



**VILLAGE OF ELK RAPIDS, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED FEBRUARY 28, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Village Council
Village of Elk Rapids
Elk Rapids, Michigan

Report on the Financial Statements

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 Elk Rapids, Michigan (the "Village"), as of and for the year ended February 28, 2018, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Elk Rapids Housing Commission which represents 77.5 percent of the assets, 329.0 percent of the net position, and 45.5 percent of the revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Elk Rapids Housing Commission is based solely on the report of the other auditors. 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, based on our audit and the reports of other auditors, 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 units, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The accompanying combining and individual fund financial statements, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and was derived from and relates 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 combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Gabridge & Company, PLC
Grand Rapids, Michigan
July 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

Financial Highlights

- The assets and deferred outflows of the Village exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$15,437,413 (net position). Of this amount, \$3,422,226 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$984,692, an increase of \$126,900 in comparison with the prior year. Approximately 40.9% of this amount, or \$402,268, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$402,268, or approximately 33.5% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, police protection, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the Village include water and sewer services, a harbor, and waste collection services.

The government-wide financial statements include not only the Village itself (known as the primary government), but also a legally separate Eastside Downtown Development Authority and the Elk Rapids Housing Commission for which the Village is financially accountable (see Note 1 in the financial statement footnotes for more information). Financial information for these component units are reported separately from the financial information presented for the primary government itself.

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

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

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

The Village maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the major street fund, and the municipal street fund, which are considered to be major funds. Data from the local street fund, building operating fund, debt service funds, and capital projects funds are presented as separate columns as they are considered nonmajor funds.

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

Proprietary Funds. The Village maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprises funds to account for its water and sewer operations, as well as its harbor and waste collection operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions.

The Village uses internal service funds to account for equipment fund costs and allocating the cost to the funds that are using the resources. Because this service predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, waste collection, harbor, and sewer operations, which are all reported as enterprise funds. The internal service fund data is presented as governmental activities within the proprietary fund financial statements.

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

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

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

This report also presents other supplementary information which includes the combining and individual fund financial statements for the nonmajor governmental funds and the fiduciary funds. The combining statements are presented immediately following the required supplementary information on pensions.

Government-wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Village, assets and deferred outflows exceeded liabilities and deferred inflows by \$15,437,413 at the close of the most recent fiscal year.

Village of Elk Rapids
Statement of Net Position as of February 28, 2018 and February 28, 2017

	Governmental Activities		Business-type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 1,148,846	\$ 913,942	\$ 7,118,226	\$ 4,282,266	\$ 8,267,072	\$ 5,196,208
Receivables	75,508	44,235	121,619	119,089	197,127	163,324
Due from Other Governments	116,150	98,179	-	-	116,150	98,179
Inventory	-	-	110,579	110,579	110,579	110,579
Total Current Assets	<u>1,340,504</u>	<u>1,056,356</u>	<u>7,350,424</u>	<u>4,511,934</u>	<u>8,690,928</u>	<u>5,568,290</u>
<i>Noncurrent Assets</i>						
Capital Assets, net	<u>3,884,385</u>	<u>3,731,277</u>	<u>15,499,737</u>	<u>14,592,249</u>	<u>19,384,122</u>	<u>18,323,526</u>
Total Assets	<u>5,224,889</u>	<u>4,787,633</u>	<u>22,850,161</u>	<u>19,104,183</u>	<u>28,075,050</u>	<u>23,891,816</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension Related Deferred Outflows	<u>79,730</u>	<u>113,352</u>	<u>-</u>	<u>-</u>	<u>79,730</u>	<u>113,352</u>
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	130,255	2,707	22,469	17,374	152,724	20,081
Accrued Payroll Liabilities	9,664	11,125	6,232	3,914	15,896	15,039
Accrued Interest Payable	6,282	5,600	100,744	67,172	107,026	72,772
Customer Deposits	-	-	235	-	235	-
Unearned Revenue	-	-	541,753	556,950	541,753	556,950
Current Portion of Long-term Debt	<u>199,176</u>	<u>135,000</u>	<u>495,000</u>	<u>345,000</u>	<u>694,176</u>	<u>480,000</u>
Total Current Liabilities	<u>345,377</u>	<u>154,432</u>	<u>1,166,433</u>	<u>990,410</u>	<u>1,511,810</u>	<u>1,144,842</u>
<i>Noncurrent Liabilities</i>						
Compensated Absences	57,204	44,061	41,820	27,484	99,024	71,545
Long-term Debt, net	770,470	585,000	9,696,447	6,675,852	10,466,917	7,260,852
Net Pension Liability	<u>557,938</u>	<u>656,890</u>	<u>-</u>	<u>-</u>	<u>557,938</u>	<u>656,890</u>
Total Liabilities	<u>1,730,989</u>	<u>1,440,383</u>	<u>10,904,700</u>	<u>7,693,746</u>	<u>12,635,689</u>	<u>9,134,129</u>
DEFERRED INFLOWS						
Pension Related Deferred Inflows	<u>81,678</u>	<u>8,114</u>	<u>-</u>	<u>-</u>	<u>81,678</u>	<u>8,114</u>
NET POSITION						
Net Investment in Capital Assets	2,914,739	3,011,277	8,771,837	7,571,397	11,686,576	10,582,674
Restricted	328,611	216,366	-	-	328,611	216,366
Unrestricted	<u>248,602</u>	<u>224,845</u>	<u>3,173,624</u>	<u>3,839,040</u>	<u>3,422,226</u>	<u>4,063,885</u>
Total Net Position	<u>\$ 3,491,952</u>	<u>\$ 3,452,488</u>	<u>\$ 11,945,461</u>	<u>\$ 11,410,437</u>	<u>\$ 15,437,413</u>	<u>\$ 14,862,925</u>

By far, the largest portion of the Village's net position (\$11,686,576) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position (\$328,611) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,422,226 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

A summary of significant changes in assets and liabilities between February 28, 2017 and February 28, 2018 are as follows:

- Net pension liability decreased \$98,952 mostly due to improved investment returns during 2017.
- Capital assets increased \$1,060,596 mostly due to purchases of capital assets in enterprise funds. These capital asset additions were financed largely with capital improvement bonds that were issued by the Village.
- The Village's cash increased by \$3,070,864 during the current year. The increase in cash is largely related to unspent bond proceeds of \$3,463,547 from the 2017 capital improvement bonds that were issued toward the end of the fiscal year.

Governmental Activities. Governmental activities increased the Village's net position by \$39,464, compared to a decrease of \$217,203 during the prior year. Significant events leading to this changes are highlighted as follows:

- Operating grants and contributions increased by \$141,754 primarily as a result of a \$76,838 façade improvement grant recognized by the Village as revenue during the year.
- Community and economic development expenses increased by \$75,811 compared to the prior year as a result of the same façade improvement grant stated above. The grant was recorded by the Village as an operating grant and the corresponding expenses were recorded within the community and economic development function.
- Non-cash pension expense as a result of the Village reporting its net pension liability increased expenses within governmental activities by \$189,490 during FYE 2/28/17, whereas the non-cash pension expense recognized by the Village during FYE 2/28/18 was \$6,799. This is the primary reason that general government expenses decreased by \$165,850 during the current year.

Business-type Activities. Business-type activities increased the Village's net position by \$535,024. Overall expenses increased from \$2,449,327 during 2017 to \$2,825,938 in 2018. This is a \$376,611 decrease during the current year in total expenses for business-type activities.

Significant events impacting revenues and expenses of the business-type activities during the year include:

- Charges for services increased by \$604,701 due to an increase in usage and rates as of March 1, 2017 for water and sewer services.
- Overall expenses within business-type activities increased by \$376,611 as a result of increased depreciation expense recognized on infrastructure placed in service during the prior year and increased repair and maintenance expenses paid during the current year.

