

**VILLAGE OF FIFE LAKE, MICHIGAN**

**FEBRUARY 28, 2014**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

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VILLAGE OF FIFE LAKE, MICHIGAN

FEBRUARY 28, 2014

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August 8, 2014

## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Fife Lake, Michigan, as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Fife Lake, Michigan as of February 28, 2014, 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 on pages iii through x and budgetary comparison information on page 25 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Fife Lake's basic financial statements. The individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Other Supplementary Information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

## VILLAGE OF FIFE LAKE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

#### **Management's Discussion and Analysis**

The management of the Village of Fife Lake, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2014, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the audit of the Village is only required every other year, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, the Village has elected to exclude the comparative information. We expect this situation to continue due to the every other year audit requirement.

#### **Financial Highlights**

- ❖ The assets of the Village of Fife Lake exceeded its liabilities at the close of the most recent fiscal year by \$740,189 (*net position*). Of this amount, \$238,911 represents unrestricted net position, which may be used to meet the Village's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$312,711, an increase of \$22,217 in comparison with the prior year. Approximately 58% of this amount (\$180,110) is available for spending at the Village's discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$180,110.

#### **Overview of the Financial Statements**

This discussion and analysis provided here are intended to serve as an introduction to the Village of Fife Lake'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. The 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.

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The *Statement of Net Position* presents financial information on all of the Village's assets, liabilities, and deferred inflows/outflows of resources, 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 periods.

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 significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public works, community and economic development, and recreation and culture.

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

The government-wide financial statements can be found on pages 1-2 of this report.

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

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

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

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

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 Street Fund, and Local Street Fund, which are considered to be major funds.

Village of Fife Lake adopts an annual appropriated budget for all major funds. A budgetary comparison has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 of this report.

**Proprietary Funds** The Village maintains one type of proprietary fund. Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies within the Village. Internal Service funds are one type of proprietary funds:

- ❖ Internal Service Funds provide services to other departments within the village. This fund allows the Village to allocate costs of centralized services such as the Village's vehicles and equipment. The Village has one internal service fund, which is the Equipment Fund.

Proprietary funds provide the same type of information as the governmental-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 7-9 of this report.

**Notes to Financial Statements** The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 12-24 of this report.

**Other Information** In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) that explains and supports the information presented in the financial statements.

**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 of Fife Lake, assets exceeded liabilities by \$740,189 at the close of the most recent fiscal year.

VILLAGE OF FIFE LAKE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

**Village of Fife Lake**  
**Net Position**  
**As of February 28, 2014**

Primary Government

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 391,513
Capital Assets	368,677
<b>Total Assets</b>	760,190
<b>Liabilities</b>	
Current Liabilities	20,001
<b>Net Position</b>	
Net Investment in Capital Assets	368,677
Restricted for a Specific Purpose	132,601
Unrestricted	238,911
<b>Total Net Position</b>	\$ 740,189

By far, the largest portion of the Village's net position (50%) represents its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, infrastructure, and others), 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 (18%) reflects restricted resources that that are subject to external restrictions on how they may be used. The remaining balance of \$238,911 represents resources that are subject to external restrictions.

At the end of the current fiscal year, the Village is able to report positive balances in all 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.

Village of Fife Lake's overall net position increased by \$28,880 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.



VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

**Village of Fife Lake  
Change in Net Position  
For the Fiscal Year Ended February 28, 2014**

Primary Government

	<b><u>Governmental Activities</u></b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 5,261
Operating Grants and Contributions	56,433
Capital Grants and Contributions	11,124
<b>General Revenues</b>	
Property Taxes	94,973
State Shared Revenue	35,706
Investment Earnings	1,021
Other	1,577
<b>Total Revenues</b>	<b><u>206,095</u></b>
<b><u>Expenses</u></b>	
General Government	61,857
Public Works	92,590
Community and Economic Development	3,955
Recreation and Culture	12,167
Other Function	6,646
<b>Total Expenses</b>	<b><u>177,215</u></b>
Change in Net Position	28,880
<b><u>NET POSITION</u></b> - Beginning of Year	<b><u>711,309</u></b>
<b><u>NET POSITION</u></b> - End of year	<b><u>\$ 740,189</u></b>

**Governmental Activities**

The governmental activities accounted for an increase of \$28,880 in the Village's Net Position. The most significant portion of the revenue for all governmental activities of the Village of Fife Lake comes from property taxes. The Village's millage in 2013 was 9.7258 mills for operating. The Village's charter allows the Village to levy up to 12.50 mills for operations.

