

VILLAGE OF FIFE LAKE, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED FEBRUARY 28, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Village Council
Village of Fife Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Fife Lake, Michigan (the "Village"), as of and for the year ended February 28, 2018, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Gabridge & Company, PLC
Grand Rapids, Michigan
August 29, 2018

Management's Discussion and Analysis

Village of Fife Lake Management's Discussion and Analysis

As management of the Village of Fife Lake, Michigan (The "Village" or "government") we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$913,248 (net position). Of this amount, \$227,398, or 24.9%, represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$375,033, an increase of \$21,939 in comparison with the previous audited year. Approximately 40.9% of this amount (\$153,373) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$153,373, or approximately 92.2% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements report functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the Village include general government, public works, community & economic development, and recreation & culture.

The government-wide financial statements include not only the Village itself (known as the primary government), but also a legally separate Downtown Development Authority (“DDA”) for which the Village is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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 two categories: governmental funds and proprietary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing 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 three 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 fund, the major street fund, and the local street fund, all of which are considered to be major funds.

The Village adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided.

Proprietary Funds. *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 motor vehicle costs and allocating the costs to the funds that are using the resources. Because these services benefit governmental functions, they have been included within the governmental activities in the government-wide

financial statements. The internal service fund data is presented in the proprietary fund financial statements.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village's budgetary comparison schedules.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Village, assets exceeded liabilities by \$913,248 at the close of the most recent fiscal year.

Village of Fife Lake's Net Position

	<u>2018</u>	<u>2016</u>
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 415,352	\$ 452,027
Receivables (Net)	-	39,892
Due from State	38,729	28,116
Prepaid Items	3,130	-
<i>Total Current Assets</i>	<u>457,211</u>	<u>520,035</u>
<i>Noncurrent Assets</i>		
Capital Assets not being Depreciated	120,197	197,628
Capital Assets being Depreciated	347,123	323,871
<i>Total Assets</i>	<u>924,531</u>	<u>1,041,534</u>
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	10,053	41,020
Due to Other Governments	-	1,427
Payroll Liabilities	1,230	3,060
<i>Total Liabilities</i>	<u>11,283</u>	<u>45,507</u>
NET POSITION		
Investment in Capital Assets	467,320	521,499
Restricted	218,530	150,589
Unrestricted	227,398	323,939
<i>Total Net Position</i>	<u>\$ 913,248</u>	<u>\$ 996,027</u>

A large portion of the Village's net position (\$467,320, or 51.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure). The Village uses

these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending.

An additional portion of the Village’s net position (\$218,530 or 23.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$227,398 is unrestricted and may be used to meet the government’s ongoing obligations to its citizens and creditors.

Accounts receivable and accounts payable have all decreased sharply when compared to the balances in fiscal year 2016. These decreases are related to accruals for activities associated with a *Stormwater, Asset Management, and Wastewater* grant that was in progress as of February 28, 2016. This project was completed prior to fiscal year 2018 and, accordingly, no grant related revenues and expenses needed accrual as of the most recent year-end.

Capital assets have decreased by \$54,179 or 32%. Much of this decrease can be attributed to the annual depreciation of assets recognized in both fiscal year 2017 and 2018.

Governmental Activities. Governmental activities increased the Village’s net position by \$27,143.

Village of Fife Lake's Changes in Net Position

	2018	2016
Program Revenues		
Charges for Services	\$ 14,039	\$ 9,935
Operating Grants and Contributions	97,549	70,449
Capital Grants and Contributions	9,725	117,185
<i>Total Program Revenues</i>	121,313	197,569
General Revenues		
Taxes	100,048	95,295
State Revenue Sharing	40,169	40,695
Other	12,579	28,982
Interest	886	987
<i>Total General Revenues</i>	153,682	165,959
<i>Total Revenues</i>	274,995	363,528
Expenses		
General Government	94,000	96,644
Public Works	129,961	116,127
Community and Economic Development	3,085	6,732
Recreation and Cultural	20,806	18,006
<i>Total Expenses</i>	247,852	237,509
<i>Change in Net Position</i>	27,143	126,019
Net Position at the Beginning of Period	886,105	870,008
<i>Net Position at the End of Period</i>	\$ 913,248	\$ 996,027