Village of Elk Rapids
Change in Net Position for Fiscal Years Ended February 28, 2018 and February 28, 2017

	Governmental Activities		Business-type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Revenue						
Program Revenues						
Charges for Services	\$ 140,798	\$ 163,410	\$ 3,132,182	\$ 2,588,073	\$ 3,272,980	\$ 2,751,483
Operating Grants & Contributions	412,548	270,794	-	9,790	412,548	280,584
Capital Grants & Contributions	-	-	189,048	173,286	189,048	173,286
Total Program Revenues	553,346	434,204	3,321,230	2,771,149	3,874,576	3,205,353
General Revenues						
Property Taxes	1,321,734	1,250,394	91,043	84,107	1,412,777	1,334,501
Intergovernmental	142,362	134,984	-	-	142,362	134,984
Interest Income	22,675	1,751	11,389	8,870	34,064	10,621
Loss on Sale of Assets	-	(23,584)	-	(68,928)	-	(92,512)
Total General Revenues	1,486,771	1,363,545	102,432	24,049	1,589,203	1,387,594
Total Revenues	2,040,117	1,797,749	3,423,662	2,795,198	5,463,779	4,592,947
Expenses						
General Government	408,728	574,578	-	-	408,728	574,578
Public Safety	464,265	443,303	-	-	464,265	443,303
Public Works	680,556	643,025	-	-	680,556	643,025
Community & Economic Development	166,468	90,657	-	-	166,468	90,657
Recreation & Culture	318,373	295,656	-	-	318,373	295,656
Interest on Long-term Debt	24,963	19,610	-	-	24,963	19,610
Water, Harbor, Waste, and Sewer Operations	-	-	2,825,938	2,449,327	2,825,938	2,449,327
Total Expenses	2,063,353	2,066,829	2,825,938	2,449,327	4,889,291	4,516,156
Changes in Net Position Before Transfers	(23,236)	(269,080)	597,724	345,871	574,488	76,791
Transfers, net	62,700	51,877	(62,700)	(39,143)	-	12,734
Change in Net Position	39,464	(217,203)	535,024	306,728	574,488	89,525
Net Position at the Beginning of Period	3,452,488	3,669,691	11,410,437	11,103,709	14,862,925	14,773,400
Net Position at the End of Period	\$ 3,491,952	\$ 3,452,488	\$ 11,945,461	\$ 11,410,437	\$ 15,437,413	\$ 14,862,925

Financial Analysis of Governmental Funds

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

Governmental Funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village's Council.

At February 28, 2018, the Village's governmental funds reported combined fund balances of \$984,692, an increase of \$126,900 in comparison with the prior year. Approximately 40.9% of this amount (\$402,268) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *restricted or committed to*

indicate that it is: 1) restricted for particular purposes (\$328,611), or 2) committed for particular purposes (\$253,813).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$402,268. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 33.5 percent of total general fund expenditures.

The fund balance of the Village's general fund decreased by \$15,128 during the current fiscal year. The Village Council monitors the expenditures of the general fund closely to ensure that spending does not exceed the Village's available resources.

The major streets fund, a major fund, had a \$49,535 increase in fund balance during the current fiscal year which put the overall fund balance at \$185,039. This increase in fund balance is due to the originally budgeted expenditures coming in under budget, creating an increase in fund balance.

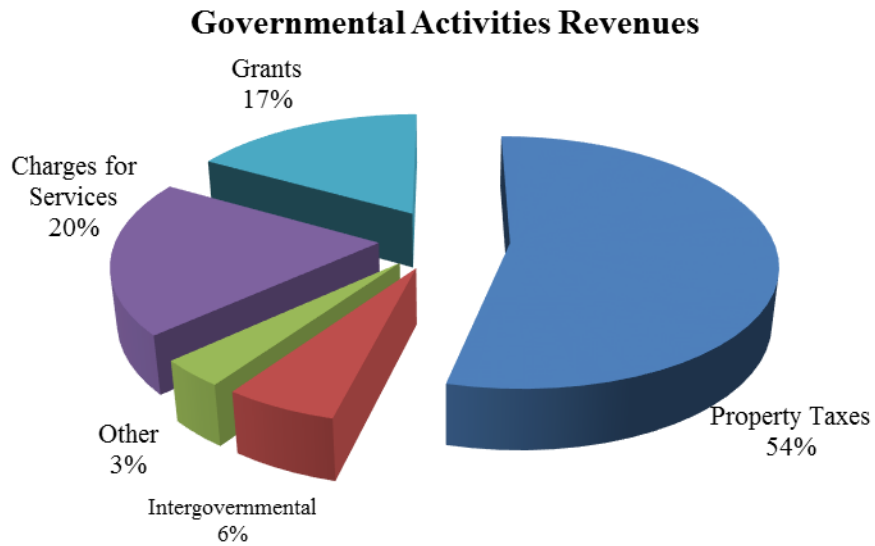
The municipal streets fund, a major fund, had a \$1,622 decrease in fund balance during the current fiscal year which put the overall fund balance at \$7,426. This decrease in fund balance is due to originally budgeted revenues coming in slightly under budget, creating an overall decrease in fund balance.

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

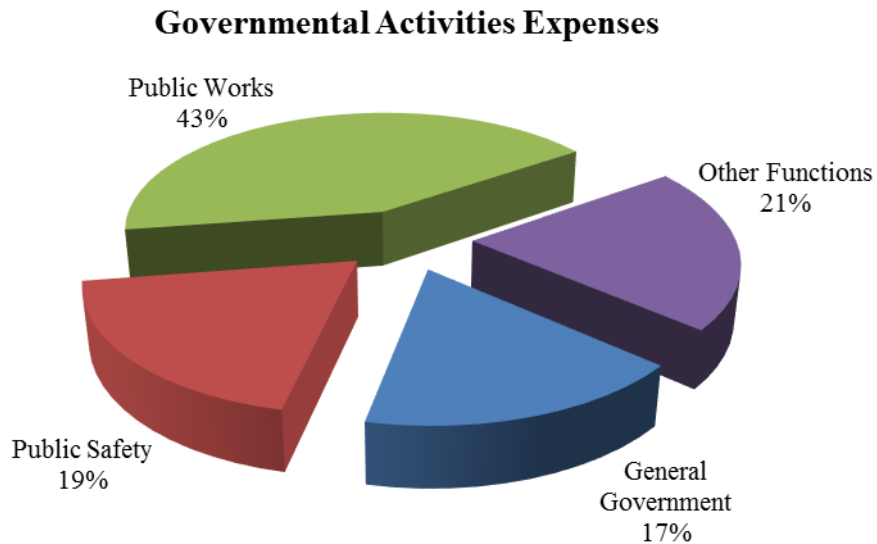
Unrestricted net position at the end of the year for proprietary funds was \$3,173,624. The total increase in net position for proprietary funds was \$535,024. A summary of the changes in proprietary funds net position can be found in the business-type activities paragraph found earlier in this report.

Governmental Activities

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



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



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was a need to adjust expenditures in the final budget to \$1,129,381 from the originally budgeted expenditures of \$1,045,155. This is a result of increased expenditures in park maintenance. All other budget amendments during the year were relatively minor.

Final budget compared to actual results. During the current fiscal year the Village had the following budget exception:

<u>Expenditure</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Community and Economic Development			
Facade Improvements	\$ -	\$ 76,838	\$ (76,838)

The façade grant reimbursements and cash disbursements did not occur until fiscal year-end February 28, 2019. However, services for this grant were performed in fiscal year-end 2018. The grant expenditures were accrued to the fiscal year-end 2018 after the final budget amendment and, accordingly, created a budget variance.

Capital Assets and Debt Administration

Capital Assets

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2018 amounts to \$19,384,122 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, sidewalks, and infrastructure.

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

Long-term Debt

As described in Note 6 to the financial statements, the Village had \$11,161,093 in long-term debt at the end of the fiscal year. The Village is well under its legal debt limit as of year-end.

More detailed information about the Village's long-term debt, including the increases and decreases, can be found in Note 6.

Economic Condition and Outlook

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

Contacting the Village

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

The Village of Elk Rapids
315 Bridge Street
PO Box 398
Elk Rapids, MI 49629

BASIC FINANCIAL STATEMENTS

**Village of Elk Rapids
Statement of Net Position
February 28, 2018**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Current Assets</i>				
Cash and Investments	\$ 1,148,846	\$ 7,118,226	\$ 8,267,072	\$ 216,514
Accounts Receivable	49,501	119,471	168,972	--
Taxes Receivable	24,630	2,148	26,778	--
Special Assessments	1,377	--	1,377	--
Due from Other Governments	116,150	--	116,150	--
Inventory	--	110,579	110,579	4,044
Total Current Assets	1,340,504	7,350,424	8,690,928	220,558
<i>Noncurrent Assets</i>				
Capital Assets not being Depreciated	590,383	2,109,278	2,699,661	111,572
Capital Assets being Depreciated, net	3,294,002	13,390,459	16,684,461	127,966
Total Assets	5,224,889	22,850,161	28,075,050	460,096
DEFERRED OUTFLOWS OF RESOURCES				
Pension	79,730	--	79,730	--
Total Deferred Outflows of Resources	79,730	--	79,730	--
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	130,255	22,469	152,724	11,779
Payroll Liabilities	9,664	6,232	15,896	4,635
Accrued Interest	6,282	100,744	107,026	4,785
Customer Deposits	--	235	235	7,225
Unearned Revenue	--	541,753	541,753	7
Current Portion of Long-term Debt	199,176	495,000	694,176	40,000
Total Current Liabilities	345,377	1,166,433	1,511,810	68,431
<i>Noncurrent Liabilities</i>				
Compensated Absences	57,204	41,820	99,024	--
Long-term Debt	770,470	9,696,447	10,466,917	290,000
Net Pension Liability	557,938	--	557,938	--
Total Liabilities	1,730,989	10,904,700	12,635,689	358,431
DEFERRED INFLOWS OF RESOURCES				
Pension	81,678	--	81,678	--
Total Deferred Inflows of Resources	81,678	--	81,678	--
NET POSITION				
Net Investment In Capital Assets	2,914,739	8,771,837	11,686,576	239,538
<i>Restricted for:</i>				
Debt Service	92,501	--	92,501	--
Streets	236,110	--	236,110	--
<i>Unrestricted</i>	248,602	3,173,624	3,422,226	(137,873)
Total Net Position	\$ 3,491,952	\$ 11,945,461	\$ 15,437,413	\$ 101,665

