

Village of Elk Rapids

Financial Statements
And Independent Auditors' Report

Year Ended February 29, 2016

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WILLIS & JURASEK

CPAS AND CONSULTANTS

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elk Rapids, Michigan, as of and for the year ended February 29, 2016, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Elk Rapids, as of February 29, 2016, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ended February 29, 2016, the Village of Elk Rapids implemented new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, and certain pension 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 of Elk Rapids' basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2016, on our consideration of the Village of Elk Rapids' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Elk Rapids' internal control over financial reporting and compliance.

Willis & Turasek, P.C.

August 3, 2016

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

As management of the **Village of Elk Rapids**, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended February 29, 2016. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to financial statements.

The Village as a Whole

Despite the uncertain economy, the Village reports that our governmental activities net position has again increased over the past year. Once again, this has been achieved by careful management, careful spending and adopting a long-term view.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains other supplementary information in addition to 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 information on all of the Village's assets and liabilities, with the difference between the two 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 government'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 in this statement for some items that will only result in cash flows in future fiscal periods.

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

The government-wide financial statements include not only the Village (known as the primary government), but also legally separate entities – the Downtown Development Authority (Eastside), which is a discretely presented component unit of the Village. Financial information for the component units is reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 1-3 of this report.

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

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

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 evaluating 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, major street, local street, and municipal street funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

Proprietary Funds. The Village maintains two different 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 enterprise funds to account for its sanitary sewer and water distribution as well as the harbor operations. *Internal service funds* account for operations that provide services for equipment rental and accumulate and allocate costs internally among the Village's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *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 three major enterprise funds; water, sewer, and harbor plus non-major waste collection fund and the internal service fund. The basic proprietary fund financial statements can be found on pages 8-10 of this report.

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 statements 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.

The basic fiduciary fund financial statements can be found on page 11 of this report.

Notes to Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 12-27 of this report.

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes comparisons from budgeted amounts to actual amounts in the major governmental funds, combining fund financial statements, and schedules, which can be found on pages 28-39 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village of Elk Rapids, assets exceeded liabilities by \$14,773,395 at the close of the most recent fiscal year, which is an increase over last year of \$1,695,210.

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

In a condensed format, the table below shows net position as of each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 931,635	\$ 763,978	\$ 2,454,544	\$ 2,314,821
Capital assets	<u>4,027,966</u>	<u>4,039,645</u>	<u>14,168,133</u>	<u>9,562,047</u>
Total assets	<u>4,959,601</u>	<u>4,803,623</u>	<u>16,622,677</u>	<u>11,876,868</u>
Deferred outflows	<u>115,446</u>	-	-	-
Current liabilities	40,761	56,370	916,025	581,829
Non-current liabilities	<u>1,323,875</u>	<u>1,000,736</u>	<u>4,602,945</u>	<u>1,636,185</u>
Total liabilities	<u>1,364,636</u>	<u>1,057,106</u>	<u>5,518,970</u>	<u>2,218,014</u>
Deferred inflows	<u>40,723</u>	-	-	-
Net position:				
Net investment in capital assets	3,177,966	3,059,645	9,605,664	7,954,683
Restricted	450,053	349,795	-	-
Unrestricted	<u>41,669</u>	<u>312,077</u>	<u>1,498,043</u>	<u>1,704,171</u>
Total net position	<u>\$ 3,669,688</u>	<u>\$3,721,517</u>	<u>\$11,103,707</u>	<u>\$ 9,658,854</u>

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

The following table shows the changes in net position for each fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Program revenues:				
Charges for services	\$ 25,083	\$ 22,003	\$ 2,323,126	\$ 2,138,959
Capital grants and contributions	41,721	70,840	1,174,991	206,987
Operating grants	248,586	235,595	61,377	16,848
General revenues:				
Property taxes	1,165,997	1,143,010	82,964	81,205
Unrestricted grants	131,710	132,167	-	-
Investment earnings	1,748	1,273	4,555	1,651
Gain on sale of assets	66,150	1,325	-	-
Other	128,675	116,263	8,493	9,475
Total revenues	<u>1,809,670</u>	<u>1,722,476</u>	<u>3,655,506</u>	<u>2,455,125</u>
Program expenses:				
General government	359,209	281,668	-	-
Public safety	417,067	447,818	-	-
Public works	442,339	604,176	-	-
Community development	86,867	97,340	-	-
Recreation and culture	198,518	194,902	-	-
Interest on long-term debt	24,595	34,190	-	-
Capital outlay	98,932	34,912	-	-
Water	-	-	332,621	314,431
Sewer	-	-	716,322	643,666
Harbor	-	-	1,003,345	1,046,033
Waste collection	-	-	102,811	125,247
Total expenses	<u>1,627,527</u>	<u>1,695,006</u>	<u>2,155,099</u>	<u>2,129,377</u>
Transfers	<u>67,212</u>	<u>71,866</u>	<u>(54,512)</u>	<u>(56,550)</u>
Changes in net position	<u>\$ 249,355</u>	<u>\$ 99,336</u>	<u>\$1,445,855</u>	<u>\$ 269,198</u>

General Fund Budgetary Highlights

Over the course of the year, approximately quarterly, the Village Manager recommends amendments to the budget to take into account unforeseen events happening during the year.

Capital Asset and Debt Administration

At the end of the fiscal year, the Village had a total investment in capital assets for governmental and business-type activities of \$18,196,099 which is made up of a broad range of capital assets, including buildings, water and sewer structures, both above and below ground and significant investment in streets.

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

The following table summarizes the fixed assets of the Village at each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 590,383	\$ 590,383	\$ 691,961	\$ 645,422
Construction in progress	-	-	5,201,126	691,485
Land improvements	829,091	829,091	18,279	18,279
Infrastructure	2,756,491	2,695,388	-	-
Buildings and structures	1,619,876	1,619,876	760,288	528,786
Improvements to systems	-	-	14,739,920	14,430,080
Vehicles	324,127	324,127	-	-
Furniture and equipment	469,110	330,017	63,483	63,483
Accumulated depreciation	<u>(2,561,112)</u>	<u>(2,349,237)</u>	<u>(7,306,924)</u>	<u>(6,862,027)</u>
Net capital assets	<u>\$4,027,966</u>	<u>\$4,039,645</u>	<u>\$14,167,133</u>	<u>\$9,562,047</u>

The following table summarizes the debt outstanding at each fiscal year-end:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
General obligation bonds	\$ 850,000	\$ 980,000	\$ -	\$ -
State revolving loan	-	-	3,582,469	537,364
Revenue bonds	-	-	<u>980,000</u>	<u>1,070,000</u>
Net long-term debt	<u>\$1,268,792</u>	<u>\$ 1,279,923</u>	<u>\$4,562,469</u>	<u>\$ 1,607,364</u>

The Village's total debt increased due to a new issuance in the sewer fund for the building of a new wastewater treatment plant.

Economic Factors and Next Year's Budgets and Rates

The following significant factors were considered in preparing the Village's budget for the 2016-2017 fiscal year:

- A small increase in state revenue sharing
- An increase in taxable values and millage rate levied
- Completion of wastewater treatment plant
- Purchase of a new police vehicle
- New manager and change in personnel allocation of time
- Completion of Millers Park/Fourth Street project
- Repainting of the water tower
- Continued sidewalk projects
- Tree maintenance to continue after significant storms

Village of Elk Rapids
Management's Discussion and Analysis
Year Ended February 29, 2016

Contacting the Village Management

This discussion and analysis is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Village Manager, Village of Elk Rapids, 315 Bridge Street, PO Box 398, Elk Rapids, MI 49629-0398.