## VILLAGE OF FIFE LAKE

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The Village's governmental activities expenses are dominated by General Government and Public Work expenses. The Village spent \$61,857 in fiscal year 2013-2014 on General Government and \$92,590 on Public Work expenses.

#### **Financial Analysis of the Government's Funds**

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

**Governmental Funds** The focus of the Village of Fife Lake'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 Council.

At February 28, 2014, the Village of Fife Lake's governmental funds reported combined fund balances of \$312,711, an increase of \$22,217 in comparison with the prior year. Approximately 58% of this amount (\$180,110) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable, restricted, committed, or assigned* to indicate that it is 1) not in spendable form, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$132,601), 4) committed for particular purposes, or 5) assigned for particular purposes.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$13,195, bringing the fund balance to \$180,110, all of which was unassigned.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$96,441, all of which is restricted for street improvements. This was an increase of \$7,028 from the previous year.

**Local Street Fund** – The fund balance of the Local Street Fund ended the year at \$36,160, all of which is restricted for street improvements. This was an increase of \$1,994 from the previous year.

#### ***Proprietary Funds***

**Equipment Fund** – Unrestricted net position of the Equipment Fund at the end of the year was \$57,386. The net position of this fund increased by \$3,578 in 2014. This fund remains in sound fiscal condition moving forward.

#### **General Fund Budgetary Highlights**

During the year, there was no change in appropriations between the original budget and final amended budget.

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 136,400</u>	<u>\$ 140,300</u>	<u>\$ 152,703</u>
Total Expenditures	<u>\$ 132,400</u>	<u>\$ 132,400</u>	<u>\$ 133,308</u>

The final budget compared to actual results for revenues were different due to not budgeting high enough for contributions from local units. There was minimal difference between the original budget compared to the final budget for expenditures.

**Capital Asset and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for the governmental activities as of February 28, 2014, amounted to \$368,677 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

**Village of Fife Lake  
Capital Assets as of February 28, 2014**

	<b><u>Governmental Activities</u></b>
Land	\$ 46,079
Land Improvement	5,538
Buildings	134,250
Public Domain Infrastructure	247,715
Machinery and Equipment	<u>270,811</u>
<b>Subtotal</b>	<u>704,393</u>
Less: Accumulated Depreciation	<u>335,716</u>
<b>Net Capital Assets</b>	<u><u>\$ 368,677</u></u>

Major capital asset events during fiscal year included the following:

- ❖ Dock at a cost of \$5,538.
- ❖ Disc Golf at a cost of \$5,586.

VILLAGE OF FIFE LAKE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

Additional information regarding the Village's capital assets can be found in the Notes to the Financial Statements section on pages 12-24.

**Long-Term Debt.** The Village's primary government currently has no outstanding long-term debt.

**Economic Condition & Future Outlook**

It appears that state-shared revenues and taxable values have stabilized, stabilizing two of the largest revenue streams of the Village. The Village continues to look for ways to improve the services it provides to its resident in a manner that is financially responsible.

These factors were considered in preparing the Village's budgets for the 2014/2015 fiscal year.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Fife Lake, P.O. Box 298, Fife Lake, Michigan 49663, or call us at (231) 879-4291.

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 28, 2014

	<u>PRIMARY GOVERNMENT</u>	
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>COMPONENT UNIT</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 363,284	\$ 92,147
Taxes Receivables	1,415	7,516
Due from Other Governmental Units	26,814	0
	<hr/>	<hr/>
Total Current Assets	391,513	99,663
 <u>CAPITAL ASSETS</u>		
Land	46,079	0
Land Improvement	5,538	0
Buildings	134,250	0
Public Domain Infrastructure	247,715	0
Machinery and Equipment	270,811	0
	<hr/>	<hr/>
	704,393	0
Less Accumulated Depreciation	335,716	0
Net Capital Assets	<hr/>	<hr/>
	368,677	0
	<hr/>	<hr/>
Total Assets	760,190	99,663
 <u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	1,101	0
Unearned Revenue	18,900	0
Accrued Interest Payable	0	1,828
Current Portion of Long-Term Debt	0	25,000
	<hr/>	<hr/>
Total Current Liabilities	20,001	26,828
 <u>LONG-TERM LIABILITIES</u>		
General Obligation Bonds (Net of Current Portion)	0	50,000
	<hr/>	<hr/>
Total Liabilities	20,001	76,828
 <u>NET POSITION</u>		
Net Investment in Capital Assets	368,677	0
Restricted for Street Improvements	132,601	0
Restricted for Economic Development	0	22,835
Unrestricted	238,911	0
	<hr/>	<hr/>
TOTAL NET POSITION	\$ 740,189	\$ 22,835
	<hr/> <hr/>	<hr/> <hr/>