The Village's overall increase in net position decreased \$82,779 when compared to the previously audited year. Property tax revenues in the governmental activities were \$95,295 for the year ending February 28, 2016 and increased to \$100,048 for the year ending February 28, 2018. The Village is hopeful that the state-wide trend of stabilizing tax bases will continue to be reflected in the Village's tax base in the upcoming years. Capital grants and contributions decreased from \$117,185 during 2016 to \$9,725 during 2018 as a result of a one-time *Stormwater, Asset Management, and Wastewater* grant that the Village received during 2016 that had no further funding during 2018.

Financial Analysis of Governmental 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, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village's Council.

At February 28, 2018, the Village's governmental funds reported combined fund balances of \$375,033, an increase of \$21,939 during the year. Approximately 40.9% of this amount (\$153,373) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* for major and local streets (\$218,530) or *nonspendable* (prepaid items totaling \$3,130).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$153,373. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures. Unassigned fund balance represents approximately 92.2% of total general fund expenditures.

The fund balance of the Village's general fund increased by \$879 during the current fiscal year. The Village Council monitors the expenditures of the general fund closely to ensure that spending does not exceed the Village's available resources.

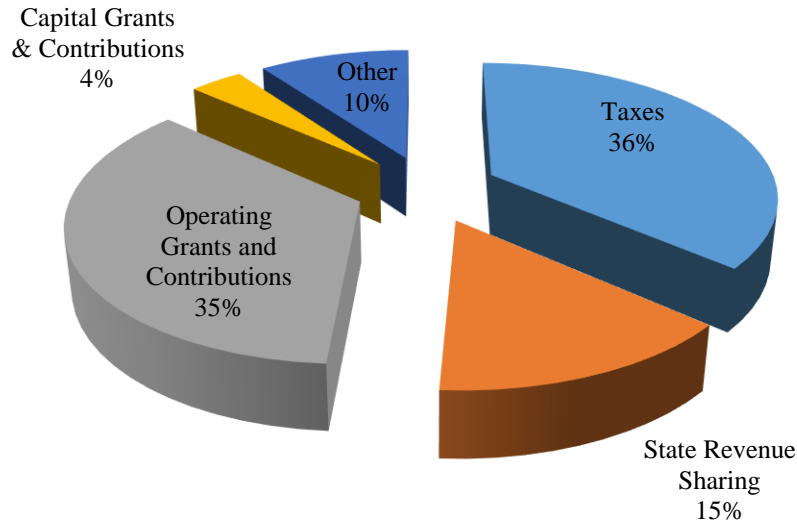
The major streets fund, a major fund, had a \$7,273 increase in fund balance during the year which put the overall fund balance at \$114,342.

The local streets fund, a major fund, had a \$13,787 increase in fund balance during the year which put the overall fund balance at \$104,188.

Governmental Activities

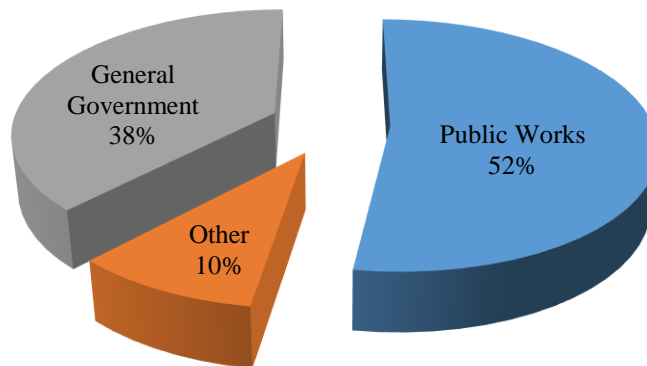
The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.

Governmental Activities Revenues



The following chart summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end.