Village of Elk Rapids

Statement of Net Position

February 29, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Eastside DDA
Assets:				
Cash and investments	\$ 806,879	\$ 2,166,033	\$ 2,972,912	\$ 37,965
Receivables	124,756	229,636	354,392	-
Prepaid items and other assets	-	126	126	-
Inventory	-	58,749	58,749	-
Capital assets, net:				
Assets not being depreciated	590,383	5,893,087	6,483,470	-
Assets being depreciated	3,437,583	8,275,046	11,712,629	-
Total assets	4,959,601	16,622,677	21,582,278	37,965
Deferred Outflows of Resources:				
Pension related	115,446	-	115,446	-
Liabilities:				
Accounts payable	3,614	368,783	372,397	17
Accrued expenses	29,847	17,614	47,461	169
Accrued interest	7,300	8,568	15,868	5,800
Unearned revenue	-	521,060	521,060	-
Non-current liabilities:				
Current portion of long-term debt	130,000	255,000	385,000	35,000
Compensated absences	36,985	40,476	77,461	-
Due in more than one year	720,000	4,307,469	5,027,469	365,000
Net pension liability	436,890	-	436,890	-
Total liabilities	1,364,636	5,518,970	6,883,606	405,986
Deferred Inflows of Resources:				
Pension related	40,723	-	40,723	-
Net Position:				
Net investment in capital assets	3,177,966	9,605,664	12,783,630	-
Restricted for:				
Debt service	46,852	-	46,852	-
Capital projects	194,347	-	194,347	-
Special revenue activity	208,854	-	208,854	-
Unrestricted	41,669	1,498,043	1,539,712	(368,021)
Total net position	\$ 3,669,688	\$ 11,103,707	\$ 14,773,395	\$ (368,021)

See Notes to Financial Statements.

Village of Elk Rapids
Statement of Activities
Year Ended February 29, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Primary Government					
Governmental Activities:					
General government	\$ 359,209	\$ 24,199	\$ 42,014	\$ -	\$ (292,996)
Public safety	417,067	884	798	-	(415,385)
Public works	442,339	-	205,774	30,000	(206,565)
Culture and recreation	198,518	-	-	-	(198,518)
Community and economic development	86,867	-	-	-	(86,867)
Interest on long-term debt	24,595	-	-	-	(24,595)
Capital outlay	98,932	-	-	11,721	(87,211)
Total governmental activities	<u>1,627,527</u>	<u>25,083</u>	<u>248,586</u>	<u>41,721</u>	<u>(1,312,137)</u>
Business-type Activities:					
Harbor	1,003,345	1,051,953	-	-	48,608
Sewer	716,322	846,783	48,005	1,174,991	1,353,457
Water	332,621	391,596	13,332	-	72,307
Waste collection	102,811	32,794	-	-	(70,017)
Total business-type activities	<u>2,155,099</u>	<u>2,323,126</u>	<u>61,337</u>	<u>1,174,991</u>	<u>1,404,355</u>
Total primary government	<u>\$ 3,782,626</u>	<u>\$ 2,348,209</u>	<u>\$ 309,923</u>	<u>\$ 1,216,712</u>	<u>\$ 92,218</u>
Component Units					
Eastside DDA	\$ 64,873	-	7,206	-	\$ (57,667)
Total component units	<u>\$ 64,873</u>	<u>\$ -</u>	<u>\$ 7,206</u>	<u>\$ -</u>	<u>\$ (57,667)</u>

continued..

Village of Elk Rapids
Statement of Activities (Continued)
Year Ended February 29, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Eastside DDA
Changes in Net Assets				
Net (expense) revenue	\$ (1,312,137)	\$ 1,404,355	\$ 92,218	\$ (57,667)
General Revenues:				
Property taxes	1,165,997	82,964	1,248,961	109,600
Unrestricted grants and contributions	131,710	-	131,710	-
Interest and investment earnings	1,748	4,555	6,303	99
Gain (loss) on sale of assets	66,150	-	66,150	-
Other revenues (expenses)	128,675	8,493	137,168	33
Transfers - internal activities	67,212	(54,512)	12,700	(12,700)
Total general revenues, contributions and transfers	1,561,492	41,500	1,602,992	97,032
Changes in Net Assets	249,355	1,445,855	1,695,210	39,365
Net Assets - Beginning of Year	3,420,333	9,657,852	13,078,185	(407,386)
Net Assets - End of Year	\$ 3,669,688	\$ 11,103,707	\$ 14,773,395	\$ (368,021)

See Notes to Financial Statements.

Village of Elk Rapids

Balance Sheet
Governmental Funds
February 29, 2016

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Municipal Street</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>						
Cash and investments	\$ 351,946	\$ 61,635	\$ 73,772	\$ 21,073	\$ 235,964	\$ 744,390
Receivables:						
Accounts receivable	-	-	-	-	5,054	5,054
Taxes receivable	24,473	-	-	8,700	1,210	34,383
Special assessments	-	-	-	-	3,789	3,789
Due from other governmental units	19,979	34,387	20,199	-	6,965	81,530
Due from other funds	7,992	-	-	-	-	7,992
Total assets	<u>\$ 404,390</u>	<u>\$ 96,022</u>	<u>\$ 93,971</u>	<u>\$ 29,773</u>	<u>\$ 252,982</u>	<u>\$ 877,138</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ 1,809	\$ 619	\$ 620	\$ -	\$ -	\$ 3,048
Due to other funds	-	-	-	-	7,992	7,992
Accrued expenses	20,322	2,797	2,513	-	-	25,632
Unearned revenue	-	-	-	-	3,789	3,789
Total liabilities	<u>22,131</u>	<u>3,416</u>	<u>3,133</u>	<u>-</u>	<u>11,781</u>	<u>40,461</u>
Fund Balances:						
Restricted:						
Special revenue funds	-	92,606	90,838	29,773	-	213,217
Debt service funds	-	-	-	-	46,852	46,852
Capital project funds	-	-	-	-	194,347	194,347
Committed	-	-	-	-	2	2
Unassigned	382,259	-	-	-	-	382,259
Total fund balances	<u>382,259</u>	<u>92,606</u>	<u>90,838</u>	<u>29,773</u>	<u>241,201</u>	<u>836,677</u>
Total liabilities and fund balances	<u>\$ 404,390</u>	<u>\$ 96,022</u>	<u>\$ 93,971</u>	<u>\$ 29,773</u>	<u>\$ 252,982</u>	<u>\$ 877,138</u>

See Notes to Financial Statements.

Village of Elk Rapids

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of Governmental Activities on the Statement of Net Position February 29, 2016

Total Fund Balances - Governmental Funds		\$	836,677
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p> <p>Capital assets used in governmental activities are not financial resources and are not reported in the funds.</p>			
The cost of the capital assets is		\$	6,589,076
Accumulated depreciation is			(2,561,110)
			4,027,966
<p>Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by unearned revenues in the governmental funds, and these are not included in fund balance.</p>			
Special assessments			3,789
<p>Internal service funds are used by management to charge the costs of certain equipment usage and administrative costs to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.</p>			
Net position of governmental activities accounted for in the internal service fund			432,427
Less net capital assets included in cost and accumulated depreciation above			(381,549)
			50,878
<p>Long-term liabilities not due and payable in the current period and not reported in the funds:</p>			
Bonds payable			(850,000)
Accrued interest			(7,300)
Compensated absences			(30,155)
			(887,455)
<p>Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds:</p>			
Net pension liability			(436,890)
Deferred outflows related to the net pension liability			115,446
Deferred inflows related to the net pension liability			(40,723)
Compensated absences			(362,167)
			(362,167)
Total Net Position - Governmental Activities		\$	3,669,688

See Notes to Financial Statements.