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

VILLAGE OF FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION	
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT	
					TOTAL GOVERNMENTAL ACTIVITIES	COMPONENT UNIT
<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>						
General Government	\$ 61,857	\$ 5,261	\$ 500	\$ 0	\$ (56,096)	\$ 0
Public Works	92,590	0	975	0	(91,615)	0
Community and Economic Development	3,955	0	54,958	0	51,003	0
Recreation and Cultural	12,167	0	0	11,124	(1,043)	0
Other Functions	6,646	0	0	0	(6,646)	0
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 177,215</b>	<b>\$ 5,261</b>	<b>\$ 56,433</b>	<b>\$ 11,124</b>	<b>(104,397)</b>	<b>0</b>
<u>COMPONENT UNIT</u>						
Downtown Development Authority	\$ 25,706	\$ 0	\$ 0	\$ 0	0	(25,706)
<u>GENERAL REVENUES</u>						
Property Taxes					94,973	37,615
State Shared Revenue					35,706	0
Investment Earnings					1,021	319
Other					1,577	0
Total General Revenues					133,277	37,934
Change in Net Position					28,880	12,228
<u>NET POSITION</u> - Beginning of Year					711,309	10,607
<u>NET POSITION</u> - End of Year					\$ 740,189	\$ 22,835

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

VILLAGE OF FIFE LAKE, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 28, 2014

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTAL
<u>ASSETS</u>				
Cash and Cash Equivalents				
Petty Cash	\$ 100	\$ 0	\$ 0	\$ 100
Checking	300	0	0	300
Money Market Account	162,481	87,655	29,073	279,209
Certificates of Deposit	26,289	0	0	26,289
Taxes Receivable	1,415	0	0	1,415
Due from Other Governmental Units	10,941	8,786	7,087	26,814
TOTAL ASSETS	<u>\$ 201,526</u>	<u>\$ 96,441</u>	<u>\$ 36,160</u>	<u>\$ 334,127</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 1,101	\$ 0	\$ 0	\$ 1,101
Unearned Revenue	18,900	0	0	18,900
Total Liabilities	<u>20,001</u>	<u>0</u>	<u>0</u>	<u>20,001</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue - Property Taxes	1,415	0	0	1,415
<u>FUND BALANCE</u>				
Restricted				
Street Improvements	0	96,441	36,160	132,601
Unassigned	180,110	0	0	180,110
Total Fund Balance	<u>180,110</u>	<u>96,441</u>	<u>36,160</u>	<u>312,711</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 201,526</u>	<u>\$ 96,441</u>	<u>\$ 36,160</u>	<u>\$ 334,127</u>

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

VILLAGE OF FIFE LAKE, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
FEBRUARY 28, 2014

Total Fund Balances for Governmental Funds \$ 312,711

Amounts reported for governmental activities in the  
Statement of Net Position are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$ 46,079	
Land Improvement	5,538	
Buildings	134,250	
Public Domain Infrastructure	247,715	
Machinery and Equipment	5,586	
Accumulated Depreciation	<u>(122,882)</u>	316,286

Receivables not expected to be collected within sixty days are  
treated as unavailable revenue in the governmental funds.

Personal Property Taxes Receivable 1,415

Internal service funds are used by management to charge costs of  
certain activities, such as equipment use, to individual funds.

The assets and liabilities of the internal service funds are  
included in governmental activities in the Statement of  
Net Position.

