assets.

Add: principal payments on long-term liabilities 175,000

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 governmental funds

Add: decrease in accrued interest on long-term liabilities 3,892

**CHANGE IN NET ASSETS OF DOWNTOWN DEVELOPMENT
AUTHORITY COMPONENT UNIT \$ 341,414**

Concluded

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' 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***

July 27, 2007

Village Council
Village of Elk Rapids
Elk Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely-presented component unit, each major fund, and the aggregate remaining fund information of the *Village of Elk Rapids, Michigan* (the "Village"), as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 27, 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 opinions 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Finding 2006-1 – Preparation of Financial Statements in Accordance with Accounting Principles Generally Accepted in the United States of America

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Condition:** As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.
- Cause:** This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.
- Effect:** As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
- View of Responsible Officials:** The Village has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or 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. However, we believe that the significant deficiency described above is not a material weakness.

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 or other matters that are required to be reported under *Government Auditing Standards*.

The Village's response to the finding identified in our audit is described above. We did not audit the Village's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.