



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

## TABLE OF CONTENTS

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	4
<b>BASIC FINANCIAL STATEMENTS</b>	
<hr/>	
<b>Government-wide Financial Statements</b>	
Statement of Net Position	13
Statement of Activities	14
<b>Fund Financial Statements</b>	
<b>Governmental Funds</b>	
Balance Sheet	15
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance with Statement of Activities	18
<b>Proprietary Funds</b>	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Net Position	20
Statement of Cash Flows	21
<b>Notes to the Financial Statements</b>	23
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<hr/>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	
General Fund	35
Major Streets Fund	36
Local Streets Fund	37

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Bear Lake, Michigan

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Bear 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 of Bear Lake, Michigan'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 business-type activities, and each major

fund 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 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.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the typed name of the firm.

Gabridge & Company, PLC  
Grand Rapids, MI  
August 10, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Village of Bear 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 \$1,244,949 (net position). Of this amount, \$173,902 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 general fund reported fund balance of \$74,308, a decrease of \$8,095 in comparison with the prior year. Approximately 90% of this amount, \$67,012, 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 \$67,012, or approximately 46% 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) notes to the 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 expense recognized on capital assets).

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 and streets. The business-type activities of the Village include water services as well as recreational and cultural activities.

**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 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, major streets fund, and local streets, which are considered to be major funds.

The Village adopts an annual appropriated budget for the general fund and each of its special revenue funds. Budgetary comparison schedules for the general fund and the major special revenue funds (the major streets fund and the local streets fund) have been provided to demonstrate compliance with these budgets.

**Proprietary Funds.** The Village maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *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 uses enterprises funds to account for its water operations and its park fund, both of which are considered to be major funds.

**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 \$1,244,949, at the close of the most recent fiscal year.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
<b>ASSETS</b>						
<i>Current Assets</i>						
Cash and Investments	\$ 116,113	\$ 134,261	\$ 113,545	\$ 85,166	\$ 229,658	\$ 219,427
Due from State	10,542	9,936	-	-	10,542	9,936
Accounts Receivable	-	-	3,230	2,295	3,230	2,295
<b>Total Current Assets</b>	<b>126,655</b>	<b>144,197</b>	<b>116,775</b>	<b>87,461</b>	<b>243,430</b>	<b>231,658</b>
<i>Noncurrent Assets</i>						
Capital Assets not being Depreciated	122,571	122,571	-	-	122,571	122,571
Capital Assets being Depreciated	52,129	18,272	885,280	919,249	937,409	937,521
<b>Total Assets</b>	<b>301,355</b>	<b>285,040</b>	<b>1,002,055</b>	<b>1,006,710</b>	<b>1,303,410</b>	<b>1,291,750</b>
<b>LIABILITIES</b>						
<i>Current Liabilities</i>						
Accounts Payable	1,737	5,494	1,629	3,533	3,366	9,027
Payroll Liabilities	10,375	7,099	1,147	300	11,522	7,399
Current Portion of Long-term Debt	-	-	10,000	10,000	10,000	10,000
Interest Payable	-	-	623	1,471	623	1,471
Unearned Revenue	-	-	12,950	14,150	12,950	14,150
Internal Balances	(832)	-	832	-	-	-
<b>Total Current Liabilities</b>	<b>11,280</b>	<b>12,593</b>	<b>27,181</b>	<b>29,454</b>	<b>38,461</b>	<b>42,047</b>
<i>Noncurrent Liabilities</i>						
Long-term Debt	-	-	20,000	30,000	20,000	30,000
<b>Total Liabilities</b>	<b>11,280</b>	<b>12,593</b>	<b>47,181</b>	<b>59,454</b>	<b>58,461</b>	<b>72,047</b>
<b>NET POSITION</b>						
Net Investment in Capital Assets	174,700	140,843	855,280	879,248	1,029,980	1,020,091
Restricted	41,067	49,201	-	-	41,067	49,201
Unrestricted	74,308	82,403	99,594	68,008	173,902	150,411
<b>Total Net Position</b>	<b>\$ 290,075</b>	<b>\$ 272,447</b>	<b>\$ 954,874</b>	<b>\$ 947,256</b>	<b>\$ 1,244,949</b>	<b>\$ 1,219,703</b>

A large portion of the Village's net position (\$1,029,980, or 83%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position (\$41,067, or 3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$173,902, or 14%, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

The overall assets and liabilities reflected one significant change for the fiscal year ended February 28, 2018 compared to the fiscal year ended February 28, 2017: an addition of \$37,690 to governmental activities capital assets.

At the end of the current fiscal year, the Village is able to report positive balances in all reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Village's overall net position increased \$25,246 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities.** During the current fiscal year, net position for governmental activities increased \$17,628 from the prior fiscal year for an ending balance of \$290,075. The increase in the overall net position of governmental activities is related to higher state revenue sharing and Act 51 revenues during the year.