109,777

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 740,189

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



VILLAGE OF FIFE LAKE, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED FEBRUARY 28, 2014

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	TOTAL
<u>REVENUES</u>				
Taxes	\$ 94,793	\$ 0	\$ 0	\$ 94,793
Licenses and Permits	4,731	0	0	4,731
State Grants	38,844	32,561	20,234	91,639
Contributions from Local Units	11,624	0	0	11,624
Interest and Rents	1,134	314	103	1,551
Other Revenue	1,577	0	0	1,577
Total Revenues	152,703	32,875	20,337	205,915
<u>EXPENDITURES</u>				
General Government	60,250	0	0	60,250
Public Works	39,074	18,147	32,243	89,464
Community and Economic Development	3,955	0	0	3,955
Recreation and Cultural	23,383	0	0	23,383
Other Functions	6,646	0	0	6,646
Total Expenditures	133,308	18,147	32,243	183,698
Excess (Deficiency) of Revenues Over Expenditures	19,395	14,728	(11,906)	22,217
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	0	0	13,900	13,900
Operating Transfers Out	(6,200)	(7,700)	0	(13,900)
Total Other Financing Sources (Uses)	(6,200)	(7,700)	13,900	0
Net Change in Fund Balances	13,195	7,028	1,994	22,217
<u>FUND BALANCES</u> - Beginning of Year	166,915	89,413	34,166	290,494
<u>FUND BALANCES</u> - End of Year	\$ 180,110	\$ 96,441	\$ 36,160	\$ 312,711

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

VILLAGE OF FIFE LAKE, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2014

Net Change in Fund Balances - Total Governmental Funds \$ 22,217

Amounts reported for Governmental Activities are different because:

Governmental funds report capital outlays as expenditures in the Statement of Activities. These costs are allocated over their estimated useful lives as depreciation in the Statement of Activities.

Capital Outlay	11,124
Depreciation Expense	(8,219)

Under the modified accrual basis of accounting, revenue is recognized when measurable and available. The government-wide statements recognize revenue when earned.

Personal Property Taxes Receivable at the Beginning of the Year	(1,235)
Personal Property Taxes Receivable at the End of the Year	1,415

Internal service funds are used by management to charge costs of equipment use to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.

3,578

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 28,880

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

VILLAGE OF FIFE LAKE, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF NET POSITION  
FEBRUARY 28, 2014

	<u>EQUIPMENT FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	
Money Market	\$ 51,817
Certificate of Deposit	5,569
	<hr/>
Total Current Assets	57,386
	<hr/>
<u>CAPITAL ASSETS</u>	
Machinery and Equipment	265,225
Less Accumulated Depreciation	(212,834)
	<hr/>
Net Capital Assets	52,391
	<hr/>
Total Assets	109,777
	<hr/>
	0
	<hr/>
<u>LIABILITIES</u>	
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	52,391
Unrestricted	57,386
	<hr/>
TOTAL NET POSITION	\$ 109,777
	<hr/> <hr/>

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

VILLAGE OF FIFE LAKE, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
YEAR ENDED FEBRUARY 28, 2014

	<u>EQUIPMENT FUND</u>
<u>OPERATING REVENUES</u>	
Charges for Services	\$ 38,987
<u>OPERATING EXPENSES</u>	
Administrative and General	3,910
Plant	33,170
Total Operating Expenses	37,080
Operating Income (Loss)	1,907
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Income	160
Other Income	1,511
Total Nonoperating Revenues (Expenses)	1,671
Change in Net Position	3,578
<u>TOTAL NET POSITION</u> - Beginning of Year	106,199
<u>TOTAL NET POSITION</u> -End of Year	\$ 109,777

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

VILLAGE OF FIFE LAKE, MICHIGAN  
PROPRIETARY FUND

STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 28, 2014

<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>EQUIPMENT FUND</u>
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	\$ 38,987
Cash Payments to Suppliers for Goods and Services	(18,621)
Cash Payments to Employees for Services	(6,206)
	<hr/>
Net Cash Provided (Used) by Operating Activities	14,160
	<hr/>
Cash Flows from Non Operating Activities:	
Cash Received from Other Sources	1,511
	<hr/>
Cash Flows from Capital and Related Financing Activities:	0
	<hr/>
Cash Flows from Investing Activities:	
Interest on Investments	160
	<hr/>
Net Increase in Cash and Cash Equivalents	15,831
 <u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	 <hr/> 41,555
 <u>CASH AND CASH EQUIVALENTS</u> - End of Year	 <hr/> \$ 57,386
	<hr/> <hr/>
 <u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	\$ 1,907
	<hr/>
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation	12,253
(Increase) Decrease in Current Assets	0
Increase (Decrease) in Current Liabilities	0
	<hr/>
Total Adjustments	12,253
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 14,160
	<hr/> <hr/>