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

**Village of Elk Rapids
Statement of Activities
For the Year Ended February 28, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 408,728	\$ 81,243	\$ 17,743	\$ --	\$ (309,742)	\$ --	\$ (309,742)	\$ --
Public Safety	464,265	9,755	918	--	(453,592)	--	(453,592)	--
Public Works	680,556	46,622	315,049	--	(318,885)	--	(318,885)	--
Community and Economic Development	166,468	--	76,838	--	(89,630)	--	(89,630)	--
Recreation and Culture	318,373	3,178	2,000	--	(313,195)	--	(313,195)	--
Interest on Long-term Debt	24,963	--	--	--	(24,963)	--	(24,963)	--
<i>Total Governmental Activities</i>	<u>2,063,353</u>	<u>140,798</u>	<u>412,548</u>	<u>--</u>	<u>(1,510,007)</u>	<u>--</u>	<u>(1,510,007)</u>	<u>--</u>
Business-type Activities:								
Waste Collection (Nonmajor)	158,149	40,572	--	--	--	(117,577)	(117,577)	--
Harbor	1,149,040	1,065,213	--	189,048	--	105,221	105,221	--
Water	561,890	922,022	--	--	--	360,132	360,132	--
Sewer	956,859	1,104,375	--	--	--	147,516	147,516	--
<i>Total Business-type Activities</i>	<u>2,825,938</u>	<u>3,132,182</u>	<u>--</u>	<u>189,048</u>	<u>--</u>	<u>495,292</u>	<u>495,292</u>	<u>--</u>
<i>Total Primary Government</i>	<u>\$ 4,889,291</u>	<u>\$ 3,272,980</u>	<u>\$ 412,548</u>	<u>\$ 189,048</u>	<u>\$ (1,510,007)</u>	<u>\$ 495,292</u>	<u>\$ (1,014,715)</u>	<u>--</u>
Component Units								
Eastside DDA	\$ 72,148	\$ 112,206	\$ --	\$ --	--	--	--	40,058
Elk Rapids Housing Commission (09/30/2017)	161,879	92,925	38,736	--	--	--	--	(30,218)
<i>Total Component Units</i>	<u>\$ 234,027</u>	<u>\$ 205,131</u>	<u>\$ 38,736</u>	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,840</u>
General Purpose Revenues and Transfers:								
Revenues								
Property Taxes					1,321,734	91,043	1,412,777	45,434
Intergovernmental					142,362	--	142,362	--
Interest Income					22,675	11,389	34,064	297
Transfers					62,700	(62,700)	--	--
<i>Total General Revenues and Transfers</i>					<u>1,549,471</u>	<u>39,732</u>	<u>1,589,203</u>	<u>45,731</u>
<i>Change in Net Position</i>					<u>39,464</u>	<u>535,024</u>	<u>574,488</u>	<u>55,571</u>
<i>Net Position at Beginning of Period</i>					3,452,488	11,410,437	14,862,925	46,094
<i>Net Position at End of Period</i>					<u>\$ 3,491,952</u>	<u>\$ 11,945,461</u>	<u>\$ 15,437,413</u>	<u>\$ 101,665</u>

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

**Village of Elk Rapids
Balance Sheet
Governmental Funds
February 28, 2018**

	<u>Special Revenue</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Municipal Street</u>		
ASSETS					
Cash and Investments	\$ 405,572	\$ 152,469	\$ 914	\$ 370,963	\$ 929,918
Accounts Receivable	35,941	--	8,506	5,054	49,501
Taxes Receivable	23,515	--	--	1,115	24,630
Special Assessments	--	--	--	1,377	1,377
Due from Other Governments	21,888	63,080	--	31,182	116,150
Due from Other Funds	3,533	--	--	--	3,533
<i>Total Assets</i>	490,449	215,549	9,420	409,691	1,125,109
LIABILITIES					
Accounts Payable	\$ 80,995	\$ 29,234	\$ 1,643	\$ 14,527	\$ 126,399
Payroll Liabilities	6,621	1,276	--	1,211	9,108
Due to Other Funds	--	--	351	3,182	3,533
<i>Total Liabilities</i>	87,616	30,510	1,994	18,920	139,040
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenues	--	--	--	1,377	1,377
<i>Total Liabilities and Deferred Inflows of Resources</i>	87,616	30,510	1,994	20,297	140,417
FUND BALANCE					
Restricted	--	185,039	7,426	136,146	328,611
Committed	565	--	--	253,248	253,813
Unassigned	402,268	--	--	--	402,268
<i>Total Fund Balance</i>	402,833	185,039	7,426	389,394	984,692
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balance</i>	\$ 490,449	\$ 215,549	\$ 9,420	\$ 409,691	\$ 1,125,109

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

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

Total Fund Balance - Governmental Funds	\$	984,692
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.		488,396
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund statements.		3,217,403
Certain liabilities, such as long-term debt, accrued interest, and compensated absences, are not due and payable in the current period, and therefore are not reported in the funds.		(640,030)
Unavailable revenues are not available to pay current period expenditures and, therefore, are deferred inflows of resources in the funds.		1,377
Deferred inflows and outflows of resources related to defined benefit pension plans are applicable to future periods and are not reported in the governmental funds.		(1,948)
The net pension liability of the defined benefit pension plan is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(557,938)
Total Net Position - Governmental Funds	\$	<u>3,491,952</u>

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

	<u>Special Revenue</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Municipal Street</u>		
Revenues					
Property Taxes	\$ 913,799	\$ --	\$ 360,642	\$ 47,293	\$ 1,321,734
Intergovernmental	236,544	191,263	1,793	123,310	552,910
Licenses and Permits	4,295	--	--	--	4,295
Charges for Services	232	--	--	28,507	28,739
Fines and Forfeitures	4,098	--	--	--	4,098
Interest and Rentals	1,573	241	317	20,368	22,499
Other Revenues	16,299	--	--	43,894	60,193
Total Revenues	<u>1,176,840</u>	<u>191,504</u>	<u>362,752</u>	<u>263,372</u>	<u>1,994,468</u>
Expenditures					
General Government	299,966	--	--	64,788	364,754
Public Safety	440,247	--	--	--	440,247
Public Works	--	249,169	45,224	197,930	492,323
Community and Economic Development	165,033	--	--	--	165,033
Recreation and Culture	296,017	--	--	--	296,017
Debt Service - Principal	--	--	--	135,000	135,000
Debt Service - Interest	--	--	--	17,456	17,456
Capital Outlay	--	--	--	21,438	21,438
Total Expenditures	<u>1,201,263</u>	<u>249,169</u>	<u>45,224</u>	<u>436,612</u>	<u>1,932,268</u>
Excess of Revenues Over (Under) Expenditures	<u>(24,423)</u>	<u>(57,665)</u>	<u>317,528</u>	<u>(173,240)</u>	<u>62,200</u>
Other Financing Sources (Uses)					
Transfers In	78,800	110,000	--	295,155	483,955
Transfers Out	(69,505)	(2,800)	(319,150)	(27,800)	(419,255)
Net Other Financing Sources (Uses)	<u>9,295</u>	<u>107,200</u>	<u>(319,150)</u>	<u>267,355</u>	<u>64,700</u>
Net Change in Fund Balance	(15,128)	49,535	(1,622)	94,115	126,900
<i>Fund Balance at Beginning of Period</i>	417,961	135,504	9,048	295,279	857,792
Fund Balance at End of Period	<u>\$ 402,833</u>	<u>\$ 185,039</u>	<u>\$ 7,426</u>	<u>\$ 389,394</u>	<u>\$ 984,692</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	126,900
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.		17,702
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount that depreciation expense of \$246,824 exceeds capital outlay of \$21,438 during the current year.		(225,386)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This represents the current year change in the accrual of compensated absences and accrued interest.		(5,369)
Some receivables are collected beyond 60 days after the end of the reporting period and are not recognized as revenue in the funds until the period that they are collected. This represents the current year change in unavailable revenues.		(2,584)
Expenses related to the change in the net pension liability and the pension related deferred amounts do not require current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(6,799)
Payment of principal on debt is an expenditure in the governmental funds but reduces the liability in the government-wide statements.		135,000
Changes in Net Position - Governmental Funds	\$	<u>39,464</u>

