

VILLAGE OF EDMORE

Montcalm County

FINANCIAL STATEMENTS

February 29, 2016

VILLAGE OF EDMORE

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Management's Discussion & Analysis	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balances	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Position	19
Statement of Revenues, Expenses and Changes in Fund Net Position	20
Statement of Cash Flows	21
Fiduciary Fund:	
Statement of Fiduciary Assets and Liabilities	22
Notes to Financial Statements	24
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule – General Fund	38
Budgetary Comparison Schedule – Special Revenue Fund – Major Street Fund	40
Budgetary Comparison Schedule – Special Revenue Fund – Economic Development Fund	41
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in in Accordance with <i>Government Auditing Standards</i>	42



INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Edmore
Montcalm County, 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 Edmore, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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.

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Edmore 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.

To the Village Council
Village of Edmore

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8) and budgetary comparison information (pages 38 through 41) 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 Edmore's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is 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 May 24, 2016 on our consideration of the Village of Edmore's 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 Edmore's internal control over financial reporting and compliance.

Bertchume & Co.

Saginaw, Michigan
May 24, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

VILLAGE OF EDMORE

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2016

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

FINANCIAL HIGHLIGHTS:

- The Village's combined total net position is reported as \$7,684,296 for the fiscal year ended February 29, 2016, compared to \$7,631,654 for the fiscal year ended February 28, 2015.
- In the Village's governmental activities, revenues generated were \$680,243 while expenses totaled \$593,113.
- In the Village's business-type activities, revenues generated were \$433,420 while expenses totaled \$480,928.
- Total net position increased by \$52,642.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the Village's finances, as a whole, 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. The *statement of activities* presents all of the Village's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the Village of Edmore are divided into two categories:

Governmental Activities – Most of the Village's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The Village charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include water distribution and wastewater collection.

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

VILLAGE OF EDMORE

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2016

Fund Financial Statements:

The fund financial statements provide more detailed information about the Village's most significant funds, not the Village as a whole. 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 has three types of funds:

Governmental Funds – Most of the Village's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The Village maintains five (5) individual governmental funds. Separate information is presented for the General Fund, Major Street Fund, Economic Development Fund and Sunrise Project Fund, which are considered to be "major" funds. Data from the other governmental fund, the Local Street Fund, considered to be a "nonmajor" fund, is also presented separately.

The Village adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been provided for the General Fund and major special revenue funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the Village charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows.
- Internal service funds are used to report activities that provide supplies and services to the Village's other programs. The Village's internal service fund is the Motor Pool Fund.

Fiduciary Funds – Fiduciary funds are used to account for the 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 available to support the Village's own programs.

Notes to the 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.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village. The combining statements referred to earlier in connection with the nonmajor governmental funds are presented immediately following the required supplementary information.

VILLAGE OF EDMORE

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2016

THE VILLAGE OF EDMORE AS A WHOLE:

The Village's total combined net position for the fiscal year ended February 29, 2016 is \$7,684,296, consisting of \$4,210,014 in governmental activities and \$3,474,282 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$2,193,380. Governmental activities unrestricted total is \$813,401, while business-type activities is \$1,379,979.

The following table shows comparisons of total assets, total liabilities, total deferred inflows and total net position in a condensed format as of February 29, 2016 and February 28, 2015.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Assets:						
Current and other assets	\$ 2,967,209	\$ 3,002,178	\$ 1,532,194	\$ 1,462,213	\$ 4,499,403	\$ 4,464,391
Capital assets, net	<u>1,413,938</u>	<u>1,129,292</u>	<u>4,315,551</u>	<u>4,462,635</u>	<u>5,729,489</u>	<u>5,591,927</u>
Total assets	<u>4,381,147</u>	<u>4,131,470</u>	<u>5,847,745</u>	<u>5,924,848</u>	<u>10,228,892</u>	<u>10,056,318</u>
Liabilities:						
Other liabilities	16,567	6,886	22,463	13,058	39,030	19,944
Long-term liabilities	<u>154,566</u>	<u>10,174</u>	<u>2,351,000</u>	<u>2,390,000</u>	<u>2,505,566</u>	<u>2,400,174</u>
Total liabilities	<u>171,133</u>	<u>17,060</u>	<u>2,373,463</u>	<u>2,403,058</u>	<u>2,544,596</u>	<u>2,420,118</u>
Deferred inflows	<u>-</u>	<u>4,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,546</u>
Net position:						
Net investment in capital assets	1,266,861	1,129,292	1,964,551	2,072,635	3,231,412	3,201,927
Restricted	2,129,752	2,064,840	129,752	106,056	2,259,504	2,170,896
Unrestricted	<u>813,401</u>	<u>915,732</u>	<u>1,379,979</u>	<u>1,343,099</u>	<u>2,193,380</u>	<u>2,258,831</u>
Total net position	<u>\$ 4,210,014</u>	<u>\$ 4,109,864</u>	<u>\$ 3,474,282</u>	<u>\$ 3,521,790</u>	<u>\$ 7,684,296</u>	<u>\$ 7,631,654</u>

The Village's combined total net position increased by \$52,642 during the current fiscal year. Governmental activities increased by \$100,150 while business-type activities decreased by \$47,508.

Governmental Activities:

The Village's total governmental revenue is reported at \$680,243, an increase of \$116,770 from the prior year. Total expenses decreased by \$35,491 from the prior year.