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

VILLAGE OF FIFE LAKE, MICHIGAN  
COMPONENT UNIT

STATEMENT OF NET POSITION  
FEBRUARY 28, 2014

	<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 92,147
Taxes Receivable	7,516
	<hr/>
Total Assets	99,663
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accrued Interest Payable	1,828
Current Portion of Long-Term Debt	25,000
	<hr/>
Total Current Liabilities	26,828
	<hr/>
<u>LONG-TERM LIABILITIES</u>	
General Obligation Bonds	75,000
Less: Current Portion	(25,000)
	<hr/>
Total Long-Term Liabilities	50,000
	<hr/>
Total Liabilities	76,828
	<hr/>
<u>NET POSITION</u>	
Restricted for Economic Development	\$ 22,835
	<hr/> <hr/>

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

VILLAGE OF FIFE LAKE, MICHIGAN  
COMPONENT UNIT

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2014

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>				
Economic Development	\$ 17,396	\$ 0	\$ 0	\$ (17,396)
Public Safety	400	0	0	(400)
Recreation and Culture	200	0	0	(200)
Interest on Long-Term Debt	7,710	0	0	(7,710)
<b>TOTAL DOWNTOWN DEVELOPMENT AUTHORITY</b>	<b>\$ 25,706</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>(25,706)</b>
<u>GENERAL REVENUES</u>				
Taxes				37,615
Interest Earnings				319
<b>Total General Revenues</b>				<b>37,934</b>
<b>Change in Net Position</b>				<b>12,228</b>
<u>NET POSITION – Beginning of Year</u>				<u>10,607</u>
<u>NET POSITION – End of Year</u>				<u>\$ 22,835</u>

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

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component*.

**B. Reporting Entity**

The Village of Fife Lake, Michigan, was organized in 1889 and covers an area of approximately one square mile. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the primary government. The discretely presented component unit has a February 28 year-end.

*DISCRETELY PRESENTED COMPONENT UNIT*

**Downtown Development Authority (DDA)** – The members of the governing board of the Downtown Development Authority are appointed by the Village council. The Authority’s operational and capital budgets and bonded debt must be approved by the Village council.

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

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds while business-type activities incorporate data from the government’s enterprise funds. 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.

As discussed earlier, the Village has one discretely presented component unit. While the Downtown Development Authority is considered to be major component unit, it is nevertheless shown in a separate column in the government-wide financial statements.



VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's water functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Village of Fife 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 Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the state, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The Village of Fife Lake reports the following major proprietary fund:

The *Equipment Fund* accounts for operations that provide equipment use to other departments of the government on a cost-reimbursement basis.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, transfers between the funds included in business-type activities are eliminated so that only the net amount is included as internal transfers in the business type activities column.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources focus* and the *accrual basis of accounting*.

**F. Budgetary Information**

**1. Budgetary Basis of Accounting**

The annual budget is adopted on the modified accrual basis in accordance with the requirements of "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain taxpayer comments. Appropriations lapse at year-end.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

The appropriated budget is prepared by fund and activity. The Village Council exercises budgetary control over expenditures.

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

1. Prior to March 1, the clerk submits, to the Village Council, proposed operating budgets for all funds of the Village for the fiscal year
2. The Village Council adopts a resolution approving the budgets.
3. All transfers of budget amounts between departments within any fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council.
4. During the year, the budget is monitored and amendments to the budget are made when it is deemed necessary.
5. Budget amounts as presented are as originally adopted on February 4, 2013, or as amended by the Village Council from time to time throughout the year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village because it is, at present, not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**2. *Excess of Expenditures Over Appropriations***

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Village Council	\$ 12,325	\$ 12,453
Recreation and Culture		
Parks and Recreation	15,350	23,383
Local Street Fund		
Public Works		
Highways, Streets, and Bridges	28,003	32,243

These overages were funded by greater than anticipated revenues and available fund balance.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance**

***1. Deposits and Investments***

The government'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.

The investment policy adopted by this Village states that the Village Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- a. Bonds, securities, and other direct obligations of the United States or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States. This subdivision shall include securities issued or guaranteed by the Government National Mortgage Association.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- c. In commercial paper rated prime at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service. In mutual funds composed of investment vehicles which are legal for direct investment of local units of government in Michigan.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686.54789, 15 U.S.C.80a-1 to U.S.C.80a-3 and 80e-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the village treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- h. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.11 to 129.118.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**2. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**3. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	20-50
Building Improvements	20
Land Improvements	20
Public Domain Infrastructure	50
System Infrastructure	30
Equipment	5-10

**4. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues with one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**5. *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.