Governmental Activities Expenses



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a need to adjust expenditures in the final budget to \$263,331 from the originally budgeted \$170,631. The most significant adjustment was a budget increase in community and economic development of \$69,000.

Final budget compared to actual results. The Village had the following expenditures in excess of the amount appropriated during the year ended February 28, 2018:

	<u>Final Amount</u>	<u>Actual Amount</u>	<u>Variance</u>
Public Works	\$ 45,000	\$ 48,942	\$ (3,942)
Community and Economic Development			
Planning	700	2,870	(2,170)
Capital Outlay	-	3,060	(3,060)

Capital Assets

Capital Assets. The Village's investment in capital assets for its governmental activities as of February 28, 2018 amounts to \$406,816 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, infrastructure, and machinery and equipment. The following summarizes the Village's capital assets:

Land	\$ 120,197
Buildings	36,273
Land Improvements	4,223
Machinery and Equipment	13,620
Infrastructure	232,503
	<u>\$ 406,816</u>

More detailed information about the Village's capital assets can be found in Note 4.

Economic Condition and Outlook

Property tax revenues are expected to change minimally reflecting fairly stable property values. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2018/19, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar levels.

Contacting the Village

This financial report is designed to provide a general overview of the Village's finances to its citizens, customers, investors, and creditors and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to:

The Village of Fife Lake
P.O. Box 298
Fife Lake, MI 49633

Basic Financial Statements

**Village of Fife Lake
Statement of Net Position
February 28, 2018**

	Primary Government	Component Unit - DDA
	Governmental Activities	
ASSETS		
<i>Current Assets</i>		
Cash and Cash Equivalents	\$ 415,352	\$ 90,923
Taxes Receivable	--	7,185
Due From State	38,729	--
Prepaid Items	3,130	--
Total Current Assets	457,211	98,108
<i>Noncurrent Assets</i>		
Capital Assets not being Depreciated	120,197	--
Capital Assets being Depreciated	347,123	--
Total Assets	924,531	98,108
LIABILITIES		
Accounts Payable	10,053	--
Payroll Liabilities	1,230	--
Total Liabilities	11,283	--
NET POSITION		
Investment in Capital Assets	467,320	--
<i>Restricted for:</i>		
Major and Local Streets	218,530	--
<i>Unrestricted</i>	227,398	98,108
Total Net Position	\$ 913,248	\$ 98,108

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Fife Lake
Statement of Activities
For the Year Ended February 28, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>		<u>Component Unit - DDA</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Primary Government</u>	<u>Total</u>	
					<u>Governmental Activities</u>		
Primary Government							
Governmental Activities:							
General Government	\$ 94,000	\$ 14,039	\$ --	\$ --	\$ (79,961)	\$ (79,961)	\$ --
Public Works	129,961	--	97,549	9,725	(22,687)	(22,687)	--
Community and Economic Development	3,085	--	--	--	(3,085)	(3,085)	--
Recreation and Cultural	20,806	--	--	--	(20,806)	(20,806)	--
Total Primary Government	\$ 247,852	\$ 14,039	\$ 97,549	\$ 9,725	\$ (126,539)	\$ (126,539)	--
Component Unit							
Downtown Development Authority	\$ 8,120	\$ --	\$ --	\$ --	--	--	(8,120)
Total Component Unit	\$ 8,120	\$ --	\$ --	\$ --	--	--	(8,120)
General Purpose Revenues:							
Revenues							
					886	886	423
Interest Income							
Taxes					100,048	100,048	36,440
State Revenue Sharing					40,169	40,169	--
Other Revenue					12,579	12,579	--
Total General Revenues					153,682	153,682	36,863
Change in Net Position					27,143	27,143	28,743
<i>Net Position at Beginning of Period</i>					886,105	886,105	69,365
Net Position at End of Period					\$ 913,248	\$ 913,248	\$ 98,108