**Business-type Activities.** For the Village's business-type activities, the results for the current fiscal year were an increase in overall net position of \$7,618 resulting in an ending balance of \$954,874.

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
<b>Program Revenues</b>						
Charges for Services	\$ 30,029	\$ 23,779	\$ 146,626	\$ 117,000	\$ 176,655	\$ 140,779
Operating Grants and Contributions	37,649	31,490	-	-	37,649	31,490
Capital Grants and Contributions	7,690	-	-	-	7,690	-
<b>Total Program Revenues</b>	<b>75,368</b>	<b>55,269</b>	<b>146,626</b>	<b>117,000</b>	<b>221,994</b>	<b>172,269</b>
<b>General Revenues</b>						
Property Taxes	65,241	63,704	-	-	65,241	63,704
State Revenue Sharing	23,379	19,948	-	-	23,379	19,948
Interest Income	57	105	242	28	299	133
Other	11,792	546	2,286	4,220	14,078	4,766
Transfers	-	(6,815)	-	6,815	-	-
<b>Total General Revenues</b>	<b>100,469</b>	<b>77,488</b>	<b>2,528</b>	<b>11,063</b>	<b>102,997</b>	<b>83,785</b>
<b>Total Revenues</b>	<b>175,837</b>	<b>132,757</b>	<b>149,154</b>	<b>128,063</b>	<b>324,991</b>	<b>260,820</b>
<b>Expenses</b>						
General Government	90,599	77,503	-	-	90,599	77,503
Legislative	13,894	8,770	-	-	13,894	8,770
Public Works	53,716	58,371	141,536	156,592	195,252	214,963
<b>Total Expenses</b>	<b>158,209</b>	<b>144,644</b>	<b>141,536</b>	<b>156,592</b>	<b>299,745</b>	<b>301,236</b>
Increase/(Decrease) in Net Position	17,628	(11,887)	7,618	(28,529)	25,246	(40,416)
<i>Beginning Net Position</i>	272,447	284,334	947,256	975,785	1,219,703	1,260,119
<b>Ending Net Position</b>	<b>\$ 290,075</b>	<b>\$ 272,447</b>	<b>\$ 954,874</b>	<b>\$ 947,256</b>	<b>\$ 1,244,949</b>	<b>\$ 1,219,703</b>

## **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.

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 \$67,012, while total fund balance decreased to \$74,308. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Unassigned fund balance represents approximately 46 percent of total general fund expenditures while total fund balance represents approximately 51 percent of that same amount.

The fund balance of the Village's general fund decreased by \$8,095 during the current fiscal year which put the overall fund balance at \$74,308. The primary reason for the large decrease was due to an increase in capital outlay expenditures.

The major streets fund, a major fund, had a \$900 decrease in fund balance during the current fiscal year which put the overall fund balance at \$31,751.

The local streets fund, a major fund, had a \$7,234 decrease in fund balance during the current fiscal year which put the overall fund balance at \$9,316.

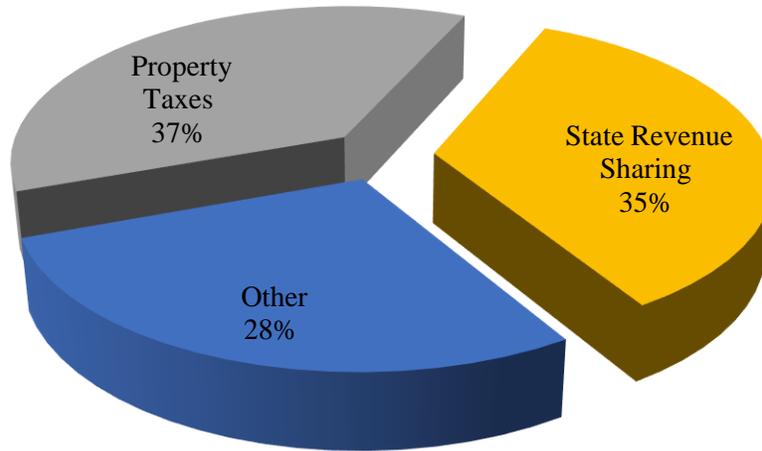
***Proprietary Funds.*** The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the proprietary funds at the end of the year was \$99,594. The increase in net position was \$7,618. The main reason for the small increase in net position was due to increased charges for water services within the water fund.