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

**Village of Elk Rapids
Statement of Net Position
Proprietary Funds
February 28, 2018**

	Business-type Activities - Enterprise Funds					Governmental
	Waste Collection (Nonmajor)	Harbor	Water	Sewer	Total Enterprise Funds	Internal Service Funds
ASSETS						
<i>Current Assets</i>						
Cash and Investments	\$ 5,528	\$ 1,309,721	\$ 4,866,529	\$ 936,448	\$ 7,118,226	\$ 218,928
Accounts Receivable	--	--	65,097	54,374	119,471	--
Taxes Receivable	2,148	--	--	--	2,148	--
Inventory	1,700	25,259	69,150	14,470	110,579	--
Total Current Assets	9,376	1,334,980	5,000,776	1,005,292	7,350,424	218,928
<i>Noncurrent Assets</i>						
Capital Assets not being Depreciated	--	665,531	1,443,117	630	2,109,278	14,012
Capital Assets being Depreciated, net	7,655	4,341,543	1,902,049	7,139,212	13,390,459	652,970
Total Assets	17,031	6,342,054	8,345,942	8,145,134	22,850,161	885,910
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	3,015	2,809	700	15,945	22,469	3,856
Payroll Liabilities	1,136	1,271	1,359	2,466	6,232	556
Accrued Interest	--	7,301	52,288	41,155	100,744	2,048
Customer Deposits	--	--	--	235	235	--
Unearned Revenue	--	541,753	--	--	541,753	--
Current Portion of Long-term Debt	--	100,000	215,000	180,000	495,000	59,176
Total Current Liabilities	4,151	653,134	269,347	239,801	1,166,433	65,636
<i>Noncurrent Liabilities</i>						
Compensated Absences	3,632	6,141	10,535	21,512	41,820	6,408
Long-term Debt	--	700,000	5,210,000	3,786,447	9,696,447	325,470
Total Liabilities	7,783	1,359,275	5,489,882	4,047,760	10,904,700	397,514
NET POSITION						
Net Investment In Capital Assets	7,655	4,207,074	1,383,713	3,173,395	8,771,837	282,336
<i>Unrestricted</i>	1,593	775,705	1,472,347	923,979	3,173,624	206,060
Total Net Position	\$ 9,248	\$ 4,982,779	\$ 2,856,060	\$ 4,097,374	\$ 11,945,461	\$ 488,396

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

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

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental
	Waste Collection (Nonmajor)	Harbor	Water	Sewer		Internal Service Funds
Operating Revenues						
Charges for Services	\$ 40,572	\$ 1,062,746	\$ 919,719	\$ 1,080,121	\$ 3,103,158	\$ 348,700
Total Operating Revenues	40,572	1,062,746	919,719	1,080,121	3,103,158	348,700
Operating Expenses						
Personnel Expenses	79,497	313,469	190,697	289,060	872,723	93,726
Other Current Expenses	77,430	544,368	153,711	365,620	1,141,129	112,147
Depreciation Expense	1,222	268,531	90,356	203,228	563,337	114,428
Total Operating Expenses	158,149	1,126,368	434,764	857,908	2,577,189	320,301
Operating Income (Loss)	(117,577)	(63,622)	484,955	222,213	525,969	28,399
Non-Operating Revenues (Expenses)						
Property Taxes	91,043	--	--	--	91,043	--
Interest Income	49	2,006	7,724	1,610	11,389	176
Capital Grants	--	189,048	--	--	189,048	--
Other Income	--	2,467	2,303	24,254	29,024	--
Interest on Long-term Debt	--	(22,672)	(119,219)	(98,951)	(240,842)	(8,873)
Bond Issuance Costs	--	--	(7,907)	--	(7,907)	--
Net Non-Operating Revenues (Expenses)	91,092	170,849	(117,099)	(73,087)	71,755	(8,697)
Income Before Contributions and Transfers	(26,485)	107,227	367,856	149,126	597,724	19,702
Transfers In	--	9,500	14,000	--	23,500	--
Transfers Out	(2,800)	(22,800)	(57,800)	(2,800)	(86,200)	(2,000)
Change In Net Position	(29,285)	93,927	324,056	146,326	535,024	17,702
<i>Net Position at Beginning of Period</i>	38,533	4,888,852	2,532,004	3,951,048	11,410,437	470,694
Net Position at End of Period	\$ 9,248	\$ 4,982,779	\$ 2,856,060	\$ 4,097,374	\$ 11,945,461	\$ 488,396

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

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

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Waste Collection (Nonmajor)	Harbor	Water	Sewer	Total Enterprise	
Cash Flows from Operating Activities						
Cash Received from Customers, Residents, and Users	\$ 40,797	\$ 1,047,784	\$ 895,040	\$ 1,102,045	\$ 3,085,666	\$ -
Cash Received from Interfund Services Provided	-	-	-	-	-	348,700
Cash Paid to Employees for Services and Fringe Benefits	(78,663)	(310,785)	(186,711)	(280,982)	(857,141)	(92,430)
Cash Paid to Suppliers for Good and Services	(75,523)	(544,291)	(154,654)	(360,493)	(1,134,961)	(109,390)
Total Cash Flows from (used by) Operating Activities	<u>(113,389)</u>	<u>192,708</u>	<u>553,675</u>	<u>460,570</u>	<u>1,093,564</u>	<u>146,880</u>
Cash Flows from Non-capital Financing Activities						
Non-operating Property Taxes	91,043	-	-	-	91,043	-
Non-operating Other Income	-	2,467	2,303	24,254	29,024	-
Net Transfers To/From Other Funds	(2,800)	(13,300)	(43,800)	(2,800)	(62,700)	(2,000)
Total Cash Flows from (used by) Non-capital Financing Activities	<u>88,243</u>	<u>(10,833)</u>	<u>(41,497)</u>	<u>21,454</u>	<u>57,367</u>	<u>(2,000)</u>
Cash Flows from Capital and Related Financing Activities						
Purchases of Capital Assets, Net	-	(379,195)	(1,091,631)	-	(1,470,826)	(492,922)
Capital Grants Received	-	189,048	-	-	189,048	-
Proceeds from Bonds	-	-	3,500,000	15,595	3,515,595	450,000
Issuance Costs of Long-term Debt	-	-	(7,907)	-	(7,907)	(6,825)
Principal Payments on Long-term Debt	-	(95,000)	(75,000)	(175,000)	(345,000)	(65,354)
Interest Payments on Long-term Debt	-	(23,940)	(83,585)	(99,745)	(207,270)	-
Total Cash Flows from (used by) Capital and Related Financing Activities	<u>-</u>	<u>(309,087)</u>	<u>2,241,877</u>	<u>(259,150)</u>	<u>1,673,640</u>	<u>(115,101)</u>
Cash Flows from Investing Activities						
Interest Income	49	2,006	7,724	1,610	11,389	176
Total Cash Flows from Investing Activities	<u>49</u>	<u>2,006</u>	<u>7,724</u>	<u>1,610</u>	<u>11,389</u>	<u>176</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(25,097)	(125,206)	2,761,779	224,484	2,835,960	29,955
<i>Cash and Cash Equivalents - Beginning of Year</i>	30,625	1,434,927	2,104,750	711,964	4,282,266	188,973
Cash and Cash Equivalents - End of Year	<u>\$ 5,528</u>	<u>\$ 1,309,721</u>	<u>\$ 4,866,529</u>	<u>\$ 936,448</u>	<u>\$ 7,118,226</u>	<u>\$ 218,928</u>

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

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

	Business-type Activities - Enterprise Funds					Governmental Activities Internal Service Fund
	Waste Collection (Nonmajor)	Harbor	Water	Sewer	Total Enterprise	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income (Loss)	(117,577)	(63,622)	484,955	222,213	525,969	28,399
Adjustments to Reconcile Operating Income to Net Cash						
Provided (Used) by Operating Activities						
Depreciation Expense	1,222	268,531	90,356	203,228	563,337	114,428
Changes in Assets & Liabilities						
Receivables	225	-	(24,679)	21,924	(2,530)	-
Accounts Payable	834	77	(943)	5,127	5,095	2,757
Accrued Payroll and Related Liabilities	1,907	2,684	3,986	8,078	16,655	1,296
Unearned Revenue	-	(14,962)	-	-	(14,962)	-
Net Cash Provided (Used) by Operating Activities	\$ (113,389)	\$ 192,708	\$ 553,675	\$ 460,570	\$ 1,093,564	\$ 146,880

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

Village of Elk Rapids
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
February 28, 2018

	Agency
ASSETS	
Cash and Investments	\$ 7,360
<i>Total Assets</i>	7,360
LIABILITIES	
Accounts Payable	5,281
Payroll Liabilities	2,079
<i>Total Liabilities</i>	\$ 7,360

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

Village of Elk Rapids
Combining Statement of Net Position
Component Units
February 28, 2018