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Fife Lake
Balance Sheet
Governmental Funds
February 28, 2018**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
ASSETS				
Cash and Cash Equivalents	\$ 149,244	\$ 103,234	\$ 91,979	\$ 344,457
Due From State	6,402	20,118	12,209	38,729
Prepaid Items	3,130	--	--	3,130
<i>Total Assets</i>	<u>\$ 158,776</u>	<u>\$ 123,352</u>	<u>\$ 104,188</u>	<u>\$ 386,316</u>
LIABILITIES				
Accounts Payable	\$ 1,043	\$ 9,010	\$ --	\$ 10,053
Payroll Liabilities	1,230	--	--	1,230
<i>Total Liabilities</i>	<u>2,273</u>	<u>9,010</u>	<u>--</u>	<u>11,283</u>
FUND BALANCE				
Nonspendable	3,130	--	--	3,130
Restricted	--	114,342	104,188	218,530
Unassigned	153,373	--	--	153,373
<i>Total Fund Balance</i>	<u>156,503</u>	<u>114,342</u>	<u>104,188</u>	<u>375,033</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 158,776</u>	<u>\$ 123,352</u>	<u>\$ 104,188</u>	<u>\$ 386,316</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Fife Lake
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
February 28, 2018

Total Fund Balance - Governmental Funds	\$ 375,033
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements	131,399
General government capital assets of \$567,041, net of accumulated depreciation of \$160,225, are not financial resources and, accordingly, are not reported in the funds.	406,816
Total Net Position - Governmental Funds	\$ <u>913,248</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Fife Lake
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended February 28, 2018

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
Revenues				
Taxes	\$ 100,048	\$ --	\$ --	\$ 100,048
Licenses and Permits	650	--	--	650
State Revenue Sharing	40,169	55,101	31,484	126,754
State Grants	9,725	--	--	9,725
Contributions from Local Units	--	--	10,964	10,964
Other Revenue	14,888	9,680	--	24,568
Charges for Services	1,400	--	--	1,400
Interest Income	371	209	152	732
<i>Total Revenues</i>	167,251	64,990	42,600	274,841
Expenditures				
General Government	91,315	--	--	91,315
Public Works	48,942	49,317	37,213	135,472
Community and Economic Development	3,085	--	--	3,085
Recreation and Cultural	19,970	--	--	19,970
Capital Outlay	3,060	--	--	3,060
<i>Total Expenditures</i>	166,372	49,317	37,213	252,902
<i>Excess of Revenues Over (Under) Expenditures</i>	879	15,673	5,387	21,939
Other Financing Sources (Uses)				
Transfers In	--	--	8,400	8,400
Transfers Out	--	(8,400)	--	(8,400)
<i>Net Other Financing Sources (Uses)</i>	--	(8,400)	8,400	--
<i>Net Change in Fund Balance</i>	879	7,273	13,787	21,939
<i>Fund Balance at Beginning of Period</i>	155,624	107,069	90,401	353,094
<i>Fund Balance at End of Period</i>	\$ 156,503	\$ 114,342	\$ 104,188	\$ 375,033

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Fife Lake
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended February 28, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	21,939
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		12,256
Governmental fund report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which depreciation expense of \$10,112 is in excess of capital outlay expenditure of \$3,060.		(7,052)
Changes in Net Position - Governmental Funds	\$	<u>27,143</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Fife Lake
Statement of Net Position
Proprietary Fund
February 28, 2018**

	Governmental Activities Internal Service Fund
ASSETS	
<i>Current Assets</i>	
Cash and Cash Equivalents	\$ 70,895
Total Current Assets	70,895
<i>Noncurrent Assets</i>	
Capital Assets being Depreciated	60,504
Total Assets	131,399
LIABILITIES	
Total Liabilities	--
NET POSITION	
Net Investment in Capital Assets	60,504
<i>Unrestricted</i>	70,895
Total Net Position	\$ 131,399

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Fife Lake
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Fund
For the Year Ended February 28, 2018