## Governmental Activities

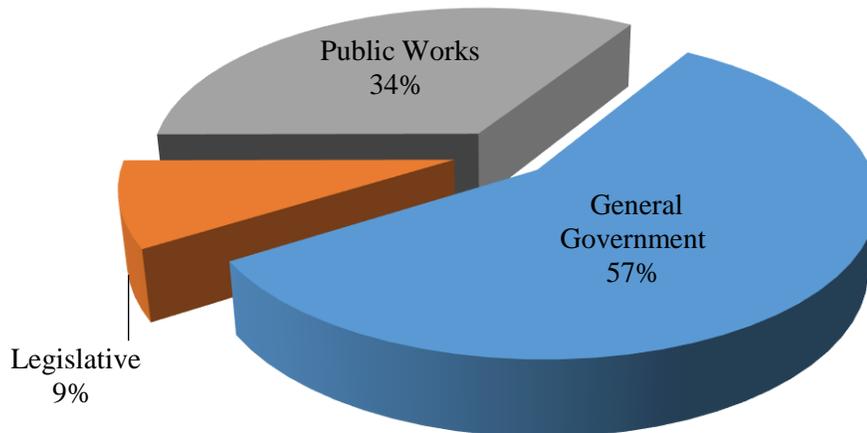
The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.

### 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 were no significant amendments to increase either the original estimated revenues or original budgeted appropriations.

*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 Budget</u>		<u>Actual</u>		<u>Variance</u>
<b>General</b>					
Capital Outlay	\$ -		\$ 37,690		\$ (37,690)

## Capital Assets and Debt Administration

### *Capital Assets*

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2018 amounted to \$1,059,980 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, and water infrastructure. The total decrease in capital assets for the current fiscal year was less than one percent.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Land	\$ 122,571	\$ -	\$ 122,571
Land and Improvements	20,750	409,034	429,784
Machinery and Equipment	72,393	9,157	81,550
Water System	-	862,223	862,223
Vehicles	92,107	-	92,107
Subtotal	<u>307,821</u>	<u>1,280,414</u>	<u>1,588,235</u>
Accumulated Depreciation	<u>133,121</u>	<u>395,134</u>	<u>528,255</u>
Capital Assets, Net	<u>\$ 174,700</u>	<u>\$ 885,280</u>	<u>\$ 1,059,980</u>

More detailed information about the Villages' capital assets can be found in the footnotes section of this document.

### *Long-term Debt*

The Village received bond proceeds to finance the water system project in the amount of \$100,000 during 2010. The total balance of the long-term debt is \$30,000 as of year-end, which is \$10,000 less than the previous fiscal year. Total changes in debt, as well as future annual principal and interest requirements, can be found in note 8 of the footnotes.

## **Economic Condition and Outlook**

Management estimates roughly \$128,000 of revenues to be available for appropriation in the general fund in the upcoming fiscal year. Expenditures are expected to change by small amounts compared to 2018. 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 2019, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar levels. The ongoing costs of providing essential services for the citizens of the Village will again need to be monitored in order to maintain the financial condition of the Village.

## **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:

Village of Bear Lake  
PO Box 175  
Bear Lake, MI 49614

## **BASIC FINANCIAL STATEMENTS**

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

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Investments	\$ 116,113	\$ 113,545	\$ 229,658
Due from State	10,542	--	10,542
Accounts Receivable	--	3,230	3,230
<b>Total Current Assets</b>	<b>126,655</b>	<b>116,775</b>	<b>243,430</b>
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	122,571	--	122,571
Capital Assets being Depreciated	52,129	885,280	937,409
<b>Total Assets</b>	<b>301,355</b>	<b>1,002,055</b>	<b>1,303,410</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	1,737	1,629	3,366
Payroll Liabilities	10,375	1,147	11,522
Unearned Revenue	--	12,950	12,950
Current Portion of Long-term Debt	--	10,000	10,000
Interest Payable	--	623	623
Internal Balances	(832)	832	--
<b>Total Current Liabilities</b>	<b>11,280</b>	<b>27,181</b>	<b>38,461</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	20,000	20,000
<b>Total Liabilities</b>	<b>11,280</b>	<b>47,181</b>	<b>58,461</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	174,700	855,280	1,029,980
<i>Restricted for:</i>			
Major and Local Streets	41,067	--	41,067
<i>Unrestricted</i>	74,308	99,594	173,902
<b>Total Net Position</b>	<b>\$ 290,075</b>	<b>\$ 954,874</b>	<b>\$ 1,244,949</b>