Village of Elk Rapids
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended February 29, 2016

	General	Major Street	Local Street	Municipal Street	Other Nonmajor Governmental Funds	Total
Revenues:						
Taxes	\$ 817,750	\$ -	\$ -	\$ 319,007	\$ 46,816	\$ 1,183,573
Intergovernmental	147,667	147,335	88,439	-	-	383,441
Licenses and permits	6,427	-	-	-	-	6,427
Charges for services	771	-	-	-	30,385	31,156
Fines and forfeitures	4,522	-	-	-	-	4,522
Interest and rentals	667	114	157	91	415	1,444
Other revenue	20,520	-	-	-	112,184	132,704
Total revenues	<u>998,324</u>	<u>147,449</u>	<u>88,596</u>	<u>319,098</u>	<u>189,800</u>	<u>1,743,267</u>
Expenditures:						
General government	213,059	-	-	-	63,502	276,561
Public safety	402,087	-	-	-	-	402,087
Public works	-	202,245	207,772	26,181	-	436,198
Community and economic development	86,867	-	-	-	-	86,867
Culture and recreation	176,657	-	-	-	-	176,657
Debt service:						
Principal payments	-	-	-	-	130,000	130,000
Interest and fiscal charges	-	-	-	-	26,195	26,195
Capital outlay	-	-	-	-	97,442	97,442
Total expenditures	<u>878,670</u>	<u>202,245</u>	<u>207,772</u>	<u>26,181</u>	<u>317,139</u>	<u>1,632,007</u>
Revenues Over (Under) Expenditures	<u>119,654</u>	<u>(54,796)</u>	<u>(119,176)</u>	<u>292,917</u>	<u>(127,339)</u>	<u>111,260</u>
Other Financing Sources (Uses):						
Operating transfers in	46,083	80,000	140,000	2,260	193,926	462,269
Operating transfers out	(89,885)	(2,800)	(2,800)	(294,572)	(3,000)	(393,057)
Total other financing sources (uses)	<u>(43,802)</u>	<u>77,200</u>	<u>137,200</u>	<u>(292,312)</u>	<u>190,926</u>	<u>69,212</u>
Net Changes in Fund Balances	75,852	22,404	18,024	605	63,587	180,472
Fund Balances - Beginning of Year	306,407	70,202	72,814	29,168	177,614	656,205
Fund Balances - End of Year	<u>\$ 382,259</u>	<u>\$ 92,606</u>	<u>\$ 90,838</u>	<u>\$ 29,773</u>	<u>\$ 241,201</u>	<u>\$ 836,677</u>

See Notes to Financial Statements.

Village of Elk Rapids

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 29, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 180,472

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

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

Capital outlay - total	\$ 278,856	
Less portion from internal service fund	(210,172)	
Net capital outlay	68,684	
Depreciation expense	(290,535)	
		(221,851)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Current year earned special assessments		(1,263)
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the Statement of Net Assets, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the Statement of Net Position.

Repayment to bond holders and bank	130,000	
Decrease in accrued interest	1,600	
	131,600	131,600

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Change in net position from governmental activities in the internal service fund	158,575	
Add back internal service fund depreciation expense included above	52,240	
	210,815	210,815

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 the funds.

Decrease in the accrual for compensated absences		10,565
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Governmental funds report the required pension contributions for the fiscal year as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a December year-end to coincide with the MERS actuarial date. These differences are reported as follows:

Pension expense	(81,059)	
Contributions expenditures post December 31, 2015	20,076	
	(60,983)	(60,983)

Change in Net Position of Governmental Activities \$ 249,355

See Notes to Financial Statements.

Village of Elk Rapids
Statement of Net Position
Proprietary Funds
February 29, 2016

	Business-type Activities - Enterprise Funds				Governmental Activities	
	Water	Sewer	Harbor	Nonmajor Fund Waste Collection	Total	Internal Service
Assets:						
Current assets:						
Cash and cash equivalents	\$ 338,681	\$ 543,722	\$ 1,242,621	\$ 41,009	\$ 2,166,033	\$ 62,489
Receivables:						
Accounts	42,543	184,846	-	-	227,389	-
Taxes	-	-	-	2,247	2,247	-
Inventory, at cost	28,085	10,154	18,810	1,700	58,749	-
Prepaid expenses	126	-	-	-	126	-
Total current assets	<u>409,435</u>	<u>738,722</u>	<u>1,261,431</u>	<u>44,956</u>	<u>2,454,544</u>	<u>62,489</u>
Capital assets:						
Land	25,800	630	665,531	-	691,961	14,012
Land improvements, buildings, and equipment	3,524,756	4,351,963	7,648,433	56,818	15,581,970	658,554
Construction in progress	-	5,201,126	-	-	5,201,126	-
	<u>3,550,556</u>	<u>9,553,719</u>	<u>8,313,964</u>	<u>56,818</u>	<u>21,475,057</u>	<u>672,566</u>
Less accumulated depreciation	<u>(1,466,681)</u>	<u>(2,598,559)</u>	<u>(3,198,598)</u>	<u>(43,086)</u>	<u>(7,306,924)</u>	<u>(291,017)</u>
Net capital assets	<u>2,083,875</u>	<u>6,955,160</u>	<u>5,115,366</u>	<u>13,732</u>	<u>14,168,133</u>	<u>381,549</u>
Total assets	<u>2,493,310</u>	<u>7,693,882</u>	<u>6,376,797</u>	<u>58,688</u>	<u>16,622,677</u>	<u>444,038</u>
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	1,790	363,989	2,897	107	368,783	566
Accrued expenses	5,484	25,600	19,037	7,969	58,090	11,045
Customer deposits	-	235	-	-	235	-
Unearned revenue	-	-	520,825	-	520,825	-
Accrued interest	-	-	8,568	-	8,568	-
Current portion of long-term debt	-	170,000	85,000	-	255,000	-
Total current liabilities (payable from current assets)	<u>7,274</u>	<u>559,824</u>	<u>636,327</u>	<u>8,076</u>	<u>1,211,501</u>	<u>11,611</u>
Noncurrent liabilities:						
General obligation and revenue bonds payable	-	3,412,469	895,000	-	4,307,469	-
Total noncurrent liabilities	<u>-</u>	<u>3,412,469</u>	<u>895,000</u>	<u>-</u>	<u>4,307,469</u>	<u>-</u>
Total liabilities	<u>7,274</u>	<u>4,142,293</u>	<u>1,531,327</u>	<u>8,076</u>	<u>5,688,970</u>	<u>11,611</u>
Net Position:						
Net investment in capital assets	2,083,875	3,372,691	4,135,366	13,732	9,605,664	381,549
Unrestricted	402,161	348,898	710,104	36,880	1,498,043	50,878
Total net position	<u>\$ 2,486,036</u>	<u>\$ 3,721,589</u>	<u>\$ 4,845,470</u>	<u>\$ 50,612</u>	<u>\$ 11,103,707</u>	<u>\$ 432,427</u>