	<u>Eastside DDA</u>	<u>Elk Rapids Housing Commission (09/30/2017)</u>	<u>Total Component Units</u>
ASSETS			
<i>Current Assets</i>			
Cash and Investments	\$ 103,732	\$ 112,782	\$ 216,514
Prepaid Items and Other Assets	--	2,035	2,035
Inventory	--	2,009	2,009
Total Current Assets	<u>103,732</u>	<u>116,826</u>	<u>220,558</u>
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	--	111,572	111,572
Capital Assets being Depreciated, net	--	127,966	127,966
Total Assets	<u>103,732</u>	<u>356,364</u>	<u>460,096</u>
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	60	11,719	11,779
Payroll Liabilities	38	4,597	4,635
Accrued Interest	5,300	--	5,300
Customer Deposits	--	7,225	7,225
Unearned Revenue	--	7	7
Current Portion of Long-term Debt	35,000	--	35,000
Total Current Liabilities	<u>40,398</u>	<u>23,548</u>	<u>63,946</u>
<i>Noncurrent Liabilities</i>			
Long-term Debt	295,000	--	295,000
Total Liabilities	<u>335,398</u>	<u>23,548</u>	<u>358,946</u>
NET POSITION			
Net Investment In Capital Assets	--	239,538	239,538
<i>Unrestricted</i>	(231,666)	93,278	(138,388)
Total Net Position	<u>\$ (231,666)</u>	<u>\$ 332,816</u>	<u>\$ 101,150</u>

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

**Village of Elk Rapids
Combining Statement of Activities
Component Units
For the Year Ended February 28, 2018**

	<u>Eastside DDA</u>	<u>Elk Rapids Housing Commission (09/30/2017)</u>	<u>Total Component Units</u>
Expenses			
Community and Economic Development	\$ 56,785	\$ 161,879	\$ 218,664
Interest on Long-term Debt	15,878	--	15,878
Total Expenses	<u>72,663</u>	<u>161,879</u>	<u>234,542</u>
Program Revenues			
Charges for Services	112,206	92,925	205,131
Operating Grants and Contributions	--	38,736	38,736
Total Program Revenues	<u>112,206</u>	<u>131,661</u>	<u>243,867</u>
Net Program Revenues (Expenses)	<u>39,543</u>	<u>(30,218)</u>	<u>9,325</u>
General Revenue			
Property Taxes	45,434	--	45,434
Interest Income	137	160	297
Total General Revenues	<u>45,571</u>	<u>160</u>	<u>45,731</u>
Change in Net Position	<u>85,114</u>	<u>(30,058)</u>	<u>55,056</u>
<i>Net Position at Beginning of Period</i>	<u>(316,780)</u>	<u>362,874</u>	<u>46,094</u>
Net Position at End of Period	<u>\$ (231,666)</u>	<u>\$ 332,816</u>	<u>\$ 101,150</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Village of Elk Rapids

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Village of Elk Rapids, Michigan (the “Village” or “government”) is located in the southwestern corner of Antrim County. The Village operates under a Council form of government and provides various services to its residents including community enrichment and development, public safety, public works, parks and recreation, and general administrative services. The financial statements of the Village have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

Reporting Entity

As required by generally accepted accounting principles, these financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. The component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

Discretely Presented Component Unit

Downtown Development Authority

The Downtown Development Authority (DDA) was formed to enhance the Village's business district by preservation, creation and implementation of the development plans in the district to be financed by taxes from properties within its districts. The members of the governing board of the DDA are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village Council also has the ability to significantly influence the operations of the DDA. The DDA is not separately audited. A complete financial statement of the DDA can be obtained from the Village Manager.

Elk Rapids Housing Commission

The Elk Rapids Housing Commission (the “Commission”) is an independent municipal entity created by the Village of Elk Rapids on March 31, 1971 pursuant to Michigan state law and the National Housing Act of 1937. The Commission maintains close ties with the Village of Elk Rapids in several respects and is a discretely presented component unit of the Village, as defined by the Governmental Accounting Standards Board. The Commission operates under a Board of Commissioner form of government to provide safe and decent housing for eligible low and moderate income elderly individuals. The Board is comprised of five members, all Village residents, appointed by the Village Council of the Village of Elk Rapids. The Board appoints an Executive Director who acts as the Secretary of the Housing Commission.

Village of Elk Rapids

Notes to the Financial Statements

The component unit is audited separately from the Village and complete financial statements may be obtained from the Housing Commission's administrative office. Accordingly, the Village has elected to omit substantially all note disclosures related to the Commission in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component units for which the primary government is financially accountable.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure driven grants.

Village of Elk Rapids

Notes to the Financial Statements

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

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

The Village reports the following major governmental funds:

The **general fund** is the Village's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The **major street fund** accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state sources.

The **municipal street fund** accounts for the revenue received from property taxes, which are earmarked for municipal street purposes.

The Village reports the following major proprietary funds:

The **water fund** accounts for the cost of providing water services to Village residents. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

The **sewer fund** accounts for the cost of collecting and treating wastewater. Revenues are primarily from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

The **harbor fund** accounts for the activity of the government's harbor operations.

Additionally, the government reports the following fund types:

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

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Village of Elk Rapids

Notes to the Financial Statements

Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The **waste collection fund** accounts for the Village's waste collection operations.

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

Agency funds are used to account for assets held on behalf of outside parties, including other governments.

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 and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and certificates of deposit.

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. No amounts outstanding at February 28, 2018 were identified by as being uncollectible.

Village of Elk Rapids

Notes to the Financial Statements

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

Inventories

Inventories consist of meters and parts for the water and sewer enterprise funds and are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays of capital assets and improvement are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

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

Description	Years
Land Improvements	15
Buildings and Improvements	40 - 50
Infrastructure	20
Systems and Improvements	30 - 60
Vehicles	5 - 12
Furniture, Machinery, and Equipment	5 - 15

Village of Elk Rapids

Notes to the Financial Statements

The Village reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value. If it is determined that an impairment loss has occurred, the asset is written down to its net realizable value and a current charge to income is recognized.

Compensated Absences

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

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 deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

Net Position Flow Assumption

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

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

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider

Village of Elk Rapids

Notes to the Financial Statements

restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

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

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

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

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

Property Tax Revenue Recognition

The government's property taxes are levied each July 1 on the taxable valuation of property located in the Village as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 14; as of March 1 of the succeeding year, unpaid real property taxes are turned over to Antrim County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal

Village of Elk Rapids

Notes to the Financial Statements

property in the Village for 2017 had a taxable value of \$117,702,902, representing approximately 50% of estimated current market value. The Village's tax rate for the fiscal year was 7.580 mills for general operating, 0.770 for waste collection, 3.050 for municipal streets, and .4000 for debt service.

No tax abatements were provided to property tax payers which would require disclosure in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Pension

For purposes of measuring the net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the Village.

Use of Estimates

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

Budgetary and Budgetary Accounting

The general and special revenue funds are the governmental fund types under formal budgetary control. The Village adopts its budget in accordance with Public Act 621, the Uniform Budgeting and Accounting Act, which mandates an annual budget process and annual appropriation act to implement the budget.

- 1) A general and special revenue funds budget is presented to Village Council in January, at which time hearings on the budget are scheduled. A Public Hearing is held in February and a special meeting is held to give management the opportunity to discuss their budget with the Council.

Village of Elk Rapids

Notes to the Financial Statements

- 2) The budget, and an appropriation ordinance implementing it, is then adopted in February.
- 3) Formal budget integration is employed as a management control device during the year for all funds.
- 4) Budgets presented for the general and special revenue funds were prepared on the modified accrual basis of accounting. Encumbrances are not recorded at year-end.
- 5) Expenditures may not legally exceed activity (department) totals in the general fund. All other special revenue funds cannot legally exceed their respective fund totals. Expenditures exceeding budgeted amounts, if any, are disclosed in the required supplementary information section.
- 6) Budgets for the current year are reviewed during the year for any revision of estimates. Proposed increases or reductions in appropriations are presented to the Council for their action. The legislative body amends the general appropriation act as soon as it becomes apparent this action is necessary.
- 7) The Council has the authority to amend all budgets at the fund level through the appropriation ordinance. It further has the right to amend the general fund at the activity level if it desires. Management has no authority to amend budgets at the fund level. Management can do transfers within funds at the departmental level without governing board approval but not between departments.
- 8) The budgetary information presented has been amended during the year by an official action of the Village Council.
- 9) All budget appropriations lapse at the end of each fund's fiscal year.

Note 2 - Excess of Expenditures over Budget

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

The Village had the following budget exception during the year ended February 28, 2018:

<u>Expenditure</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Community and Economic Development			
Facade Improvements	\$ -	\$ 76,838	\$ (76,838)

Village of Elk Rapids

Notes to the Financial Statements

The façade grant reimbursements and cash disbursements did not occur until fiscal year-end February 28, 2019. However, services for this grant were performed in fiscal year-end 2018. The grant expenditures were accrued into the fiscal year-end 2018 after the Village’s final budget was amended and, accordingly, led to a budget variance. The budget variance will not be considered a compliance finding as the façade grant expenditures were less than 10% of total general fund expenditures, thus meeting Treasury’s tolerable variance criteria.