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



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

	<u>Special Revenue</u>			<b>Total Governmental Funds</b>
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
<b>ASSETS</b>				
Cash and Investments	\$ 80,710	\$ 27,532	\$ 7,871	\$ 116,113
Due from State	3,695	4,700	2,147	10,542
Due from Other Funds	950	--	--	950
<i>Total Assets</i>	<b><u>\$ 85,355</u></b>	<b><u>\$ 32,232</u></b>	<b><u>\$ 10,018</u></b>	<b><u>\$ 127,605</u></b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,516	\$ --	\$ 221	\$ 1,737
Payroll Liabilities	9,531	422	422	10,375
Due to Other Funds	--	59	59	118
<i>Total Liabilities</i>	<u>11,047</u>	<u>481</u>	<u>702</u>	<u>12,230</u>
<b>FUND BALANCE</b>				
Restricted	--	31,751	9,316	41,067
Assigned	7,296	--	--	7,296
Unassigned	67,012	--	--	67,012
<i>Total Fund Balance</i>	<u>74,308</u>	<u>31,751</u>	<u>9,316</u>	<u>115,375</u>
<i>Total Liabilities and Fund Balance</i>	<b><u>\$ 85,355</u></b>	<b><u>\$ 32,232</u></b>	<b><u>\$ 10,018</u></b>	<b><u>\$ 127,605</u></b>

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

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

Total Fund Balance - Governmental Funds	\$	115,375
General government capital assets of \$307,821, net of accumulated depreciation of \$133,121 are not financial resources and accordingly, are not reported in the funds.		174,700
<b>Total Net Position - Governmental Funds</b>	<b>\$</b>	<b><u>290,075</u></b>

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

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

	Special Revenue			Total Governmental Funds
	General	Major Streets	Local Streets	
<b>Revenues</b>				
Taxes and Penalties	\$ 65,241	\$ --	\$ --	\$ 65,241
State Revenue Sharing	23,379	25,841	11,808	61,028
Charges for Services	645	--	--	645
Rents and Royalties	29,384	--	--	29,384
Other Revenues	11,792	--	--	11,792
Grant Revenue	--	5,690	2,000	7,690
Interest Income	31	17	9	57
<b><i>Total Revenues</i></b>	<b>130,472</b>	<b>31,548</b>	<b>13,817</b>	<b>175,837</b>
<b>Expenditures</b>				
General Government	86,766	--	--	86,766
Legislative	13,894	--	--	13,894
Public Works	7,907	26,758	19,051	53,716
Capital Outlay	37,690	--	--	37,690
<b><i>Total Expenditures</i></b>	<b>146,257</b>	<b>26,758</b>	<b>19,051</b>	<b>192,066</b>
<b><i>Excess of Revenues Over (Under) Expenditures</i></b>	<b>(15,785)</b>	<b>4,790</b>	<b>(5,234)</b>	<b>(16,229)</b>
<b>Other Financing Sources (Uses)</b>				
Transfers In	7,690	--	--	7,690
Transfers Out	--	(5,690)	(2,000)	(7,690)
<b><i>Net Other Financing Sources (Uses)</i></b>	<b>7,690</b>	<b>(5,690)</b>	<b>(2,000)</b>	<b>--</b>
<b><i>Net Change in Fund Balance</i></b>	<b>(8,095)</b>	<b>(900)</b>	<b>(7,234)</b>	<b>(16,229)</b>
<i>Fund Balance at Beginning of Period</i>	82,403	32,651	16,550	131,604
<b><i>Fund Balance at End of Period</i></b>	<b>\$ 74,308</b>	<b>\$ 31,751</b>	<b>\$ 9,316</b>	<b>\$ 115,375</b>

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

**Village of Bear 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 \$ (16,229)

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This amount represents capital outlay of \$37,690 in excess of current depreciation expense of \$3,833. 33,857

**Changes in Net Position - Governmental Funds** \$ 17,628

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

**Village of Bear Lake  
Statement of Net Position  
Proprietary Funds  
February 28, 2018**

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Park Fund</b>	<b>Water Fund</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash and Investments	\$ 55,419	\$ 58,126	\$ 113,545
Accounts Receivable	--	3,230	3,230
<b>Total Current Assets</b>	<b>55,419</b>	<b>61,356</b>	<b>116,775</b>
<i>Noncurrent Assets</i>			
Capital Assets being Depreciated	7,072	878,208	885,280
<b>Total Assets</b>	<b>62,491</b>	<b>939,564</b>	<b>1,002,055</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts Payable	--	1,629	1,629
Payroll Liabilities	120	1,027	1,147
Unearned Revenue	12,950	--	12,950
Current Portion of Long-term Debt	--	10,000	10,000
Interest Payable	--	623	623
Due to Other Funds	832	--	832
<b>Total Current Liabilities</b>	<b>13,902</b>	<b>13,279</b>	<b>27,181</b>
<i>Noncurrent Liabilities</i>			
Long-term Debt	--	20,000	20,000
<b>Total Liabilities</b>	<b>13,902</b>	<b>33,279</b>	<b>47,181</b>
<b>NET POSITION</b>			
Net Investment in Capital Assets	7,072	848,208	855,280
<i>Unrestricted</i>	41,517	58,077	99,594
<b>Total Net Position</b>	<b>\$ 48,589</b>	<b>\$ 906,285</b>	<b>\$ 954,874</b>