**6. *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 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.

**7. *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. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

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 council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**8. *Long-Term Obligations***

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

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

**9. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**H. Revenues and Expenditures/Expenses**

**1. *Program Revenues***

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**2. Property Taxes**

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

The 2013 taxable valuation of the Village of Fife Lake totaled \$11,288,710, on which ad valorem taxes levied consisted of 9.7258 mills for the Village of Fife Lake. This levy raised approximately \$109,790 in tax of which \$14,371 was captured by the Downtown Development Authority leaving approximately \$95,419 for Village operating purposes.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended February 28, 2014.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Cash Deposits with Financial Institutions**

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of February 28, 2014, none of the government’s bank balance of \$364,540 was exposed to custodial credit risk because it is covered by federal depository insurance. As of February 28, 2014 none of the component unit’s bank balance of \$92,147 was exposed to custodial credit risk because it is covered by federal depository insurance. Although the Village’s investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Village’s deposits.

*Foreign Currency Risk.* The Village is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

**B. Receivables**

Receivables as of year-end for the government’s individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Receivables					
Taxes	\$ 1,415	\$ 0	\$ 0	\$ 1,415	\$ 7,516
Intergovernmental	10,941	8,786	7,087	26,814	0
Receivables	<u>\$ 12,356</u>	<u>\$ 8,786</u>	<u>\$ 7,087</u>	<u>\$ 28,229</u>	<u>\$ 7,516</u>



VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

Amounts due from other governments include amounts due from state sources for various projects and programs.

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

**C. Capital Assets**

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 46,079	\$ 0	\$ 0	\$ 46,079
Capital Assets, Being Depreciated				
Land Improvements	0	5,538	0	5,538
Buildings	134,250	0	0	134,250
Public Domain Infrastructure	247,715	0	0	247,715
Machinery and Equipment	265,225	5,586	0	270,811
Total Capital Assets, Being Depreciated	647,190	11,124	0	658,314
Less Accumulated Depreciation For:				
Land Improvements	0	208	0	208
Buildings	84,553	2,685	0	87,238
Public Domain Infrastructure	30,110	4,954	0	35,064
Machinery and Equipment	200,581	12,625	0	213,206
Total Accumulated Depreciation	315,244	20,472	0	335,716
Total Capital Assets, Being Depreciated, Net	331,946	(9,348)	0	322,598
Governmental Activities Capital Assets, Net	\$ 378,025	\$ (9,348)	\$ 0	\$ 368,677

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

Governmental Activities:	
General Government	
General Government	\$ 2,154
Public Works	17,738
Recreation and Cultural	580
	\$ 20,472

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**D. Interfund Receivables, Payables and Transfers**

The Village had no individual fund interfund receivable and payable balances at February 28, 2014.

All remaining balances resulted 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. All are expected to be resolved within one year.

Interfund Transfers as of February 28, 2014, were:

	TRANSFERS	
	IN	OUT
<u>Primary Government</u>		
General Fund	\$ 0	\$ 6,200
Major Street Fund	0	7,700
Local Street Fund	13,900	0
	<u>\$ 13,900</u>	<u>\$ 13,900</u>

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 in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**E. Long-Term Debt**

**1. Primary Government**

The following is a summary of debt transactions of the Village of Fife Lake for the year ended February 28, 2014:

Governmental Activities and Business-Type Activities: None

**2. Component Units**

The following is a summary of debt transactions of the Downtown Development Authority for the year ended February 28, 2014:

	GENERAL OBLIGATION BONDS
Debt Payable at March 1, 2013	\$ 100,000
New Debt Incurred	0
Debt Retired	<u>(25,000)</u>
Debt Payable at February 28, 2014	<u>\$ 75,000</u>

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

Debt payable at February 28, 2014, is comprised of the following:

General Obligation Bonds:

\$200,000 General Obligation Bonds due in annual installments of \$25,000 through October 1, 2016; plus interest at 5.85%	<u><u>\$ 75,000</u></u>
---	-------------------------

The annual requirements to amortize these debts outstanding as of February 28, 2014 are as follows:

<u>YEAR ENDING FEBRUARY 28,</u>	<u>GENERAL OBLIGATION BONDS</u>
2015	
PRINCIPAL	\$ 25,000
INTEREST	4,388
TOTAL	<u>29,388</u>
2016	
PRINCIPAL	25,000
INTEREST	2,926
TOTAL	<u>27,926</u>
2017	
PRINCIPAL	25,000
INTEREST	1,462
TOTAL	<u>26,462</u>
GRAND TOTAL	
PRINCIPAL	75,000
INTEREST	8,776
TOTAL	<u><u>\$ 83,776</u></u>

**IV. OTHER INFORMATION**

**A. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Village participates in a pool of municipalities with the State of Michigan for self-insuring worker's compensation insurance through Michigan Municipal Worker's Compensation Fund. The Village pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

VILLAGE OF FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

In addition, the Village carries commercial insurance to cover property and casualty, crime, general liability, errors and omissions, and fidelity bonds.

**B. Retirement Benefits**

Retirement benefits are provided to full-time Village employees through contributions to a 457 Governmental Deferred Compensation Plan. Such contributions equal three percent of each employee's base pay. 457 Governmental Deferred Compensation Plan balances become the property of the employee immediately. Therefore, there are no plan assets or liabilities which would be included as part of the Village reporting entity. Covered wages were \$43,330 and total wages were \$73,903. The Village's total contributions were \$3,356 for the year ended February 28, 2014, which consisted of \$1,276 from the Village and \$2,080 in voluntary contributions from employees.

**C. Related Party Transactions**

The Downtown Development Authority purchased services from an individual related to a Downtown Development Authority board member in the amount of \$600.

VILLAGE OF FIFE LAKE, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED FEBRUARY 28, 2014

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>									
Taxes	\$ 94,400	\$ 94,400	\$ 94,793	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	4,550	4,550	4,731	0	0	0	0	0	0
State Grants	35,605	39,505	38,844	28,000	29,700	32,561	18,000	18,000	20,234
Contributions from Local Units	1,000	1,000	11,624	0	0	0	0	0	0
Interest and Rents	845	845	1,134	200	200	314	3	3	103
Other Revenues	0	0	1,577	0	0	0	0	0	0
Total Revenues	136,400	140,300	152,703	28,200	29,900	32,875	18,003	18,003	20,337
<u>EXPENDITURES</u>									
General Government									
Village Council	12,325	12,325	12,453	0	0	0	0	0	0
Accounting Department	14,060	14,060	13,691	0	0	0	0	0	0
Building and Grounds	34,290	34,290	34,106	0	0	0	0	0	0
Public Works									
Department of Public Works	42,900	42,900	39,074	0	0	0	0	0	0
Highways, Streets, and Bridges	0	0	0	22,200	22,200	18,147	28,003	28,003	32,243
Community and Economic Development									
Planning and Zoning	6,625	6,625	3,955	0	0	0	0	0	0
Recreation and Culture									
Parks and Recreation	15,350	15,350	23,383	0	0	0	0	0	0
Other Functions	6,850	6,850	6,646	0	0	0	0	0	0
Total Expenditures	132,400	132,400	133,308	22,200	22,200	18,147	28,003	28,003	32,243
Excess (Deficiency) of Revenues Over Expenditures	4,000	7,900	19,395	6,000	7,700	14,728	(10,000)	(10,000)	(11,906)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	0	0	0	0	0	0	10,000	15,600	13,900
Transfers Out	(4,000)	(7,900)	(6,200)	(6,000)	(7,700)	(7,700)	0	0	0
Total Other Financing Sources (Uses)	(4,000)	(7,900)	(6,200)	(6,000)	(7,700)	(7,700)	10,000	15,600	13,900
Net Change in Fund Balance	0	0	13,195	0	0	7,028	0	5,600	1,994
<u>FUND BALANCE</u> - Beginning of Year	0	0	166,915	0	0	89,413	0	0	34,166
<u>FUND BALANCE</u> - End of Year	\$ 0	\$ 0	\$ 180,110	\$ 0	\$ 0	\$ 96,441	\$ 0	\$ 5,600	\$ 36,160

VILLAGE OF FIFE LAKE, MICHIGAN  
COMPONENT UNIT  
DOWNTOWN DEVELOPMENT AUTHORITY FUND

BALANCE SHEET  
FEBRUARY 28, 2014

ASSETS

Cash	\$ 92,147
Taxes Receivable	<u>7,516</u>
 TOTAL ASSETS	 <u><u>\$ 99,663</u></u>