Note 3 - Cash and Cash Equivalents

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

	Governmental Activities	Business-type Activities	Primary Government	Component Unit	Fiduciary Fund
Statement of Net Position					
Cash and Cash Equivalents	\$ 1,148,846	\$ 7,118,226	\$ 8,267,072	\$ 216,514	\$ 7,360

These deposits are held in one financial institution located in Michigan. State policy limits the Treasurer’s investing options as described in detail below. All accounts are in the name of the Village and a specific fund or common account. Deposits and investments are recorded in Village records at fair value. Interest is recorded when earned.

Deposits

Checking and Savings Accounts	\$ 8,490,467
Cash on Hand	497
Total	\$ 8,490,964

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Village’s deposits might not be returned. State law does not require, and the Village does not have, a policy for deposit custodial credit risk. As of year-end, \$8,181,465 of the Villages bank balance of \$8,431,465 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Elk Rapids

Notes to the Financial Statements

Note 4 - Capital Assets

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

Governmental Activities	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 576,371	\$ -	\$ -	\$ 576,371
Capital Assets being Depreciated				
Buildings and Improvements	1,562,943	-	-	1,562,943
Land Improvements	825,258	-	-	825,258
Equipment and Vehicles	223,196	21,438	-	244,634
Infrastructure	2,769,030	-	-	2,769,030
Total Capital Assets being Depreciated	5,380,427	21,438	-	5,401,865
Less Accumulated Depreciation				
Buildings and Improvements	823,031	32,388	-	855,419
Land Improvements	477,817	51,048	-	528,865
Equipment and Vehicles	147,781	22,738	-	170,519
Infrastructure	1,065,380	140,650	-	1,206,030
Total Accumulated Depreciation	2,514,009	246,824	-	2,760,833
Net Capital Assets being Depreciated	2,866,418	(225,386)	-	2,641,032
Net Capital Assets	3,442,789	(225,386)	-	3,217,403
Internal Service Fund				
Capital Assets not being Depreciated				
Land	14,012	-	-	14,012
Capital Assets being Depreciated:				
Buildings, Equipment, and Vehicles	633,757	492,922	-	1,126,679
Less Accumulated Depreciation:				
Buildings, Equipment, and Vehicles	359,281	114,428	-	473,709
Net Capital Assets, Internal Service	288,488	378,494	-	666,982
Net Capital Assets, Governmental Activities	\$ 3,731,277	\$ 153,108	\$ -	\$ 3,884,385

Village of Elk Rapids

Notes to the Financial Statements

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

Business-type Activities	Beginning of Year	Additions	Disposals	End of Year
Capital Assets not being Depreciated				
Land	\$ 691,961	\$ -	\$ -	\$ 691,961
Construction in Progress	325,686	1,091,631	-	1,417,317
Total Capital Assets not being Depreciated	<u>1,017,647</u>	<u>1,091,631</u>	<u>-</u>	<u>2,109,278</u>
Capital Assets being Depreciated				
Buildings and Improvements	6,504,605	-	-	6,504,605
Land Improvements	18,279	-	-	18,279
Machinery and Equipment	14,504,652	8,400	-	14,513,052
Systems and Improvements	89,237	370,796	-	460,033
Total Capital Assets being Depreciated	<u>21,116,773</u>	<u>379,196</u>	<u>-</u>	<u>21,495,969</u>
Less Accumulated Depreciation				
Buildings	149,902	133,784	-	283,686
Land Improvements	14,090	762	-	14,852
Machinery and Equipment	57,367	5,283	-	62,650
Systems and Improvements	7,320,814	423,508	-	7,744,322
Total Accumulated Depreciation	<u>7,542,173</u>	<u>563,337</u>	<u>-</u>	<u>8,105,510</u>
Net Capital Assets being Depreciated	<u>13,574,600</u>	<u>(184,141)</u>	<u>-</u>	<u>13,390,459</u>
Net Capital Assets, Business-type Activities	<u>\$ 14,592,247</u>	<u>\$ 907,490</u>	<u>\$ -</u>	<u>\$ 15,499,737</u>

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

Governmental Activities	
General Government	\$ 35,359
Public Safety	19,849
Public Works	170,010
Recreation and Culture	21,606
Depreciation Charged to the Motor Pool Internal Service Fund	<u>114,428</u>
Total Governmental Activities	<u>\$ 361,252</u>

Village of Elk Rapids

Notes to the Financial Statements

Depreciation expense was charged to the business-type activities of the Village as follows:

Business-type Activities	
Water Fund	\$ 90,356
Sewer Fund	203,228
Harbor Fund	268,531
Waste Collection	<u>1,222</u>
Total Business-type Activities	<u>\$ 563,337</u>

Depreciation expense was charged to the discretely presented component units (DDA) of the Village as follows:

Discretely Presented Component Unit	
Community and Economic Development	<u>\$ 1,841</u>

Note 5 - Interfund Transactions

The composition of interfund balances as of February 28, 2018 was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Municipal Street	\$ 351
General Fund	Building Operating	3,182

All amounts due from other funds represent advances to other funds to finance operations or capital outlays.

Village of Elk Rapids

Notes to the Financial Statements

The composition of interfund transfers for the year ended February 28, 2018 was as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Major Streets	\$ 2,800
General Fund	Internal Service Funds	2,000
General Fund	Nonmajor Enterprise Funds	2,800
General Fund	Sewer	2,800
General Fund	Nonmajor Governmental Funds	27,800
General Fund	Harbor	22,800
General Fund	Water	17,800
Nonmajor Governmental Funds	Municipal Streets	209,150
Nonmajor Governmental Funds	General Fund	46,005
Nonmajor Governmental Funds	Water	40,000
Harbor	General Fund	9,500
Major Streets	Municipal Streets	110,000
Water	General Fund	14,000

Note 6 - Long-term Debt

Long-term debt activity for the year ended February 28, 2018 was as follows:

	February 28, 2017	Additions	Reductions	February 28, 2018	Due Within One Year
Governmental activities					
Compensated Absences	\$ 44,061	\$ 13,143	\$ -	\$ 57,204	\$ -
2013 General Obligation Water	170,000	-	40,000	130,000	40,000
2003 CIP Bonds - Bridge St.	90,000	-	45,000	45,000	45,000
2009 CIP Bonds - River St	460,000	-	50,000	410,000	55,000
2017 Equipment Lease	-	450,000	65,354	384,646	59,176
Total, governmental activities	<u>764,061</u>	<u>463,143</u>	<u>200,354</u>	<u>1,026,850</u>	<u>199,176</u>
Business-type activities					
Compensated Absences	27,484	14,336	-	41,820	-
2012 Capital Improvement - Harbor	895,000	-	95,000	800,000	100,000
2014 Waste Water Treatment Plant	4,125,852	15,595	175,000	3,966,447	180,000
2016 Capital Improvement Bonds	2,000,000	-	75,000	1,925,000	80,000
2017 Capital Improvement Bonds	-	3,500,000	-	3,500,000	135,000
Total, Business-type activities	<u>7,048,336</u>	<u>3,529,931</u>	<u>345,000</u>	<u>10,233,267</u>	<u>495,000</u>
Total, Government-wide	<u>\$ 7,812,397</u>	<u>\$ 3,993,074</u>	<u>\$ 545,354</u>	<u>\$ 11,260,117</u>	<u>\$ 694,176</u>

Long-term debt activity for the DDA for the year ended February 28, 2018 was as follows:

Component unit					
2008 Lake/Loomis Street Bonds	\$ 365,000	\$ -	\$ 35,000	\$ 330,000	\$ 40,000

Village of Elk Rapids

Notes to the Financial Statements

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total governmental activities long-term debt obligations outstanding at February 28, 2018 are as follows:

	Governmental Activities		
	Principal	Interest	Total
2019	\$ 199,176	\$ 26,012	\$ 225,188
2020	166,066	19,903	185,969
2021	163,017	15,589	178,606
2022	125,030	11,832	136,862
2023	127,107	8,405	135,512
2024-2028	189,250	6,262	195,512
Totals	\$ 969,646	\$ 88,003	\$ 1,057,649

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity for all business-type activities long-term debt obligations outstanding at February 28, 2018 are as follows:

	Business-type Activities		
	Principal	Interest	Total
2019	\$ 495,000	\$ 276,793	\$ 771,793
2020	470,000	264,613	734,613
2021	480,000	252,397	732,397
2022	500,000	239,690	739,690
2023	505,000	226,340	731,340
2024-2028	2,835,000	918,078	3,753,078
2029-2033	4,185,000	404,735	4,589,735
2034-2038	721,447	24,117	745,564
Totals	\$ 10,191,447	\$ 2,606,763	\$ 12,798,210

Village of Elk Rapids

Notes to the Financial Statements

The annual requirements to maturity for the DDA component unit long-term debt obligations outstanding at February 28, 2018 are as follows:

	Component Unit		
	Principal	Interest	Total
2019	\$ 40,000	\$ 14,356	\$ 54,356
2020	40,000	12,616	52,616
2021	45,000	10,876	55,876
2022	45,000	8,918	53,918
2023	50,000	6,960	56,960
2024-2025	110,000	7,178	117,178
Totals	\$ 330,000	\$ 60,904	\$ 390,904

Compensated absences attributable to the governmental activities will generally be liquidated by the general fund. The installment purchase agreement attributable to the governmental activities with generally be liquidated from the internal service fund.