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

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

**Business-type Activities - Enterprise Funds**

	<u>Park Fund</u>	<u>Water Fund</u>	<u>Total Enterprise Funds</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 40,251	\$ 106,375	\$ 146,626
Other Revenues	2,000	286	2,286
<b><i>Total Operating Revenues</i></b>	<u>42,251</u>	<u>106,661</u>	<u>148,912</u>
<b>Operating Expenses</b>			
Wages and Fringes	15,208	10,960	26,168
Operating Expenses	13,779	12,188	25,967
Repairs and Maintenance	9,307	8,331	17,638
Contracted Services	754	17,492	18,246
Utilities	1,609	12,790	14,399
Insurance	742	1,158	1,900
Depreciation	2,126	34,488	36,614
<b><i>Total Operating Expenses</i></b>	<u>43,525</u>	<u>97,407</u>	<u>140,932</u>
<b><i>Operating Income (Loss)</i></b>	<u>(1,274)</u>	<u>9,254</u>	<u>7,980</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest Income	228	14	242
Interest Expense	--	(604)	(604)
<b><i>Net Non-Operating Revenues (Expenses)</i></b>	<u>228</u>	<u>(590)</u>	<u>(362)</u>
<b><i>Change In Net Position</i></b>	<b>(1,046)</b>	<b>8,664</b>	<b>7,618</b>
<i>Net Position at Beginning of Period (Restated, Note 12)</i>	49,635	897,621	947,256
<b><i>Net Position at End of Period</i></b>	<b><u>\$ 48,589</u></b>	<b><u>\$ 906,285</u></b>	<b><u>\$ 954,874</u></b>

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

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

	<b>Business-type Activities - Enterprise Funds</b>		
	<b>Park Fund</b>	<b>Water Fund</b>	<b>Total Enterprise Funds</b>
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$ 41,051	\$ 105,726	\$ 146,777
Cash Payments to Employees and Fringe Benefits	(15,388)	(9,933)	(25,321)
Cash Payments to Suppliers for Goods and Services	(27,140)	(52,914)	(80,054)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(1,477)</b>	<b>42,879</b>	<b>41,402</b>
<b>Cash Flows From Non-capital and Related Financing Activities</b>			
Change in Interfund Balances	832	-	832
<b>Net Cash Provided by Non-capital and Related Financing Activities</b>	<b>832</b>	<b>-</b>	<b>832</b>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Interest Paid	-	(1,452)	(1,452)
Capital Asset Purchases	(2,645)	-	(2,645)
Principal Payments on Bonds	-	(10,000)	(10,000)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(2,645)</b>	<b>(11,452)</b>	<b>(14,097)</b>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	228	14	242
<b>Total Cash Flows from Investing Activities</b>	<b>228</b>	<b>14</b>	<b>242</b>
Net Increase (Decrease) in Cash and Equivalents	(3,062)	31,441	28,379
<i>Cash and Equivalents - Beginning of Year (Restated, Note 12)</i>	58,481	26,685	85,166
<b>Cash and Equivalents - End of Year</b>	<b>\$ 55,419</b>	<b>\$ 58,126</b>	<b>\$ 113,545</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities</b>			
<b>Operating Income (Loss)</b>	\$ (1,274)	\$ 9,254	\$ 7,980
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities			
<b>Depreciation</b>	2,126	34,488	36,614
<b>Changes in Assets &amp; Liabilities</b>			
Accounts Payable	(949)	(955)	(1,904)
Payroll Liabilities	(180)	1,027	
Accounts Receivable	-	(935)	
Unearned Revenue	(1,200)	-	(1,200)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (1,477)</b>	<b>\$ 42,879</b>	<b>\$ 41,402</b>

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

**NOTES TO THE FINANCIAL STATEMENTS**

# Village of Bear Lake

## Notes to the Financial Statements

---

### Note 1 - Summary of Significant Accounting Policies

The Village of Bear Lake is governed by an elected seven-member Council. The financial statements of the Village of Bear Lake (the “Village” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Council (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village’s accounting policies are described below.

#### Reporting Entity

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "*The Financial Reporting Entity*," these financial statements present the Village. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. There are no other units that should be included in the financial statements.

#### 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. 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.

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*.

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.

#### 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

## Village of Bear Lake

### Notes to the Financial Statements

---

fund financial statements, except for agency funds which 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 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 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 compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village of Bear Lake reports the following major governmental funds:

The ***general fund*** is the government'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 streets fund*** accounts for the financial resources used for the operational costs of the village's major streets. Revenues are primarily derived from state revenue sharing.

The ***local streets fund*** accounts for the financial resources used for the operational costs of the village's local streets. Revenues are primarily derived from state revenue sharing.