LIABILITIES AND FUND BALANCE

<u>LIABILITIES</u>	\$ 0
 <u>FUND BALANCE</u>	
Restricted for Economic Development	<u>99,663</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 99,663</u></u>

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

VILLAGE OF FIFE LAKE, MICHIGAN  
COMPONENT UNIT  
DOWNTOWN DEVELOPMENT AUTHORITY FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED FEBRUARY 28, 2014

REVENUES

Taxes	
Current Property Tax Levy	\$ 37,615
Interest and Rents	
Interest Earnings	319
	319
Total Receipts	37,934

EXPENDITURES

Economic Development	
Supplies	1,741
Contract Services	895
Contribution to Local Units	11,124
Other	3,636
Public Safety	400
Recreation and Culture	
Historical Society	200
Debt Service	
Principal	25,000
Interest and Fees	8,320
	8,320
Total Expenditures	51,316
Excess (Deficiency) of Revenues Over Expenditures	(13,382)

<u>FUND BALANCE</u> - Beginning of the Year	113,045
<u>FUND BALANCE</u> - End of the Year	\$ 99,663

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

VILLAGE OF FIFE LAKE, MICHIGAN  
COMPONENT UNIT  
DOWNTOWN DEVELOPMENT AUTHORITY  
  
2000 DOWNTOWN DEVELOPMENT BONDS  
FEBRUARY 28, 2014

<u>TITLE OF ISSUE</u>	Village of Fife Lake 2000 Downtown Development Bonds		
<u>PURPOSE</u>	Paying the cost of the downtown development area improvements		
<u>DATE OF ISSUE</u>	May 24, 2000		
<u>AMOUNT OF ISSUE</u>			\$ 200,000
<u>AMOUNT REDEEMED</u>			
Prior to Current Period		\$ 100,000	
During Current Period		25,000	125,000
<u>BALANCE OUTSTANDING</u> - February 28, 2014			\$ 75,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
April 1, 2014			\$ 2,194	\$ 2,194
October 1, 2014	5.85	\$ 25,000	2,194	27,194
April 1, 2015			1,463	1,463
October 1, 2015	5.85	25,000	1,463	26,463
April 1, 2016			731	731
October 1, 2016	5.85	25,000	731	25,731
		\$ 75,000	\$ 8,776	\$ 83,776

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





# Baird, Cotter & Bishop, P.C.

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August 8, 2014

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Fife Lake for the year ended February 28, 2014. 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 May 8, 2014. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Fife 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 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the Village of Fife Lake's financial statements were:

Management's estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimate 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *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 8, 2014.

### *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 of Fife Lake's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

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

During the course of our audit of the basic financial statements of the Village of Fife Lake for the year ended February 28, 2014, we noted the following items which we feel deserve comment:

#### Budgeting

Expenditures exceeded appropriated amounts in the General Fund and Local Street Fund. The Village should continue to monitor its budgets on an ongoing basis and make budget amendments prior to incurring expenditures in excess of budgeted amounts. The Village is also required to adopt a beginning and ending fund balance each year.

### Approval and Documentation of Expenditures

The Village and Downtown Development Authority should have a source document (usually a vendor invoice) for each and every check written, including payroll and expense reimbursements. As an added internal control, one of the council members should initial each source document to indicate it was reviewed and approved.

### Conflict of Interest Policy

During our audit we noticed certain related party transactions. We recommend that the Village and Downtown Development Authority adopt a conflict of interest policy to outline the proper procedures for transactions between related parties.

### Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing 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.

We were engaged to report on the Individual Fund Financial Statements, which accompanying the financial statements but are not RSI. With respect to this supplementary information. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Other Supplementary Information section, which accompanying the financial statement but are not the RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

### Restriction on Use

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



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August 8, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Fife Lake as of and for the year ended February 28, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Fife Lake's internal control over financial reporting (internal control) as a basis for designing 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 Village of Fife Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of Village of Fife Lake'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. However, as discussed below, we identified certain 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in Village of Fife Lake's internal control to be material weaknesses:

*1) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements*

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.

Recommendation: Due to the size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

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 interests 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.

## 2) *Segregation of Incompatible Duties and Documented Independent Review*

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 staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

Village of Fife Lake's response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*