	Governmental Activities Internal Service Fund
Operating Revenues	
Charges for Services	\$ 51,040
<i>Total Operating Revenues</i>	<i>51,040</i>
Operating Expenses	
Administrative and General	1,298
Equipment Operations	19,978
Depreciation	17,662
<i>Total Operating Expenses</i>	<i>38,938</i>
<i>Operating Income (Loss)</i>	<i>12,102</i>
Non-Operating Revenues (Expenses)	
Interest Income	154
<i>Net Non-Operating Revenues (Expenses)</i>	<i>154</i>
<i>Change In Net Position</i>	<i>12,256</i>
<i>Net Position at Beginning of Period</i>	<i>119,143</i>
<i>Net Position at End of Period</i>	<i>\$ 131,399</i>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Fife Lake
Statement of Cash Flows
Proprietary Fund
For the Year Ended February 28, 2018**

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities	
Cash Received from Charges for Services	\$ 51,040
Cash Payments to Employees for Services and Fringe Benefits	(1,298)
Cash Payments to Suppliers for Goods and Services	(19,978)
<i>Net Cash Provided by Operating Activities</i>	29,764
 Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets	(24,590)
<i>Net Cash Used by Capital and Related Financing Activities</i>	(24,590)
 Cash Flows from Investing Activities	
Interest Income	154
<i>Net Cash Provided by Investing Activities</i>	154
Net Increase in Cash and Cash Equivalents	5,328
<i>Cash and Equivalents - Beginning of Year</i>	65,567
Cash and Cash Equivalents - End of Year	\$ 70,895
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 12,102
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	17,662
Net Cash Provided by Operating Activities	\$ 29,764

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Village of Fife Lake

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The Village of Fife Lake (the “Village” or “government”) is a municipal corporation governed by an elected Council (7 members) and provides services to roughly 450 residents in many areas including street development and maintenance and parks. The accounting policies of the Village conform to generally accepted accounting principles, as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Village and its component unit, an entity for which the Village is considered to be financially accountable. The discretely presented component unit, on the other hand, is reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the Village.

Discretely Presented Component Unit

Downtown Development Authority

The members of the governing board of the Downtown Development Authority are appointed by the Village Council. The budgets, expenditures, and bonded debt of the Downtown Development Authority must be approved by the Village Council.

Financial statements of the individual component unit are included within the basic financial statements in the annual financial report of the Village of Fife Lake, Michigan. The component unit does not issue a separate financial report.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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 segments 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

Village of Fife Lake

Notes to the Financial Statements

operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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. The fiduciary fund financial statements use the economic resources measurement focus, although the agency funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the 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 Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services 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.

The Village of Fife Lake 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 accounted for and reported in another fund.

The ***major streets fund*** accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as major streets within the Village.

Village of Fife Lake

Notes to the Financial Statements

The *local streets fund* accounts for the revenue received from the State of Michigan under Act 51 which is specifically earmarked for construction and maintenance of roads designated as local streets within the Village.

Additionally, the government reports the following fund types:

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

Internal service funds account for the financing of goods or services provided by the Village to other departments or funds on a cost reimbursement basis.

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

Assets, Liabilities, and Equity

Cash and Cash Equivalents

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. Investments are stated at fair value based on quoted market prices.

State statutes and Village policy authorize the Village to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.

Village of Fife Lake

Notes to the Financial Statements

- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amounts outstanding as of year ended were identified by as being uncollectible.

Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when purchased rather than when consumed.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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 asset lives are not capitalized.

Major outlays of capital assets and improvement are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on invested proceeds over the same period.

Depreciation on capital, assets (including infrastructure) of the primary government is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	20 - 50
Land Improvements	20
Machinery and Equipment	5 - 10
Infrastructure	50

The Village reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is

Village of Fife Lake

Notes to the Financial Statements

determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method.

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 uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Village of Fife Lake

Notes to the Financial Statements

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Village Council is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Unassigned fund balance is the residual classification for the Village's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council.

Property Tax Revenue Recognition

All trade and property tax receivables are shown net of an allowance for uncollectables. Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1 and become delinquent after September 14. Village property tax revenues are recognized when they become both measureable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

Interfund Transactions

During the course of normal operations, the Village had transactions between funds, including expenditures and transfers of resources to provide services. The accompanying financial statements generally reflect such transactions as transfers.