The Village reports the following major proprietary fund:

The ***water fund*** accounts for the activities of the Village's water system.

The ***park fund*** accounts for the activities to operate the Village's campground.

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

## Village of Bear Lake

### Notes to the Financial Statements

---

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

#### ***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:

1. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the first day of the following fiscal year, the budget is legally enacted through passage of a resolution.
4. The legal level of budgetary control is at the activity level.
5. Budget appropriations lapse at year-end.
6. Adoption and amendments of all budgets used by the Village are governed by Public Act 621, which was followed for the year ended February 28, 2018. Expenditures may not exceed appropriations. Any amendment to the original budget must meet the requirements of Public Act 621.

#### **Assets, Liabilities, and Fund 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.

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.

## Village of Bear Lake

### Notes to the Financial Statements

---

- 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.
- In United States government or federal agency obligation repurchase agreements.
- Bankers' acceptances of United States banks.
- 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.
- External investment pools as authorized by Public Act 20 as amended through February, 1997.

#### ***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."

All trade receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable.

#### ***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water system and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of two years and an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market 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.

## Village of Bear Lake

### Notes to the Financial Statements

---

Capital assets are depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land and Improvements	10 - 40
Machinery and Equipment	5 - 7
Vehicles	10
Water System	35

#### ***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.

#### ***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).

## Village of Bear Lake

### Notes to the Financial Statements

---

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 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***

The Village property tax is levied on July 1<sup>st</sup> on the taxable valuation of property located in the Village as of the preceding December 31<sup>st</sup>. The billings are due on or before February 14<sup>th</sup>, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. It is the Village's policy to recognize revenues in the current year when they are levied and made available for the financing of Village operations. The Village considers property taxes levied on December 1<sup>st</sup> to be revenues of the current period.

#### ***Use of Estimates***

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

#### **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 appropriated.

**Village of Bear Lake**

Notes to the Financial Statements

The Village incurred the following expenditures in excess of the amount appropriated for the year ended February 28, 2018:

	<u>Final Budget</u>		<u>Actual</u>	<u>Variance</u>
<b>General</b>				
Capital Outlay	\$ -		\$ 37,690	\$ (37,690)
<b>Major Streets</b>				
Transfers Out	-		5,690	(5,690)
<b>Local Streets</b>				
Transfers Out	-		2,000	(2,000)

**Note 3 - Cash and Investments**

Following is a reconciliation of deposit balances as of February 28, 2018:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total Primary Government</u>
Cash	<u>\$ 116,113</u>	<u>\$ 113,545</u>	<u>\$ 229,658</u>

**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, none of the Village's bank balance of \$233,883 was exposed to custodial credit risk.

**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 as identified in the list of authorized investments in the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment credit risk.

**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 Bear Lake**

Notes to the Financial Statements

**Note 4 - Capital Assets**

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

	Balance at 2/28/17	Additions	Disposals	Balance at 2/28/2018
Capital Assets, not being Depreciated				
Land	\$ 122,571	\$ -	\$ -	\$ 122,571
Capital Assets being Depreciated:				
Land and Improvements	20,750	-	-	20,750
Machinery and Equipment	72,393	-	-	72,393
Vehicles	54,417	37,690	-	92,107
Total Capital Assets being Depreciated	<u>147,560</u>	<u>37,690</u>	<u>-</u>	<u>185,250</u>
Less Accumulated Depreciation:				
Land and Improvements	2,477	692	-	3,169
Machinery and Equipment	72,394	-	-	72,394
Vehicles	54,417	3,141	-	57,558
Total Accumulated Depreciation	<u>129,288</u>	<u>3,833</u>	<u>-</u>	<u>133,121</u>
Capital Assets being Depreciated, Net	<u>18,272</u>	<u>33,857</u>	<u>-</u>	<u>52,129</u>
Capital Assets, Net	<u>\$ 140,843</u>	<u>\$ 33,857</u>	<u>\$ -</u>	<u>\$ 174,700</u>

The total depreciation expense of \$3,833 has been charged to the general government function.

