



COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
AT THE CONCLUSION

To the Village Council  
Village of Bear Lake  
Bear Lake Michigan

Dear Village Council:

We have audited the financial statements of the Village of Bear Lake as of and for the year ended February 28, 2022, and have issued our report thereon dated August 16, 2022. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated May 17, 2022, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Village of Bear Lake solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting, material weaknesses and material noncompliance, and other matters noted during our audit in a separate letter to you dated August 16, 2022.



## **Planned Scope and Timing of the Audit**

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

## **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence. Management has reviewed and approved all journal entries proposed as a result of our audit engagement. Furthermore, an individual with suitable skill, knowledge and experience from management has reviewed the financial statements prepared by the auditor to ensure compliance with all statutory and regulatory guidance.

## **Significant Risks Identified**

We have identified the following significant risks:

1. *Improper Revenue Recognition* – the risk that the Village will not record the revenues in the correct period creating either overstated or understated revenues.
2. *Management Override* – the risk that management will override the internal controls set in place.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Village of Bear Lake is included in Note I to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended February 28, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 effecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements is depreciation expense.

Management's estimate of depreciation expense is based on straight-line method over the useful lives. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

## *Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Village of Bear Lake's financial statements relate to capital assets.

### **Significant Difficulties Encountered during the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. The material misstatements detected as a result of audit procedures were corrected by management and were mostly related to adjusting financial records from cash basis to the modified accrual basis of accounting.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Village of Bear Lake's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated August 16, 2022.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the Village of Bear Lake, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Village of Bear Lake's auditors.

#### Budgetary Accounting

Expenditures in the General Fund exceeded appropriated amounts in four activities. Expenditures in the Equipment Replacement Fund exceeded appropriated amounts in one activity. The Village should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of the budgeted amounts.

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

*H&S Companies, P.C.*

H&S Companies, P.C.

Reed City, MI

August 16, 2022



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

The Village Council  
Village of Bear Lake  
Bear Lake, Michigan

Dear Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Bear Lake as of and for the year ended February 28, 2022, and the related notes to the financial statements, which collectively comprise the Village of Bear Lake's basic financial statements, and have issued our reported thereon dated August 16, 2022.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Village of Bear Lake's internal control over financial reporting (internal control) as a basis for designing 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 of Bear Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Bear Lake's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control was for the limited purpose described in the first 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. We did identify certain deficiencies in internal control, described below that we consider to be material weaknesses.

#### Segregation of Incompatible Duties and Documented Independent Review

*Type:* Material Weakness

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

*Condition:* The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

*Cause:* This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities may be occurring on a routine basis but are not being documented.

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

*Recommendation:* 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. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

*View of Responsible Officials:* Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff and applies its judgment in determining how best to allocate the government's resources to provide and appropriate balance between sound internal controls and fiscal prudence.

#### Preparation of Financial Statements in Accordance with GAAP

*Type:* Material Weakness

*Criteria:* All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including related footnotes (i.e., external financial reporting).

*Condition:* As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the government's internal controls.

*Cause:* This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

*Effect:* As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

*View of Responsible Officials:* The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP and determined that it is in the best interest of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### ***Compliance and Other Matters***

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

### ***The Village of Bear Lake's Response to Findings***

The Village of Bear Lake's response to the findings identified in our audit is described in the sections above. The Village of Bear Lake's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village of Bear Lake's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Bear Lake's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***H&S Companies, P.C.***

H&S Companies, P.C.

Reed City, MI

August 16, 2022