Village of Fife Lake

Notes to the Financial Statements

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The general fund and special revenue funds are subject to legal budgetary accounting controls and all are budgeted annually.

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to March 1, the clerk submits, to the Village Council, proposed operating budgets for all funds of the Village for the fiscal year.
- The Village Council adopts a resolution approving the budgets
- All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council.
- During the year, the budget is monitored and amendments to the budget are made when it is deemed necessary.
- Budget amounts as presented are as originally adopted or as amended by the Village Council from time to time throughout the year.
- Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

Note 2 - Excess of Expenditures over Budget

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. Budgetary control is exercised at the activity level in the general fund and the function level in other funds.

Village of Fife Lake

Notes to the Financial Statements

During the year ended February 28, 2018, the Village had the following expenditures in budgetary funds which were in excess of the amounts budgeted:

	Final Amount	Actual Amount	Variance
Public Works	\$ 45,000	\$ 48,942	\$ (3,942)
Community and Economic Development			
Planning	700	2,870	(2,170)
Capital Outlay	-	3,060	(3,060)

Note 3 - Cash and Investments

The captions on the government-wide and fund statements relating to cash and investments are as follows:

	Primary Government	Component Unit
Statement of Net Position		
Cash and Cash Equivalents	\$ 415,352	\$ 90,923
Deposits and Investments		
Checking and Savings Accounts	\$ 382,846	\$ 20,116
Cash on Hand	200	-
Certificates of Deposit	32,306	70,807
Total	\$ 415,352	\$ 90,923

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be returned. State law does not require, and the Village does not have, a policy for deposit custodial credit risk. As of year-end, \$65,240 of the Villages and DDA's bank balance of \$511,323 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of NCUA insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. 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.

Village of Fife Lake

Notes to the Financial Statements

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	Certificates of Deposit
Due within One Year	\$ 32,306
Due in 1-5 Years	70,807
Total	\$ 103,113

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Village's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio.

Note 4 - Capital Assets

Capital asset activities for governmental activities for the year ended February 28, 2018 were as follows:

	Beginning of Year	Additions	Disposals	End of Year
Governmental Activities				
Capital Assets not being Depreciated				
Land	\$ 120,197	\$ -	\$ -	\$ 120,197
Construction in Progress	-	-	-	-
Total Capital Assets not being Depreciated	120,197	-	-	120,197
Capital Assets being Depreciated				
Buildings	134,250	-	-	134,250
Land Improvements	5,538	-	-	5,538
Machinery and Equipment	14,447	3,060	-	17,507
Infrastructure	289,549	-	-	289,549
Total Capital Assets being Depreciated	443,784	3,060	-	446,844
Less Accumulated Depreciation				
Buildings	95,292	2,685	-	97,977
Land Improvements	1,038	277	-	1,315
Machinery and Equipment	2,528	1,359	-	3,887
Infrastructure	51,255	5,791	-	57,046
Total Accumulated Depreciation	150,113	10,112	-	160,225
Net Capital Assets being Depreciated	293,671	(7,052)	-	286,619
Net Capital Assets	413,868	(7,052)	-	406,816

Village of Fife Lake

Notes to the Financial Statements

Internal Service Fund

Capital Assets being Depreciated:

Machinery and Equipment	242,675	24,590	-	267,265
Less Accumulated Depreciation:				
Machinery and Equipment	189,099	17,662	-	206,761
Net Capital Assets, Internal Service	53,576	6,928	-	60,504
Net Capital Assets per Statement of Net Position	\$ 467,444	\$ (124)	\$ -	\$ 467,320

Depreciation expense was charged to governmental functions of the Village as follows:

Governmental Activities:

General Government	\$	2,685
Public Works		6,591
Recreation and Culture		836
Equipment Fund		17,662
Total Governmental Activities	\$	27,774

Note 5 - Interfund Transactions

The Village reported the following transfers between funds:

Transfer In	Transfer Out	Amount
Local Streets	Major Streets	\$ 8,400

Interfund transfers are used to: (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 6 - 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 (workers' compensation); and natural disasters. During the year ended February 28, 2018, the Village carried commercial insurance to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year

Village of Fife Lake

Notes to the Financial Statements

Note 7 - Subsequent Events

Management is not aware of any subsequent events that would have a significant impact on the financial condition of the Village as of August 29, 2018.