**Village of Bear Lake**

Notes to the Financial Statements

Capital asset activity for business-type activities for the year ended February 28, 2018 was as follows:

	Balance at 2/28/17	Additions	Disposals	Balance at 2/28/2018
<b>Capital Assets being Depreciated:</b>				
Land and Improvements	\$ 406,389	\$ 2,645	\$ -	\$ 409,034
Machinery and Equipment	9,157	-	-	9,157
Water System	862,223	-	-	862,223
<b>Total Capital Assets being Depreciated</b>	<b>1,277,769</b>	<b>2,645</b>	<b>-</b>	<b>1,280,414</b>
<b>Less Accumulated Depreciation:</b>				
Land and Improvements	223,732	11,079	-	234,811
Machinery and Equipment	7,507	900	-	8,407
Water System	127,281	24,635	-	151,916
<b>Total Accumulated Depreciation</b>	<b>358,520</b>	<b>36,614</b>	<b>-</b>	<b>395,134</b>
<b>Capital Assets being Depreciated, Net</b>	<b>\$ 919,249</b>	<b>\$ (33,969)</b>	<b>\$ -</b>	<b>\$ 885,280</b>

**Note 5 - Interfund Balances & Interfund Transfers**

Interfund balances are resulted primarily from the time lag between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The following interfund balances existed between the funds of the Village for the current year:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General Fund	Park Fund	\$ 832
General Fund	Major Street	59
General Fund	Local Street	59

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for 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 to finance various programs accounted for in other funds in accordance with budgetary authorizations. There following were interfund transfers during the year:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Major Street	\$ 5,690
General Fund	Local Street	2,000

## Village of Bear Lake

### Notes to the Financial Statements

#### Note 6 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability, property and casualty, and workers' compensation are managed through purchased commercial insurance.

#### Note 7 - Long-term Debt

The following is a summary of long-term debt activity that occurred during the year ended February 28, 2018:

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Business-type Activities:				
Bond Payable - Water System Improvements	\$ 40,000	\$ 10,000	\$ 30,000	\$ 10,000

In September 2010 the Village Council approved a loan for water system improvements. Requirements of the grant included a \$100,000 bond to be applied to the improvement project. The first payment was due March 2011. The loan is scheduled for a ten year amortization with an interest rate of 4.15%.

The following is the amortization of this loan:

	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 10,000	\$ 1,038	\$ 11,038
2020	10,000	623	10,623
2021	10,000	208	10,208
<b>Totals</b>	\$ 30,000	\$ 1,869	\$ 31,869

#### Note 8 - Contingent Liabilities

The Village, in connection with the normal conduct of its affairs, is not involved in any other various claims, judgments, or litigation. The Village's attorney and management estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village as of August 6, 2018.

#### Note 9 - Prior Period Restatement

In the prior year, cash related to business-type activities were misclassified as cash within governmental activities. The correction of this misclassification resulted in a decrease in cash and equity for both governmental funds and government-wide activities. In addition, it resulted in an

## Village of Bear Lake

### Notes to the Financial Statements

---

increase in cash and equity for the proprietary funds and business-type activities of the government.

The net impact of this adjustment is \$0.

The following table shows the changes described above and includes the adjustment of net position indicated above:

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>
Net Position - February 28, 2017 - As previously reported	\$ 289,414	\$ 930,289	\$ 1,219,703
Adjustment for equity relating to misclassified cash balances	(16,967)	16,967	-
Net position - February 28, 2017 - As restated	<u>\$ 272,447</u>	<u>\$ 947,256</u>	<u>\$ 1,219,703</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance</b>
	<b>Original</b>	<b>Final</b>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
Property Taxes	\$ 64,000	\$ 64,000	\$ 65,241	\$ 1,241
State Revenue Sharing	21,000	21,000	23,379	2,379
Charges for Services	650	650	645	(5)
Rents & Royalties	35,001	35,001	29,384	(5,617)
Interest Income	11	11	31	20
Other Income	4,650	4,650	11,792	7,142
<b>Total Revenues</b>	<u>125,312</u>	<u>125,312</u>	<u>130,472</u>	<u>5,160</u>
<b>Other Financing Sources</b>				
Transfers In	20	20	7,690	7,670
<b>Total Revenues and Other Financing Sources</b>	<u>125,332</u>	<u>125,332</u>	<u>138,162</u>	<u>12,830</u>
<b>Expenditures</b>				
Legislative	15,099	15,099	13,894	1,205
General Government	101,171	101,171	86,766	14,405
Public Works	7,891	7,891	7,907	(16)
Capital Outlay	--	--	37,690	(37,690)
<b>Total Expenditures</b>	<u>124,161</u>	<u>124,161</u>	<u>146,257</u>	<u>(22,096)</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures</b>	<u>1,171</u>	<u>1,171</u>	<u>(8,095)</u>	<u>(9,266)</u>
<b>Net Change in Fund Balance</b>	<u>1,171</u>	<u>1,171</u>	<u>(8,095)</u>	<u>(9,266)</u>
<i>Fund Balance at Beginning of Period</i>	82,403	82,403	82,403	--
<b>Fund Balance at End of Period</b>	<u>\$ 83,574</u>	<u>\$ 83,574</u>	<u>\$ 74,308</u>	<u>\$ (9,266)</u>