Note 7 - Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees (workers' compensation); and natural disasters. During the year ended February 28, 2018, the Village carried commercial insurance to cover all risks of loss. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

Note 8 - Defined Benefit Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Village of Elk Rapids

Notes to the Financial Statements

Benefits Provided

The benefits provided for the 2017 valuation year is as follows:

General: Open Division	
	<u>2017 Valuation</u>
Benefit Multiplier:	2.25% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	2.50% (Non-compound)
Employee Contributions:	6.16%
Act 88:	No

Employees Covered by Benefit Terms

At the December 31, 2017 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	5
Inactive plan members entitled to but not yet receiving benefits	1
Active plan members	<u>20</u>
Total employees covered by MERS	<u>26</u>

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees. Village contributions are 10.0% and employee contributions are an additional 5.97% of annual eligible payroll.

Net Pension Liability

The Village's net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Village of Elk Rapids

Notes to the Financial Statements

Actuarial Assumptions

The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation: 2.5%
- Salary Increases: 3.75% in the long-term
- Investment rate of return: 7.75%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	58%	5.02%
Global fixed income	20%	2.18%
Real assets	12%	4.23%
Diversifying strategies	10%	6.56%

Discount Rate

The discount rate used to measure the total pension liability is 8.0%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Village of Elk Rapids

Notes to the Financial Statements

Changes in Net Pension Liability

Changes in the net pension liability during the measurement year were as follows:

<u>Changes in Net Pension Liability</u>	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 2,384,163	\$ 1,727,273	\$ 656,890
Service cost	125,910	-	125,910
Interest	191,545	-	191,545
Changes in benefits	(1,986)	-	(1,986)
Difference between expected and actual experience	(14,294)	-	(14,294)
Changes in assumptions	-	-	-
Contributions - employer	-	168,538	(168,538)
Net investment income	-	235,301	(235,301)
Benefit payments, including refunds	(105,623)	(105,623)	-
Administrative expenses	-	(3,711)	3,711
Other expenses	1	-	1
Net changes	195,553	294,505	(98,952)
Balance at December 31, 2017	\$ 2,579,716	\$ 2,021,778	\$ 557,938

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Village, calculated using the discount rate of 8.00 percent, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent) or one percentage point higher (9.00 percent) than the current rate:

	Current		
	1% Decrease	Discount Rate	1% Increase
	(7.00%)	(8.00%)	(9.00%)
Net pension liability of the Village	\$ 868,219	\$ 557,938	\$ 297,112

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended February 28, 2018, the Village recognized pension expense of \$178,630.

Village of Elk Rapids

Notes to the Financial Statements

At February 28, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Source	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 63,485
Net difference in experience	-	18,193
Net difference in assumptions	47,686	-
Employer contributions to the plan subsequent to the measurement date	32,044	-
Total	\$ 79,730	\$ 81,678

* The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending February 28, 2018.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended February 28	Amount
2019	\$ 1,563
2020	1,569
2021	(12,100)
2022	(22,640)
2023	(2,384)

REQUIRED SUPPLEMENTARY INFORMATION

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				Final to Actual
Revenues				
Property Taxes	\$ 888,400	\$ 911,869	\$ 913,799	\$ 1,930
Intergovernmental	130,200	204,699	236,544	31,845
Licenses and Permits	4,300	4,581	4,295	(286)
Charges for Services	250	250	232	(18)
Fines and Forfeitures	4,500	4,500	4,098	(402)
Interest and Rentals	600	1,576	1,573	(3)
Other Revenues	8,750	14,626	16,299	1,673
Total Revenues	<u>1,037,000</u>	<u>1,142,101</u>	<u>1,176,840</u>	<u>34,739</u>
Other Financing Sources				
Transfers In	81,800	81,800	78,800	(3,000)
Total Revenues and Other Financing Sources	<u>1,118,800</u>	<u>1,223,901</u>	<u>1,255,640</u>	<u>31,739</u>
Expenditures				
General Government				
Village Manager	53,815	56,215	54,611	1,604
Administrative	138,703	138,703	115,013	23,690
Clerk	129,450	137,266	130,342	6,924
Total General Government	<u>321,968</u>	<u>332,184</u>	<u>299,966</u>	<u>32,218</u>
Public Safety				
Police	463,110	463,110	440,247	22,863
Community and Economic Development				
Zoning	100,750	100,750	88,195	12,555
Facade Improvements	--	--	76,838	(76,838)
Total Community and Economic Development	<u>100,750</u>	<u>100,750</u>	<u>165,033</u>	<u>(64,283)</u>
Recreation and Culture				
Park Maintenance	238,800	297,260	281,005	16,255
Parks and Recreation	15,550	15,569	2,315	13,254
Beautification Department	20,527	20,527	12,697	7,830
Total Recreation and Culture	<u>274,877</u>	<u>333,356</u>	<u>296,017</u>	<u>37,339</u>
Total Expenditures	1,160,705	1,229,400	1,201,263	28,137
Other Financing Uses				
Transfers Out	85,500	85,500	69,505	15,995
Total Expenditures and Other Financing Uses	<u>1,246,205</u>	<u>1,314,900</u>	<u>1,270,768</u>	<u>44,132</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(127,405)</u>	<u>(90,999)</u>	<u>(15,128)</u>	<u>75,871</u>
Net Change in Fund Balance	<u>(127,405)</u>	<u>(90,999)</u>	<u>(15,128)</u>	<u>75,871</u>
Fund Balance at Beginning of Period	417,961	417,961	417,961	--
Fund Balance at End of Period	<u>\$ 290,556</u>	<u>\$ 326,962</u>	<u>\$ 402,833</u>	<u>\$ 75,871</u>

Village of Elk Rapids
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street
For the Year Ended February 28, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Intergovernmental	\$ 174,876	\$ 174,876	\$ 191,261	\$ 16,385
Interest and Rentals	243	243	243	--
Total Revenues	<u>175,119</u>	<u>175,119</u>	<u>191,504</u>	<u>16,385</u>
Other Financing Sources				
Transfers In	110,000	110,000	110,000	--
Total Revenues and Other Financing Sources	<u>285,119</u>	<u>285,119</u>	<u>301,504</u>	<u>16,385</u>
Expenditures				
Street Maintenance	180,500	180,500	167,538	12,962
Winter Maintenance	103,800	103,800	81,631	22,169
Total Expenditures	<u>284,300</u>	<u>284,300</u>	<u>249,169</u>	<u>35,131</u>
Other Financing Uses				
Transfers Out	2,800	2,800	2,800	--
Total Expenditures and Other Financing Uses	<u>287,100</u>	<u>287,100</u>	<u>251,969</u>	<u>35,131</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,981)</u>	<u>(1,981)</u>	<u>49,535</u>	<u>51,516</u>
Net Change in Fund Balance	<u>(1,981)</u>	<u>(1,981)</u>	<u>49,535</u>	<u>51,516</u>
<i>Fund Balance at Beginning of Period</i>	135,504	135,504	135,504	--
Fund Balance at End of Period	<u>\$ 133,523</u>	<u>\$ 133,523</u>	<u>\$ 185,039</u>	<u>\$ 51,516</u>

Village of Elk Rapids
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Municipal Street
For the Year Ended February 28, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Property Taxes	\$ 363,048	\$ 363,048	\$ 360,642	\$ (2,406)
Intergovernmental	2,500	2,500	1,793	(707)
Interest and Rentals	318	318	317	(1)
Total Revenues	<u>365,866</u>	<u>365,866</u>	<u>362,752</u>	<u>(3,114)</u>
Expenditures				
Other Street Expenditures	55,400	55,400	45,224	10,176
Total Expenditures	<u>55,400</u>	<u>55,400</u>	<u>45,224</u>	<u>10,176</u>
Other Financing Uses				
Transfers Out	319,150	319,150	319,150	--
Total Expenditures and Other Financing Uses	<u>374,550</u>	<u>374,550</u>	<u>364,374</u>	<u>10,176</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses				
Net Change in Fund Balance	<u>(8,684)</u>	<u>(8,684)</u>	<u>(1,622)</u>	<u>7,062</u>
Fund Balance at Beginning of Period	9,048	9,048	9,048	--
Fund Balance at End of Period	<u>\$ 364</u>	<u>\$ 364</u>	<u>\$ 7,426</u>	<u>\$ 7,062</u>