Required Supplementary Information

Village of Fife Lake
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended February 28, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Taxes	\$ 110,350	\$ 113,450	\$ 100,048	\$ (13,402)
Licenses and Permits	2,300	2,300	650	(1,650)
State Revenue Sharing	40,000	41,500	40,169	(1,331)
State Grants	7,000	9,700	9,725	25
Other Revenue	12,000	15,300	14,888	(412)
Charges for Services	--	--	1,400	1,400
Interest Income	--	--	371	371
Total Revenues	<u>171,650</u>	<u>182,250</u>	<u>167,251</u>	<u>(14,999)</u>
Expenditures				
General Government				
Council	30,000	30,000	22,236	7,764
Office	37,400	37,400	30,101	7,299
Building and Grounds	30,000	44,600	38,978	5,622
Total General Government	<u>97,400</u>	<u>112,000</u>	<u>91,315</u>	<u>20,685</u>
Public Works	45,000	45,000	48,942	(3,942)
Community and Economic Development				
Planning	700	700	2,870	(2,170)
Zoning	1,650	1,650	115	1,535
DDA	14,881	83,881	100	83,781
Total Community and Economic Dev.	<u>17,231</u>	<u>86,231</u>	<u>3,085</u>	<u>83,146</u>
Parks	11,000	20,100	19,970	130
Capital Outlay	--	--	3,060	(3,060)
Total Expenditures	<u>170,631</u>	<u>263,331</u>	<u>166,372</u>	<u>96,959</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>1,019</u>	<u>(81,081)</u>	<u>879</u>	<u>81,960</u>
Net Change in Fund Balance	<u>1,019</u>	<u>(81,081)</u>	<u>879</u>	<u>81,960</u>
Fund Balance at Beginning of Period	<u>155,624</u>	<u>155,624</u>	<u>155,624</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 156,643</u>	<u>\$ 74,543</u>	<u>\$ 156,503</u>	<u>\$ 81,960</u>

Village of Fife Lake
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended February 28, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Revenue Sharing	\$ 40,000	\$ 56,700	\$ 55,101	\$ (1,599)
Other Revenue	--	--	9,680	9,680
Interest Income	--	--	209	209
<i>Total Revenues</i>	<u>40,000</u>	<u>56,700</u>	<u>64,990</u>	<u>8,290</u>
Expenditures				
Public Works	47,000	49,500	49,317	183
<i>Total Expenditures</i>	<u>47,000</u>	<u>49,500</u>	<u>49,317</u>	<u>183</u>
Other Financing Uses				
Transfers Out	5,000	9,000	8,400	600
<i>Total Expenditures and Other Financing Uses</i>	<u>52,000</u>	<u>58,500</u>	<u>57,717</u>	<u>783</u>
<i>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</i>	<u>(12,000)</u>	<u>(1,800)</u>	<u>7,273</u>	<u>9,073</u>
<i>Net Change in Fund Balance</i>	<u>(12,000)</u>	<u>(1,800)</u>	<u>7,273</u>	<u>9,073</u>
<i>Fund Balance at Beginning of Period</i>	107,069	107,069	107,069	--
<i>Fund Balance at End of Period</i>	<u>\$ 95,069</u>	<u>\$ 105,269</u>	<u>\$ 114,342</u>	<u>\$ 9,073</u>