Village of Elk Rapids
Statement of Revenues, Expenses
and Changes in Net Position
Proprietary Funds
Year Ended February 29, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Harbor	Nonmajor Fund	Total	Internal Service
				Waste Collection		
Operating Revenues:						
Charges for services	\$ 391,596	\$ 844,233	\$ 1,041,228	\$ 32,794	\$ 2,309,851	\$ 302,920
Other operating revenues	-	35,601	15,539	-	51,140	-
Total operating revenues	<u>391,596</u>	<u>879,834</u>	<u>1,056,767</u>	<u>32,794</u>	<u>2,360,991</u>	<u>302,920</u>
Operating Expenses:						
Water operations	249,603	-	-	-	249,603	-
Sewer operations	-	597,923	-	-	597,923	-
Harbor operations	-	-	719,197	-	719,197	-
Waste collection operations	-	-	-	100,859	100,859	-
Motor pool operations	-	-	-	-	-	156,559
Depreciation	83,018	101,679	258,248	1,952	444,897	52,240
Total operating expenses	<u>332,621</u>	<u>699,602</u>	<u>977,445</u>	<u>102,811</u>	<u>2,112,479</u>	<u>208,799</u>
Operating Income (Loss)	<u>58,975</u>	<u>180,232</u>	<u>79,322</u>	<u>(70,017)</u>	<u>248,512</u>	<u>94,121</u>
Nonoperating Revenues (Expenses):						
Taxes	-	-	-	82,389	82,389	-
Interest income	1,242	930	2,304	80	4,556	304
Interest expense	-	(16,720)	(25,900)	-	(42,620)	-
Capital contribution	-	1,174,991	-	-	1,174,991	-
Other income (expense)	17,311	275	14,954	-	32,540	-
Gain (loss) on disposal of assets	-	-	-	-	-	66,150
Total nonoperating revenues (expenses)	<u>18,553</u>	<u>1,159,476</u>	<u>(8,642)</u>	<u>82,469</u>	<u>1,251,856</u>	<u>66,454</u>
Net Income (Loss) Before Transfers	<u>77,528</u>	<u>1,339,708</u>	<u>70,680</u>	<u>12,452</u>	<u>1,500,368</u>	<u>160,575</u>
Transfers:						
Transfers in	7,800	-	9,280	580	17,660	-
Transfers out	(42,888)	(4,620)	(20,045)	(4,620)	(72,173)	(2,000)
Total transfers	<u>(35,088)</u>	<u>(4,620)</u>	<u>(10,765)</u>	<u>(4,040)</u>	<u>(54,513)</u>	<u>(2,000)</u>
Changes in Net Position	42,440	1,335,088	59,915	8,412	1,445,855	158,575
Net Position - Beginning of Year	<u>2,443,596</u>	<u>2,386,501</u>	<u>4,785,555</u>	<u>42,200</u>	<u>9,657,852</u>	<u>273,852</u>
Net Position - End of Year	<u>\$ 2,486,036</u>	<u>\$ 3,721,589</u>	<u>\$ 4,845,470</u>	<u>\$ 50,612</u>	<u>\$ 11,103,707</u>	<u>\$ 432,427</u>

Village of Elk Rapids
Statement of Cash Flows
Proprietary Funds
Year Ended February 29, 2016

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water	Sewer	Harbor	Nonmajor Fund	Total	Internal Service
				Waste Collection		
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 398,965	\$ 718,081	\$1,053,747	\$ 32,459	\$ 2,203,252	\$ -
Other operating receipts	-	35,601	15,539	-	51,140	-
Receipts for interfund services provided	-	-	-	-	-	302,920
Cash paid to suppliers of goods and services	(168,357)	(32,373)	(489,376)	(72,809)	(762,915)	(94,015)
Cash paid to employees for services	(82,616)	(212,578)	(215,681)	(27,452)	(538,327)	(61,281)
Net cash provided by (used in) operating activities	<u>147,992</u>	<u>508,731</u>	<u>364,229</u>	<u>(67,802)</u>	<u>953,150</u>	<u>147,624</u>
Cash Flows From Noncapital Financing Activities:						
Nonoperating property taxes	-	-	-	82,389	82,389	-
Net transfers to/from other funds	(35,088)	(4,620)	(10,765)	(4,040)	(54,513)	(2,000)
Net cash provided by noncapital financing activities	<u>(35,088)</u>	<u>(4,620)</u>	<u>(10,765)</u>	<u>78,349</u>	<u>27,876</u>	<u>(2,000)</u>
Cash Flows From Capital and Related Financing Activities:						
Principal paid on long-term debt	-	-	(90,000)	-	(90,000)	-
Issuance of long-term debt	-	3,045,105	-	-	3,045,105	-
Contribution towards capital project	-	1,174,991	-	-	1,174,991	-
Interest payments	-	(16,720)	(25,900)	-	(42,620)	-
Proceeds from the disposal of assets	-	-	-	-	-	66,150
Purchase of capital assets, net	(213,000)	(4,542,642)	(296,342)	-	(5,051,984)	(210,172)
Net cash used by capital and related financing activities	<u>(213,000)</u>	<u>(339,266)</u>	<u>(412,242)</u>	<u>-</u>	<u>(964,508)</u>	<u>(144,022)</u>
Cash Flows from Investing Activities:						
Other nonoperating income received	17,311	275	14,954	-	32,540	-
Interest income received	1,242	930	2,304	80	4,556	304
Net cash provided by (used in) investing activities	<u>18,553</u>	<u>1,205</u>	<u>17,258</u>	<u>80</u>	<u>37,096</u>	<u>304</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(81,543)</u>	<u>166,050</u>	<u>(41,520)</u>	<u>10,627</u>	<u>53,614</u>	<u>1,906</u>
Cash and Cash Equivalents - Beginning of Year	<u>420,224</u>	<u>377,672</u>	<u>1,284,141</u>	<u>30,382</u>	<u>2,112,419</u>	<u>60,583</u>
Cash and Cash Equivalents - End of Year	<u>\$ 338,681</u>	<u>\$ 543,722</u>	<u>\$ 1,242,621</u>	<u>\$ 41,009</u>	<u>\$ 2,166,033</u>	<u>\$ 62,489</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ 58,975	\$ 180,232	\$ 79,322	\$ (70,017)	\$ 248,512	\$ 94,121
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	83,018	101,679	258,248	1,952	444,897	52,240
Changes in:						
Receivables	7,369	(112,022)	-	(334)	(104,987)	-
Inventories	7,972	3,230	7,676	-	18,878	-
Prepaid expenses	-	-	-	-	-	-
Accounts payable	(3,082)	344,392	(1,946)	(2,433)	336,931	(1,961)
Accrued expenses	(6,260)	5,350	8,410	3,031	10,531	3,224
Unearned revenue	-	(14,130)	12,519	-	(1,611)	-
Customer deposits	-	-	-	-	-	-
Net Cash Provided by (Used in) Operating Activities	<u>\$ 147,992</u>	<u>\$ 508,731</u>	<u>\$ 364,229</u>	<u>\$ (67,801)</u>	<u>\$ 953,151</u>	<u>\$ 147,624</u>

Village of Elk Rapids
Statement of Fiduciary Net Position
Fiduciary Funds
February 29, 2016

	Payroll Trust Fund	Birch Lake Sewer Trust
Assets:		
Cash and investments	\$ 1,416	\$ 9,574
Receivable	-	6,167
Total assets	\$ 1,416	\$ 15,741
Liabilities:		
Due to other agencies	\$ 1,416	\$ 15,741
Total liabilities	\$ 1,416	\$ 15,741

See Notes to Financial Statements.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies

Village Operations and Principles of Preparation

The Village of Elk Rapids, Michigan 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 of Elk Rapids 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

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, scope of public service, fiscal dependency, and special financial relationships.

Component Units

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 DDAs must be approved by the Village Council. The Village Council also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the Village Manager, Village of Elk Rapids, 315 Bridge Street, PO Box 398, Elk Rapids, MI 49629-0398.