**Village of Bear 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>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
State Revenue Sharing	\$ 14,000	\$ 14,000	\$ 11,808	\$ (2,192)
Interest Income	30	30	9	(21)
Grant Revenue	--	--	2,000	2,000
<b>Total Revenues</b>	<u>14,030</u>	<u>14,030</u>	<u>13,817</u>	<u>(213)</u>
<b>Expenditures</b>				
Public Works	20,279	20,279	19,051	1,228
<b>Total Expenditures</b>	<u>20,279</u>	<u>20,279</u>	<u>19,051</u>	<u>1,228</u>
<b>Other Financing Uses</b>				
Transfers Out	--	--	2,000	(2,000)
<b>Total Expenditures and Other Financing Uses</b>	<u>20,279</u>	<u>20,279</u>	<u>21,051</u>	<u>(772)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures and Other Uses</b>	<u>(6,249)</u>	<u>(6,249)</u>	<u>(7,234)</u>	<u>(985)</u>
<b>Net Change in Fund Balance</b>	<u>(6,249)</u>	<u>(6,249)</u>	<u>(7,234)</u>	<u>(985)</u>
<i>Fund Balance at Beginning of Period</i>	16,550	16,550	16,550	--
<b>Fund Balance at End of Period</b>	<u>\$ 10,301</u>	<u>\$ 10,301</u>	<u>\$ 9,316</u>	<u>\$ (985)</u>

**Village of Bear 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>	<b>Variance</b>
	<u>Original</u>	<u>Final</u>		<b>Favorable (Unfavorable) Final to Actual</b>
<b>Revenues</b>				
State Revenue Sharing	\$ 28,000	\$ 28,000	\$ 25,841	\$ (2,159)
Interest Income	20	20	17	(3)
Grant Revenue	--	--	5,690	5,690
<b>Total Revenues</b>	<u>28,020</u>	<u>28,020</u>	<u>31,548</u>	<u>3,528</u>
<b>Expenditures</b>				
Public Works	31,437	31,437	26,758	4,679
<b>Total Expenditures</b>	<u>31,437</u>	<u>31,437</u>	<u>26,758</u>	<u>4,679</u>
<b>Other Financing Uses</b>				
Transfers Out	--	--	5,690	(5,690)
<b>Total Expenditures and Other Financing Uses</b>	<u>31,437</u>	<u>31,437</u>	<u>32,448</u>	<u>(1,011)</u>
<b>Excess (Deficiency) of Revenues and Over Expenditures and Other Uses</b>	<u>(3,417)</u>	<u>(3,417)</u>	<u>(900)</u>	<u>2,517</u>
<b>Net Change in Fund Balance</b>	<u>(3,417)</u>	<u>(3,417)</u>	<u>(900)</u>	<u>2,517</u>
<i>Fund Balance at Beginning of Period</i>	32,651	32,651	32,651	--
<b>Fund Balance at End of Period</b>	<u>\$ 29,234</u>	<u>\$ 29,234</u>	<u>\$ 31,751</u>	<u>\$ 2,517</u>

August 10, 2018

To the Village Council  
Village of Bear Lake, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Bear Lake (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 June 6, 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 Village of Bear Lake are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended February 28, 2018. We noted no transactions entered into by Village of Bear Lake 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 of Bear Lake'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. We evaluated the key factors and assumptions used to develop the useful lives of depreciable capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

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. The following material adjusting journal entries were proposed during the audit engagement:

- Accrued wages and wage related expenditures were decreased by \$7,099 in the general fund to reverse the prior year accrued wage balance. Also, current year accrued wages and wage related expenditures of \$5,731 were recorded to adjust accrued wages to actual as of year-end.
- Debt service expenses and long-term liabilities were reduced in the water fund by \$10,000 to report the principle payments in accordance with accrual accounting.
- Depreciation expense and accumulated depreciation were increased by \$34,488 in the water fund to record the current year's depreciation expense.
- Capital outlay expenditures and fixed assets were adjusted in the park fund by \$2,645 to reclassify the acquisition of assets as a long-term capital asset.
- Current year depreciation expense and accumulated depreciation were increased by \$2,126 in the park fund to record current year depreciation expense.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is 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 10, 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 Village'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 Village'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 business-type activities, and each major fund 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 deficiencies in internal control that we consider to be material weaknesses.

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.

### ***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 cash, accounts / taxes receivable, and accounts payable. 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 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.

### ***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:* The Village has accounting functions which are performed by the same individual and are not subject to a documented independent review and approval.

*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.

*Auditor's 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.

*Management Response:* The Village concurs with this finding. The Village will enhance internal control by implementing policies that require a second responsible person to cross-check key areas, such as bank account reconciliations.

### ***The Village's Response to Findings***

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

### ***Restriction on Use***

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

Very truly yours,

*Gabridge & Company*

Gabridge & Company, PLC  
Grand Rapids, MI