Village of Fife Lake
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended February 28, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Revenue Sharing	\$ 49,000	\$ 49,000	\$ 31,484	\$ (17,516)
Contributions from Local Units	--	--	10,964	10,964
Interest Income	--	--	152	152
Total Revenues	<u>49,000</u>	<u>49,000</u>	<u>42,600</u>	<u>(6,400)</u>
Other Financing Sources				
Transfers In	--	--	8,400	8,400
Total Revenues and Other Financing Sources	<u>49,000</u>	<u>49,000</u>	<u>51,000</u>	<u>2,000</u>
Expenditures				
Public Works	40,000	41,000	37,213	3,787
Total Expenditures	<u>40,000</u>	<u>41,000</u>	<u>37,213</u>	<u>3,787</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>40,000</u>	<u>41,000</u>	<u>37,213</u>	<u>3,787</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>9,000</u>	<u>8,000</u>	<u>13,787</u>	<u>5,787</u>
Net Change in Fund Balance	<u>9,000</u>	<u>8,000</u>	<u>13,787</u>	<u>5,787</u>
Fund Balance at Beginning of Period	90,401	90,401	90,401	--
Fund Balance at End of Period	<u>\$ 99,401</u>	<u>\$ 98,401</u>	<u>\$ 104,188</u>	<u>\$ 5,787</u>

August 29, 2018

To the Members of the Village Council
Village of Fife Lake, Michigan

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Fife Lake, Michigan (the "Village") for the year ended February 28, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 10, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note 1 to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 29, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village as of and for the year ended February 28, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we have identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies to be material weaknesses:

Material Audit Adjustments and Financial Statement Preparation:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the 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 accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed several material audit adjustments that management reviewed and approved.

As is the case with many small and medium-sized governmental units, the Village has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis 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 auditor, who cannot, by definition, be considered part of the Village's internal controls. Having the auditor draft the annual financial statements is allowable under current

auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

Cause: This condition was caused by the Village's decision to outsource the preparation of its annual financial statements to the external auditor rather than incur the costs of obtaining the necessary training and expertise required for the Village to perform this task internally because outsourcing the task is considered more cost effective.

Effect: The Village's accounting records were initially misstated by amounts material to the financial statements. In addition, the Village lacks complete internal controls over the preparation of its financial statements in accordance with GAAP, and, instead, relies, at least in part, on assistance from its external auditor for assistance with this task.

Auditor's Recommendation: We recommend that management continue to monitor the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Village's annual financial statements versus contracting with its auditor for these services.

Management Response: Management has made an ongoing evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. Management will continue to review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Segregation of Incompatible Duties

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Village. A key element of internal control is the segregation of incompatible duties within the accounting function.

Condition/Finding: The Village has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval. These areas include cash reconciliation, mileage and other reimbursements, payroll, and journal entry transactions.

Cause: This condition is a result of the limited size of the Village's accounting staff.

Effect: As a result of this condition, the Village is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected and corrected by management on a timely basis.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we

would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: As a result of limited staffing, we cannot accomplish the desired segregation of duties. Management staff will provide increased oversight and review of operations to help correct errors and to deter inappropriate actions and potential fraud.

Reconciliation of Key Balance Sheet Accounts

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the Village. A key element of internal control is the monitoring and reconciling of financial data within the accounting function.

Condition: The Village has balance sheet accounts that are only reconciled at year end as part of the audit. These areas include accounts / taxes receivable, accounts payable, and fixed assets. Accordingly, the Village's ability to prepare financial statements with reconciled balance sheet accounts is based, at least 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 is a result of the lack of documented control policies and procedures at the Village.

Effect: As a result of this condition, the Village is susceptible to misstatements (whether caused by error or fraud) that may occur and not be prevented or detected and corrected by management on a timely basis.

Auditor's Recommendation: We recommend developing policies and procedures for reconciling taxes and accounts receivable (at least quarterly) to the general ledger. All cash accounts (including the fiduciary funds) need to be reconciled to the general ledger monthly. These policies and procedures should require involvement of a second responsible person as part of the review/monitoring process.

Management Response: The Village concurs with this finding. The Village will evaluate new controls to reconcile and monitor key balance sheet account balances going forward.

We did not audit the Village's responses to the internal control findings described above and, accordingly, we express no opinion on them.

Restriction on Use

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

Gabridge & Company

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