Implementation of GASB Statement No. 68

The Village has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, which was promulgated with the purpose of improving accounting and financial reporting for pensions. The Statement establishes standards for measuring and recognizing pension liabilities, pension expenses, and the related deferred inflows and deferred outflows of resources. As a result of this implementation, the beginning net position has been adjusted to reflect the beginning of year balances of the net pension liability and related deferrals of inflows and outflows of resources. The restatement is as follows:

Net position, as originally reported	\$ 3,721,513
Adjustment for net pension liability and related deferred inflows and outflows	<u>(301,180)</u>
Restated beginning net position	<u>\$ 3,420,333</u>

See Note 8 for further information.

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 non-fiduciary 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

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

and charges for support. Likewise, the primary government is reported separately from certain 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 segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government's water and sewer funds 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.

Fund-Based Statements - 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 if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Major Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the major street functions of the Village.

Local Street Fund – This fund is a special revenue fund. It accounts for revenues received primarily from the State of Michigan Department of Transportation and accounts for street activity relating to the local street functions of the Village.

Municipal Street Fund – This fund accounts for the use of property taxes, which are earmarked for municipal street purposes.

The government reports the following major proprietary funds:

Water Fund – The Water Fund accounts for the activities of the government's water production, purification, and distribution systems.

Sewer Fund – The Sewer Fund accounts for the activities of the government's sewage collection and treatment systems.

Harbor Fund – The Harbor Fund accounts for the activity of the government's harbor operations.

Additionally, the government reports the following fund types:

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

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

Capital Project Funds – These 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.

Waste Collection Fund – This fund accounts for the Village's waste collection operations.

Equipment Internal Service Fund – The internal service fund accounts for operations that provide motor vehicle and equipment management to other departments of the Village on a cost-reimbursement basis.

Agency Funds – These funds account for assets held by the Village in a trustee or agency capacity for individuals, private organizations, other governments and/or other funds.

Additional Financial Statement Presentation Information - 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 and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Additional Financial Statement Presentation Information (Continued) - cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Deposits and Investments – 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 and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

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."

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the enterprise funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Village of Elk Rapids
Notes to Financial Statements

1. Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued) - Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	15
Buildings and improvements	40 - 50
Infrastructure	20
Systems and improvements	30 - 60
Vehicles	5 - 12
Furniture, machinery, and equipment	5 - 15

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.

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.

Fund Equity –Fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (Village Council) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose. It is the Village's policy to generally use fund balance in order according to hierarchy of fund balance categories, from restricted down to unassigned.

Property Taxes - 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 property in the Village for 2015 had a taxable value of approximately \$111,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's tax rate for fiscal year 2015-16 was 7.5800 mills for general operating, 0.7800 for waste collection, 3.020 for municipal streets, and .4200 for debt service.

Village of Elk Rapids
Notes to Financial Statements

2. Stewardship, Compliance and Accountability

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.
- 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 cash 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. The amendments were not significant in total.
- 9) All budget appropriations lapse at the end of each fund's fiscal year.

3. Cash and Cash Equivalents

To facilitate better management of the Village's resources, cash is combined in a pooled operating account for much of the Village's activity.

At year-end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash & cash equivalents	\$ 806,879	\$ 2,166,033	\$ 2,972,912	\$ 37,965	\$ 10,990	\$ 3,021,867

Village of Elk Rapids
Notes to Financial Statements

3. Cash and Cash Equivalents (Continued)

The cash and cash equivalents for the Village by type are as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 3,021,388
Petty cash and cash on hand	<u>479</u>
Total	<u>\$ 3,021,867</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. The Village has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$2,875,000 of the Village's bank balance of approximately \$3,125,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. Receivables

Receivables of the governmental activities of the primary government at year-end consisted of the following:

Other governmental units (primarily the State of Michigan)	\$ 81,530
Special assessments	3,789
Other	<u>39,437</u>
	<u>\$ 124,756</u>

Village of Elk Rapids
Notes to Financial Statements

5. Capital Assets

Capital assets activity for the year ended February 29, 2016 was as follows:

Primary Government	Beginning		Disposals and	Ending
Governmental Activities:	Balance	Additions	Adjustments	Balance
Capital assets not being depreciated:				
Land	\$ 590,383	\$ -	\$ -	\$ 590,383
Total capital assets not being depreciated	<u>590,383</u>	<u>-</u>	<u>-</u>	<u>590,383</u>
Capital assets being depreciated:				
Land improvements	829,091	-	-	829,091
Infrastructure	2,695,388	61,103	-	2,756,491
Buildings and improvements	1,619,876	-	-	1,619,876
Vehicles	324,127	-	-	324,127
Furniture and equipment	330,017	217,753	78,660	469,110
Total capital assets being depreciated	<u>5,798,499</u>	<u>278,856</u>	<u>78,660</u>	<u>5,998,695</u>
Accumulated depreciation:				
Land improvements	377,127	51,304	-	428,431
Infrastructure	787,863	137,004	-	924,867
Buildings and improvements	811,595	32,930	-	844,525
Vehicles	181,609	32,653	-	214,262
Furniture and equipment	191,043	36,644	78,660	149,027
Total accumulated depreciation	<u>2,349,237</u>	<u>290,535</u>	<u>78,660</u>	<u>2,561,112</u>
Total capital assets being depreciated - net	<u>3,449,262</u>	<u>(11,679)</u>	<u>-</u>	<u>3,437,583</u>
Governmental activities capital assets - net	<u>\$ 4,039,645</u>	<u>\$ (11,679)</u>	<u>\$ -</u>	<u>\$ 4,027,966</u>

Village of Elk Rapids
Notes to Financial Statements

5. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 691,961	\$ -	\$ -	\$ 691,961
Construction in progress	691,485	4,509,641	-	5,201,126
Total capital assets not being depreciated	<u>1,383,446</u>	<u>4,509,641</u>	<u>-</u>	<u>5,893,087</u>
Capital assets being depreciated:				
Buildings and improvements	528,786	231,502	-	760,288
Land improvements	18,279	-	-	18,279
Improvements to systems	14,430,080	309,840	-	14,739,920
Machinery and equipment	63,483	-	-	63,483
Total capital assets being depreciated	<u>15,040,628</u>	<u>541,342</u>	<u>-</u>	<u>15,581,970</u>
Accumulated depreciation	<u>6,862,027</u>	<u>444,897</u>	<u>-</u>	<u>7,306,924</u>
Total capital assets being depreciated - net	<u>8,178,601</u>	<u>96,445</u>	<u>-</u>	<u>8,275,046</u>
Business-type activities capital assets - net	<u>\$ 9,562,047</u>	<u>\$4,606,086</u>	<u>\$ -</u>	<u>\$ 14,168,133</u>

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

Governmental Activities:	
General government	\$ 35,089
Public safety	14,980
Public works	166,365
Recreation and culture	21,861
Depreciation on capital assets held by the City's internal service fund is charged to the various functions based on usage of the assets	<u>52,240</u>
Total depreciation expense - governmental activities	<u>\$ 290,535</u>
Business-Type Activities:	
Water	\$ 83,018
Sewer	101,679
Harbor	258,248
Waste Collection	<u>1,952</u>
Total depreciation expense - business-type activities	<u>\$ 444,897</u>

Village of Elk Rapids
Notes to Financial Statements

6. Interfund Transfers

	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 46,083	\$ 89,885
Major Street Fund	80,000	2,800
Local Street Fund	140,000	2,800
Municipal Street Fund	2,260	294,572
Proprietary Funds	17,660	74,172
Component Units	-	12,700
Nonmajor Governmental Funds	193,926	3,000
	<u>\$ 479,929</u>	<u>\$ 479,929</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the applicable debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

As of year-end, the General Fund was owed \$7,992 by the Building Operating Fund as the general fund cash flowed the expenses allocated to the township.