Village of Elk Rapids
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Last Three Calendar Years

	2017	2016	2015
Total Pension Liability			
Service Cost	\$ 125,910	\$ 127,855	\$ 91,161
Interest	191,545	175,485	158,714
Changes in Benefits	(1,986)	6,204	(20,444)
Difference Between Expected and Actual	(14,294)	(7,863)	(2,603)
Changes in Assumptions	-	-	119,212
Benefit Payments, Including Refunds	(105,622)	(94,297)	(69,470)
Other Changes	-	-	(25,501)
Net Change in Pension Liability	<u>195,553</u>	<u>207,384</u>	<u>251,069</u>
<i>Total Pension Liability - Beginning</i>	2,384,163	2,176,779	1,925,710
Total Pension Liability - Ending (a)	<u>\$ 2,579,716</u>	<u>\$ 2,384,163</u>	<u>\$ 2,176,779</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ 105,944	\$ 94,228	\$ 88,747
Contributions - Member	62,594	43,141	23,848
Net Investment Income	235,301	176,223	85,932
Benefit Payments, Including Refunds	(105,622)	(94,297)	(69,470)
Administrative Expenses	(3,711)	(3,474)	(1,682)
Net Change in Plan Fiduciary Net Position	<u>294,506</u>	<u>215,821</u>	<u>127,375</u>
<i>Plan Fiduciary Net Position - Beginning</i>	1,727,272	1,511,451	1,384,076
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,021,778</u>	<u>\$ 1,727,272</u>	<u>\$ 1,511,451</u>
Net Pension Liability - Ending (a) - (b)	\$ 557,938	\$ 656,891	\$ 665,328
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.37%	72.45%	69.44%
Covered Employee Payroll	\$ 1,004,865	\$ 985,018	\$ 774,516
Net Pension Liability as a Percentage of Covered Employee Payroll	55.52%	66.69%	85.90%

* Built prospectively upon implementation on GASB 68

**Village of Elk Rapids
Required Supplementary Information
Schedule of Contributions
Last Three Fiscal Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 170,093	\$ 94,228	\$ 88,747
Contributions in Relation to the Actuarially Determined Contribution	<u>170,093</u>	<u>94,228</u>	<u>88,747</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Employee Payroll	1,052,555	985,018	774,516
Contributions as a Percentage of Covered Employee Payroll	16%	10%	10%

Notes

Valuation Date

Actuarially determined contribution amounts are calculated as of December 31 each year, which is 14 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years
Asset valuation method	5 year smoothed
Inflation	2.50%
Salary increases	3.75%
Investment rate of return	7.75%
Retirement Age	Varies depending on plan adoption
Mortality	50% Male - 50% Female blend of the RP-2014 Group Annuity Mortality Table

Other Supplementary Information

**Village of Elk Rapids
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2018**

	Special Revenue		Debt Service			Capital Projects		Total Nonmajor Governmental Funds
	Local Street	Building Operating	River Crossing Debt Service Fund	Bridge Street Debt Service Fund	River Street Debt Service	Capital Projects Fund	Southwest Village Project	
ASSETS								
Cash and Investments	\$ 29,837	\$ 1,546	\$ 51,315	\$ 70	\$ 40,001	\$ 248,139	\$ 55	\$ 370,963
Accounts Receivable	--	--	--	--	--	5,054	--	5,054
Taxes Receivable	--	--	1,115	--	--	--	--	1,115
Special Assessments	--	--	--	--	--	1,377	--	1,377
Due from Other Governments	27,929	3,253	--	--	--	--	--	31,182
Total Assets	\$ 57,766	\$ 4,799	\$ 52,430	\$ 70	\$ 40,001	\$ 254,570	\$ 55	\$ 409,691
LIABILITIES								
Accounts Payable	\$ 13,010	\$ 1,517	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 14,527
Payroll Liabilities	1,111	100	--	--	--	--	--	1,211
Due to Other Funds	--	3,182	--	--	--	--	--	3,182
Total Liabilities	14,121	4,799	--	--	--	--	--	18,920
DEFERRED INFLOWS OF RESOURCES								
Unearned Revenue	--	--	--	--	--	1,377	--	1,377
Total Liabilities and Deferred Inflows of Resources	14,121	4,799	--	--	--	1,377	--	20,297
FUND BALANCE								
Restricted	43,645	--	52,430	70	40,001	--	--	136,146
Committed	--	--	--	--	--	253,193	55	253,248
Unassigned	--	--	--	--	--	--	--	--
Total Fund Balance	43,645	--	52,430	70	40,001	253,193	55	389,394
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 57,766	\$ 4,799	\$ 52,430	\$ 70	\$ 40,001	\$ 254,570	\$ 55	\$ 409,691

Village of Elk Rapids
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended February 28, 2018

	Special Revenue		Debt Service			Capital Projects		Total Nonmajor Governmental Funds
	Local Street	Building Operating	River Crossing Debt Service Fund	Bridge Street Debt Service Fund	River Street Debt Service	Capital Projects Fund	Southwest Village Project	
Revenues								
Property Taxes	\$ --	\$ --	\$ 47,293	\$ --	\$ --	\$ --	\$ --	\$ 47,293
Intergovernmental	115,343	--	--	--	--	7,967	--	123,310
Charges for Services	--	28,507	--	--	--	--	--	28,507
Interest and Rentals	63	--	69	--	--	20,236	--	20,368
Other Revenues	--	--	--	--	--	43,894	--	43,894
Total Revenues	<u>115,406</u>	<u>28,507</u>	<u>47,362</u>	<u>--</u>	<u>--</u>	<u>72,097</u>	<u>--</u>	<u>263,372</u>
Expenditures								
General Government	--	62,512	--	--	--	2,276	--	64,788
Public Works	197,930	--	--	--	--	--	--	197,930
Debt Service - Principal	--	--	40,000	45,000	50,000	--	--	135,000
Debt Service - Interest	--	--	3,375	3,731	10,350	--	--	17,456
Capital Outlay	--	--	--	--	--	21,438	--	21,438
Total Expenditures	<u>197,930</u>	<u>62,512</u>	<u>43,375</u>	<u>48,731</u>	<u>60,350</u>	<u>23,714</u>	<u>--</u>	<u>436,612</u>
Excess of Revenues Over (Under) Expenditures	<u>(82,524)</u>	<u>(34,005)</u>	<u>3,987</u>	<u>(48,731)</u>	<u>(60,350)</u>	<u>48,383</u>	<u>--</u>	<u>(173,240)</u>
Other Financing Sources (Uses)								
Transfers In	100,000	34,005	--	48,800	100,350	12,000	--	295,155
Transfers Out	(2,800)	--	--	--	--	(25,000)	--	(27,800)
Net Other Financing Sources (Uses)	<u>97,200</u>	<u>34,005</u>	<u>--</u>	<u>48,800</u>	<u>100,350</u>	<u>(13,000)</u>	<u>--</u>	<u>267,355</u>
Net Change in Fund Balance	14,676	--	3,987	69	40,000	35,383	--	94,115
<i>Fund Balance at Beginning of Period</i>	28,969	--	48,443	1	1	217,810	55	295,279
Fund Balance at End of Period	<u>\$ 43,645</u>	<u>\$ --</u>	<u>\$ 52,430</u>	<u>\$ 70</u>	<u>\$ 40,001</u>	<u>\$ 253,193</u>	<u>\$ 55</u>	<u>\$ 389,394</u>

Village of Elk Rapids
Combining Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
February 28, 2018

	Agency		
	Payroll Account	Birch Lake Sewer Account	Total
ASSETS			
Cash and Investments	\$ 2,079	\$ 5,281	\$ 7,360
<i>Total Assets</i>	2,079	5,281	7,360
LIABILITIES			
Accounts Payable	--	5,281	5,281
Payroll Liabilities	2,079	--	2,079
<i>Total Liabilities</i>	\$ 2,079	\$ 5,281	\$ 7,360

July 27, 2018

To the Members of the Village Council
Village of Elk Rapids
Elk Rapids, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Village of Elk Rapids, Michigan (the "Village") for the year ended February 28, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 18, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences and the related pay rates as of February 28, 2018.
- The assumptions used in the valuation of the pension plan are based on historical trends and industry standards.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 27, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, the pension schedules, and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of

management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining nonmajor governmental fund and combining fiduciary fund statements, which accompany 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.

Communication Regarding Internal Control

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

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

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

Material Audit Adjustments and Financial Statement Preparation:

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the management. The preparation of financial statements in accordance

with GAAP requires internal controls over both; (1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

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

As is the case with many small and medium-sized governmental units, the Village has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Village's internal controls. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to GAAP, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses.

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

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

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

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

Segregation of Incompatible Duties

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

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

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

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

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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

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

Restriction on Use

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



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