7. Long-Term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village.

Governmental activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds	\$ 980,000	\$ -	\$ 130,000	\$ 850,000	\$ 130,000
Compensated absences	45,736	-	8,751	36,985	-
Total	<u>\$ 1,025,736</u>	<u>\$ -</u>	<u>\$ 138,751</u>	<u>\$ 886,985</u>	<u>\$ 130,000</u>

The following is a summary of the general obligation debt outstanding of the Village as of February 29, 2016:

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Governmental activities:			
2013 General obligation water bonds	2.25%	2021	\$ 210,000
2003 Capital improvements bonds - Bridge St.	2.25-4.45%	2019	130,000
2013 Capital improvements bonds - River St.	2.25%	2025	510,000
			<u>\$ 850,000</u>

Village of Elk Rapids
Notes to Financial Statements

7. Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental activities obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 130,000	\$ 20,560	\$ 150,560
2018	135,000	16,706	151,706
2019	140,000	12,701	152,701
2020	105,000	9,507	114,507
2021	100,000	7,144	107,144
2022-2025	240,000	13,500	253,500
	<u>\$ 850,000</u>	<u>\$ 80,118</u>	<u>\$ 930,118</u>

Business-type activities - long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
Bonds	\$ 1,070,000	\$ -	\$ 90,000	\$ 980,000	\$ 85,000
State Revolving Loan	537,364	3,045,105	-	3,582,469	170,000
Compensated absences	28,821	11,655	-	40,476	-
Total	<u>\$ 1,636,185</u>	<u>\$ 3,056,760</u>	<u>\$ 90,000</u>	<u>\$ 4,602,945</u>	<u>\$ 255,000</u>

	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Business-type activities:			
2012 Capital Improvement - Harbor	1.10% - 3.30%	2028	\$ 980,000
2014 Waste Water Treatment Plant	2.50%	2036	4,400,000
			<u>\$ 5,380,000</u>

During the year, the Village continued construction of a new wastewater treatment plant. The above debt amount is for the full anticipated draws. As of year-end, draws outstanding only amounted to \$3,582,469. Annual debt service requirements to maturity on the above business-type bond obligations are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 255,000	\$ 109,888	\$ 364,888
2018	270,000	102,960	372,960
2019	280,000	96,739	376,739
2020	255,000	90,267	345,267
2021	260,000	83,759	343,759
2022-2026	1,410,000	312,363	1,722,363
2027-2031	1,335,000	122,903	1,457,903
2031-2036	1,315,000	6,626	1,321,626
	<u>\$ 5,380,000</u>	<u>\$ 925,505</u>	<u>\$ 6,305,505</u>

Village of Elk Rapids
Notes to Financial Statements

7. Long-Term Debt (Continued)

Component unit activities long-term obligation activity can be summarized as follows:

Component Unit:	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Bonds	\$ 435,000	\$ -	\$ 35,000	\$ 400,000	\$ 35,000

Annual debt service requirements to maturity on the above component unit bond obligations are as follows:

Component unit:	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
2008 Lake/Loomis St. bonds	4.35%	2025	\$ 465,000

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 35,000	\$ 17,400	\$ 52,400
2018	35,000	15,878	50,878
2019	40,000	14,356	54,356
2020	40,000	12,616	52,616
2021	45,000	10,876	55,876
2022-2026	205,000	21,862	226,862
	<u>\$ 400,000</u>	<u>\$ 92,988</u>	<u>\$ 492,988</u>

8. Pension Plan – Agent Multiple-Employer Plan

Description of Plan and Plan Assets

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. Public Act 427 of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. 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.

Benefits Provided - Pension benefits are calculated as final average compensation (based on a 3 year period) and multipliers of 2.25%. Participants are considered to be fully vested in the plan after 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service. The employer may establish contribution rates to be paid by its covered employees. Currently, member contributions are 4.70%.

Employees Covered by Benefit Terms. At December 31, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	3
Inactive employees entitled to but not yet receiving benefits	2
Active employees	<u>17</u>
Total membership	<u>22</u>

Village of Elk Rapids
Notes to Financial Statements

8. Pension Plan – Agent Multiple-Employer Plan

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. Employer contributions are 12.4% based on annual payroll.

Net Pension Liability - The Village's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3% to 4%
Salary increases calendar	4.5% in the long-term (1%, 2% and 3% for Years 2014, 2015 and 2016, respectively)
Investment rate of return	8.0%, net of investment expense and including inflation

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 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	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

Discount Rate - The discount rate used to measure the total pension liability is 8.25% for 2015. 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.

Village of Elk Rapids
Notes to Financial Statements

8. Pension Plan – Agent Multiple-Employer Plan

Discount Rate (Continued) - 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.

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at December 31, 2014	\$ 1,925,710	\$ 1,612,518	\$ 313,192
Changes for the year:			
Service cost	91,161	-	91,161
Interest on total pension liability	158,714	-	158,714
Changes in benefits	(20,444)	-	(20,444)
Difference between expected and actual experience	(2,603)	-	(2,603)
Changes in assumptions	119,212	-	119,212
Employer contributions	-	88,747	(88,747)
Employee contributions	-	23,848	(23,848)
Net investment income	-	85,932	(85,932)
Benefit payments, including refunds of employee contributions	(69,470)	(69,470)	-
Administrative expense	-	(1,682)	1,682
Other changes	(25,501)	-	(25,501)
Net changes	<u>251,069</u>	<u>127,375</u>	<u>123,694</u>
Balances at December 31, 2015	<u>\$ 2,176,779</u>	<u>\$ 1,739,893</u>	<u>\$ 436,886</u>

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%, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.00%) or 1% higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Village's net pension liability	<u>\$ 268,312</u>	<u>\$ -</u>	<u>\$ (225,928)</u>

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.

Village of Elk Rapids
Notes to Financial Statements

8. Pension Plan – Agent Multiple-Employer Plan

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

For the year ended February 29, 2016, the Village recognized pension expense of \$81,056. The Village reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,085
Changes in assumptions	95,370	-
Net difference between projected and actual earnings on pension plan investments	-	38,638
	<u>95,370</u>	<u>40,723</u>
Contributions subsequent to the measurement date	<u>20,076</u>	<u>-</u>
Total	<u>\$ 115,446</u>	<u>\$ 40,723</u>

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, 2017. Other amounts reported as deferred outflows of resources related to pension will be recognized in pension expense as follows:

<u>Year Ended February 28</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
2017	\$ 23,842	\$ 10,181
2018	23,842	10,181
2019	23,843	10,181
2020	<u>23,843</u>	<u>10,180</u>
Total	<u>\$ 95,370</u>	<u>\$ 40,723</u>

9. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 29, 2016, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three fiscal years.

Village of Elk Rapids
Notes to Financial Statements

10. Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new governmental disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended February 28, 2018 with earlier application encouraged.

Required Supplemental Information

Village of Elk Rapids
 Budgetary Comparison Schedule
 General Fund
 Year Ended February 29, 2016

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Taxes	\$ 808,414	\$ 804,421	\$ 817,750
State revenue	134,550	145,650	147,667
Licenses and permits	3,275	3,275	6,427
Charges for services	350	350	771
Fines and violations	3,500	3,500	4,522
Interest and rentals	500	500	667
Other revenue	9,700	11,118	20,520
Total revenues	960,289	968,814	998,324
Expenditures:			
General government:			
Village manager	67,864	67,864	61,317
Administrative	75,162	79,773	69,376
Clerk	96,049	96,049	82,366
Total general government	239,075	243,686	213,059
Public safety:			
Police	443,442	443,742	402,087
Community and economic development:			
Zoning	95,921	96,921	86,867
Culture and recreation:			
Park maintenance expense	153,312	225,399	158,094
Parks and recreation	2,650	1,490	1,403
Beautification department	20,858	18,978	17,160
Total culture and recreation	176,820	245,867	176,657
Total expenditures	955,258	1,030,216	878,670
Revenues Over (Under) Expenditures	5,031	(61,402)	119,654
Other Financing Sources (Uses):			
Transfers in	47,025	46,083	46,083
Transfers out	(87,965)	(89,625)	(89,885)
Total other financing sources (uses)	(40,940)	(43,542)	(43,802)
Net Changes in Fund Balances	(35,909)	(104,944)	75,852
Fund Balances - Beginning of Year	306,407	306,407	306,407
Fund Balances - End of Year	\$ 270,498	\$ 201,463	\$ 382,259

Village of Elk Rapids
 Budgetary Comparison Schedule
 Major Street Fund
 Year Ended February 29, 2016

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
State revenue	\$ 121,400	\$ 121,400	\$ 147,335
Interest and rentals	-	-	114
Other revenue	-	-	-
Total revenues	<u>121,400</u>	<u>121,400</u>	<u>147,449</u>
Expenditures:			
Highways and streets:			
Street maintenance	144,585	137,385	127,074
Winter maintenance	85,152	85,152	75,171
Total highways and streets	<u>229,737</u>	<u>222,537</u>	<u>202,245</u>
Total expenditures	<u>229,737</u>	<u>222,537</u>	<u>202,245</u>
Revenues Over (Under) Expenditures	<u>(108,337)</u>	<u>(101,137)</u>	<u>(54,796)</u>
Other Financing Sources (Uses):			
Transfers in	80,000	80,000	80,000
Transfers out	(2,800)	(2,800)	(2,800)
Total other financing sources (uses)	<u>77,200</u>	<u>77,200</u>	<u>77,200</u>
Net Changes in Fund Balances	(31,137)	(23,937)	22,404
Fund Balances - Beginning of Year	<u>70,202</u>	<u>70,202</u>	<u>70,202</u>
Fund Balances - End of Year	<u>\$ 39,065</u>	<u>\$ 46,265</u>	<u>\$ 92,606</u>

Village of Elk Rapids
 Budgetary Comparison Schedule
 Local Street Fund
 Year Ended February 29, 2016

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Intergovernmental	\$ 83,500	\$ 83,500	\$ 88,439
Interest and rentals	-	-	157
Total revenues	<u>83,500</u>	<u>83,500</u>	<u>88,596</u>
Expenditures:			
Highways and streets:			
Construction	30,000	45,000	33,993
Street maintenance	124,785	124,785	111,571
Winter maintenance	71,402	71,402	62,208
Total highways and streets	<u>226,187</u>	<u>241,187</u>	<u>207,772</u>
Total expenditures	<u>226,187</u>	<u>241,187</u>	<u>207,772</u>
Revenues Over (Under) Expenditures	<u>(142,687)</u>	<u>(157,687)</u>	<u>(119,176)</u>
Other Financing Sources (Uses):			
Transfers in	140,000	140,000	140,000
Transfers out	(2,800)	(2,800)	(2,800)
Total other financing sources (uses)	<u>137,200</u>	<u>137,200</u>	<u>137,200</u>
Net Changes in Fund Balances	(5,487)	(20,487)	18,024
Fund Balances - Beginning of Year	<u>72,814</u>	<u>72,814</u>	<u>72,814</u>
Fund Balances - End of Year	<u>\$ 67,327</u>	<u>\$ 52,327</u>	<u>\$ 90,838</u>

Village of Elk Rapids
 Budgetary Comparison Schedule
 Municipal Street Fund
 Year Ended February 29, 2016

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Taxes	\$ 315,200	\$ 314,390	\$ 319,007
Interest and rentals	-	-	91
Other revenue	-	-	-
Total revenues	315,200	314,390	319,098
Expenditures:			
Public works:			
Street lighting	27,800	27,800	26,320
Other	1,000	1,000	(139)
Total public works	28,800	28,800	26,181
Total expenditures	28,800	28,800	26,181
Revenues Over (Under) Expenditures	286,400	285,590	292,917
Other Financing Sources (Uses):			
Transfers in	2,500	2,260	2,260
Transfers out	(294,572)	(294,572)	(294,572)
Total other financing sources (uses)	(292,072)	(292,312)	(292,312)
Net Changes in Fund Balances	(5,672)	(6,722)	605
Fund Balances - Beginning of Year	29,168	29,168	29,168
Fund Balances - End of Year	\$ 23,496	\$ 22,446	\$ 29,773

Village of Elk Rapids
Michigan Municipal Employees' Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios
Last Fiscal Year (Amounts Determined as of 12/31)

	2015
Total pension liability	
Service cost	\$ 91,161
Interest	158,714
Changes in benefits	(20,444)
Difference between expected and actual experience	(2,603)
Changes in assumptions	119,212
Benefit payments, including refunds of employee contributions	(69,470)
Other changes	(25,501)
	251,069
Net change in total pension liability	251,069
Total pension liability, beginning of year	1,925,710
Total pension liability, end of year	2,176,779
Plan fiduciary net position	
Employer contributions	88,747
Employee contributions	23,848
Net investment income	85,932
Benefit payments, including employee refunds	(69,470)
Administrative expense	(1,682)
	127,375
Net change in plan fiduciary net position	127,375
Plan fiduciary net position, beginning of year	1,612,518
Plan fiduciary net position, end of year	1,739,893
Net pension liability	\$ 436,886
Plan fiduciary net position as a percentage of total pension liability	79.9%
Covered-employee payroll	\$ 774,516
Net pension liability as a percentage of covered-employee payroll	56.4%

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Village of Elk Rapids
Michigan Municipal Employees' Retirement System
Schedule of Contributions
Last Fiscal Year (Amounts Determined as of 12/31)

	2015
Actuarial determined contributions	\$ 88,747
Contributions in relation to the actuarially determined contribution	88,747
Contribution deficiency (excess)	\$ -
 Covered Employee Payroll	\$ 774,516
 Contributions as a percentage of covered employee payroll	11.5%

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Notes to Schedule:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	25 years
Asset valuation method	10 year smoothed
Inflation	3.5%
Salary Increases	4.5%
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

Other Supplemental Information

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Governmental Funds
February 29, 2016

<u>Assets</u>	<u>Building Operating</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Total</u>
Cash and investments	\$ 1,027	\$ 45,644	\$ 189,293	\$ 235,964
Accounts receivable	-	-	5,054	5,054
Taxes receivable	-	1,210	-	1,210
Due from other governmental units	6,965	-	-	6,965
Special assessments	-	-	3,789	3,789
Total assets	<u>\$ 7,992</u>	<u>\$ 46,854</u>	<u>\$ 198,136</u>	<u>\$ 252,982</u>
 <u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	7,992	-	-	7,992
Unearned revenue	-	-	3,789	3,789
Total liabilities	<u>7,992</u>	<u>-</u>	<u>3,789</u>	<u>11,781</u>
Fund Balances:				
Restricted	-	46,852	194,347	241,199
Committed	-	2	-	2
Total fund balances	<u>-</u>	<u>46,854</u>	<u>194,347</u>	<u>241,201</u>
Total liabilities and fund balances	<u>\$ 7,992</u>	<u>\$ 46,854</u>	<u>\$ 198,136</u>	<u>\$ 252,982</u>

Village of Elk Rapids

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Governmental Funds
 Year Ended February 29, 2016

	Building Operating	Debt Service	Capital Project	Total
Revenues:				
Taxes	\$ -	\$ 46,816	\$ -	\$ 46,816
Charges for services	30,385	-	-	30,385
Local contributions	3,791	-	62,950	66,741
Interest revenue	-	62	353	415
Miscellaneous	-	-	45,443	45,443
Total revenues	34,176	46,878	108,746	189,800
Expenditures:				
General government	63,502	-	-	63,502
Debt service:				
Principal payments	-	130,000	-	130,000
Interest and fiscal charges	-	26,195	-	26,195
Capital outlay	-	-	97,442	97,442
Total expenditures	63,502	156,195	97,442	317,139
Revenues Over (Under) Expenditures	(29,326)	(109,317)	11,304	(127,339)
Other Financing Sources (Uses):				
Transfers in	32,326	111,020	50,580	193,926
Transfers out	(3,000)	-	-	(3,000)
Total other financing sources (uses)	29,326	111,020	50,580	190,926
Changes in Fund Balances	-	1,703	61,884	63,587
Fund Balances - Beginning of Year	-	45,151	132,463	177,614
Fund Balances - End of Year	\$ -	\$ 46,854	\$ 194,347	\$ 241,201

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Debt Service Funds
February 29, 2016

	<u>River Crossing</u>	<u>Bridge Street</u>	<u>River Street</u>	<u>Total</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 45,642	\$ 1	\$ 1	\$ 45,644
Taxes receivable	1,210	-	-	1,210
Total assets	<u>\$ 46,852</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 46,854</u>
<u>Liabilities and Fund Balances</u>				
Fund Balances:				
Nonspendable:				
Prepaid expenditures	-	-	-	-
Restricted	\$ 46,852	\$ -	\$ -	\$ 46,852
Committed	-	1	1	2
Total fund balances	<u>46,852</u>	<u>1</u>	<u>1</u>	<u>46,854</u>
Total liabilities and fund balances	<u>\$ 46,852</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 46,854</u>

Village of Elk Rapids
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Debt Service Funds
Year Ended February 29, 2016

	River Crossing	Bridge Street	River Street	Total
Revenues:				
Taxes	\$ 46,816	\$ -	\$ -	\$ 46,816
Interest revenue	62	-	-	62
Miscellaneous	-	-	-	-
Total revenues	<u>46,878</u>	<u>-</u>	<u>-</u>	<u>46,878</u>
Expenditures:				
Debt service:				
Principal payments	40,000	40,000	50,000	130,000
Interest and fiscal charges	5,175	7,240	13,780	26,195
Total expenditures	<u>45,175</u>	<u>47,240</u>	<u>63,780</u>	<u>156,195</u>
Revenues Over (Under) Expenditures	<u>1,703</u>	<u>(47,240)</u>	<u>(63,780)</u>	<u>(109,317)</u>
Other Financing Sources (Uses):				
Transfers in	-	47,240	63,780	111,020
Total other financing sources (uses)	<u>-</u>	<u>47,240</u>	<u>63,780</u>	<u>111,020</u>
Changes in Fund Balances	1,703	-	-	1,703
Fund Balances - Beginning of Year	<u>45,149</u>	<u>1</u>	<u>1</u>	<u>45,151</u>
Fund Balances - End of Year	<u>\$ 46,852</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 46,854</u>

Village of Elk Rapids
Combining Balance Sheet
Nonmajor Capital Project Funds
February 29, 2016

	General Capital Projects	Southwest Village Project	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 189,238	\$ 55	\$ 189,293
Receivables:			
Accounts receivable	5,054	-	5,054
Special assessments	3,789	-	3,789
Total assets	\$ 198,081	\$ 55	\$ 198,136
 <u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Unearned revenue	3,789	-	3,789
Total liabilities	3,789	-	3,789
Fund Balances:			
Committed	194,292	55	194,347
Total fund balances	194,292	55	194,347
Total liabilities and fund balances	\$ 198,081	\$ 55	\$ 198,136

Village of Elk Rapids
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended February 29, 2016

	General Capital Projects	Southwest Village Project	Total
Revenues:			
Local contributions	\$ 62,950	\$ -	\$ 62,950
Interest revenue	353	-	353
Other revenue	45,443	-	45,443
Total revenues	<u>108,746</u>	<u>-</u>	<u>108,746</u>
Expenditures:			
Capital outlay	97,442	-	97,442
Total expenditures	<u>97,442</u>	<u>-</u>	<u>97,442</u>
Revenues Over (Under) Expenditures	<u>11,304</u>	<u>-</u>	<u>11,304</u>
Other Financing Sources (Uses):			
Gain (loss) on sale of asset	-	-	-
Transfers in	50,580	-	50,580
Transfers out	-	-	-
Total other financing sources (uses)	<u>50,580</u>	<u>-</u>	<u>50,580</u>
Changes in Fund Balances	61,884	-	61,884
Fund Balances - Beginning of Year	<u>132,408</u>	<u>55</u>	<u>132,463</u>
Fund Balances - End of Year	<u>\$ 194,292</u>	<u>\$ 55</u>	<u>\$ 194,347</u>



WILLIS & JURASEK

CPAS AND CONSULTANTS

**Independent Auditors' Report on Internal Control over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elk Rapids, as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village of Elk Rapids' basic financial statements and have issued our report thereon dated August 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Elk Rapids' 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 of Elk Rapids' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. We consider the deficiencies described in the accompanying schedule of findings and responses as 2016-001 and 2016-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Elk Rapids' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an object of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

Village of Elk Rapids' Response to Findings

The Village's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Village of Elk Rapids' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Willis & Jurasek, P.C.

August 3, 2016

Schedule of Findings and Responses

Finding 2016-001

Currently, the Village's staff prepares the internal interim and annual financial statements. The annual financial statements for the year ended February 29, 2016, required the assistance of the auditors for preparation. Statement on Auditing Standards #115 titled *Communicating Internal Control Related Matters Identified in an Audit* requires us to communicate in writing when a client requires assistance to prepare the financial statements required in the annual audit report in accordance with accounting principles generally accepted in the United States of America. The staff of the Village does understand all information included in the annual financial statements; however, we assist in preparing the financial statements and the footnotes to the annual financial statements. We do not recommend any changes to this situation at this time and communicate this as required by professional standards. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standard #115.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

Finding 2016-002

During the course of the audit, we made material adjustments to the fund financial statements that had a material effect on the ending balances. We believe this meets the definition of a material weakness as defined in Statement on Auditing Standards # 115.

Client Response

We are aware of the adjustments that were made. We will implement a review of the financial statements to consider any potential adjustments. We would expect this situation to be corrected in future years.



WILLIS & JURASEK

CPAS AND CONSULTANTS

August 3, 2016

To the Village Council
Village of Elk Rapids

We have audited the financial statements of the governmental activities and each major fund of Village of Elk Rapids for the year ended February 29, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Elk Rapids are described in Note 1 to the financial statements. The Village implemented GASB 68 as discussed in Notes 1 and 8 to the financial statements, however application of existing policies was not changed during fiscal year 2016. 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(s) affecting the Village of Elk Rapids' financial statements was:

Management's estimate of depreciation is based on estimated lives of assets using historical data. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 3, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Clarksville'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 the management's discussion and analysis and budgetary comparison information, 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.

Recommendations

Year-end cutoff procedures should be established and implemented to properly adjust various accounts including receivables, payables, etc. to provide accurate financial information and to prevent material adjusting by outside auditors.

With the significant change in personnel in key rolls, we recommend the council continue to work with management to monitor your internal control structure to ensure controls are appropriate, adequate, and being adhered to.

Next year you will be required to undergo an Act 51 performance audit. We recommend you continue to ensure you are appropriately following the guidance related to State funding for major and local streets.

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.