Business-type Activities:

The Village's total business-type revenue is reported at \$433,420, an increase of \$5,452 from the prior year. Total expenses increased by \$38,161 from the prior year.

VILLAGE OF EDMORE

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2016

The following table shows the comparison of the change in net position in a condensed format for the years ended February 29, 2016 and February 28, 2015.

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues:						
Program revenues						
Charges for services	\$ 47,729	\$ 48,064	\$ 417,422	\$ 426,502	\$ 465,151	\$ 474,566
Operating grants and contributions	139,826	111,660	15,838	-	155,664	111,660
Capital contributions	116,343	30,000	-	-	116,343	30,000
General revenues						
Property taxes	248,319	241,453	-	-	248,319	241,453
Payment in lieu of property taxes	923	1,776	-	-	923	1,776
Franchise fees	1,412	1,344	-	-	1,412	1,344
State revenue sharing	108,890	109,102	-	-	108,890	109,102
Investment earnings	9,687	8,758	160	1,466	9,847	10,224
Other	7,114	11,316	-	-	7,114	11,316
Total revenues	<u>680,243</u>	<u>563,473</u>	<u>433,420</u>	<u>427,968</u>	<u>1,113,663</u>	<u>991,441</u>
Expenses:						
General government	143,811	139,059	-	-	143,811	139,059
Public safety	79,146	101,432	-	-	79,146	101,432
Public works	293,012	296,369	-	-	293,012	296,369
Community and economic development	35,632	62,893	-	-	35,632	62,893
Recreation and culture	38,147	28,851	-	-	38,147	28,851
Interest on long-term debt	3,365	-	-	-	3,365	-
Sewer	-	-	298,390	278,239	298,390	278,239
Water	-	-	182,538	164,528	182,538	164,528
Total expenses	<u>593,113</u>	<u>628,604</u>	<u>480,928</u>	<u>442,767</u>	<u>1,074,041</u>	<u>1,071,371</u>
Excess of revenues over expenses before other	<u>87,130</u>	<u>(65,131)</u>	<u>(47,508)</u>	<u>(14,799)</u>	<u>39,622</u>	<u>(79,930)</u>
Other items:						
Sale of capital assets	<u>13,020</u>	<u>(8,759)</u>	<u>-</u>	<u>-</u>	<u>13,020</u>	<u>(8,759)</u>
Changes in net position	<u>100,150</u>	<u>(73,890)</u>	<u>(47,508)</u>	<u>(14,799)</u>	<u>52,642</u>	<u>(88,689)</u>
Net position, beginning of year	<u>4,109,864</u>	<u>4,183,754</u>	<u>3,521,790</u>	<u>3,536,589</u>	<u>7,631,654</u>	<u>7,720,343</u>
Net position, end of year	<u>\$ 4,210,014</u>	<u>\$ 4,109,864</u>	<u>\$ 3,474,282</u>	<u>\$ 3,521,790</u>	<u>\$ 7,684,296</u>	<u>\$ 7,631,654</u>

VILLAGE OF EDMORE

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 29, 2016

THE VILLAGE OF EDMORE'S FUNDS:

Presentation of the Village of Edmore's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the Village's largest governmental fund and one of four governmental funds that is considered a major fund. It pays for most of the Village's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended February 29, 2016, General Fund financing uses exceeded its financing sources by \$21,430, decreasing its ending fund balance to \$763,414. The Village's second major governmental fund, the Major Street Fund was able to increase its ending fund balance by \$37,968. The Village's third major governmental fund, the Economic Development Fund, increased its ending fund balance by \$5,482. The Village's fourth major governmental fund, the Sunrise Project Fund decreased its ending fund balance by \$13,921.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net decrease in fund balance of \$8,907. During the year, the Village made budget amendments that changed the projected net decrease in fund balance to \$30,385 for the fiscal year. The actual results yielded a decrease in fund balance of \$21,430.

Capital Assets and Debt Administration:

At February 29, 2016, the Village of Edmore had \$5,729,489 invested in a range of capital assets including land and land improvements, buildings, machinery and equipment, vehicles, water and sewer lines, and other infrastructure net of accumulated depreciation. At February 28, 2015, this total was \$5,591,927. Additional information about the Village's capital assets is presented in Note 1 and Note 6 of the Notes to the Financial Statements.

At February 29, 2016, the Village of Edmore's total outstanding indebtedness was \$2,498,077 (not including compensated absences payable), of which \$147,077 is backed by the full faith and credit of the Village and the remaining \$2,351,000 is backed by specific revenue sources. Additional information about the Village's indebtedness is presented in Note 8 of the Notes to the Financial Statements.

Economic Factors:

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the Village's residents with the same level of service to which they have become accustomed.

Contacting the Village's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Village of Edmore, 209 S Sheldon St, Edmore, MI 48746.

BASIC FINANCIAL STATEMENTS

VILLAGE OF EDMORE

STATEMENT OF NET POSITION

February 29, 2016

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 2,566,944	\$ 1,307,152	\$ 3,874,096	\$ 193,814
Receivables	400,265	95,290	495,555	35,323
Restricted cash and cash equivalents	-	129,752	129,752	-
Capital assets not being depreciated	146,022	15,804	161,826	-
Capital assets being depreciated, net	1,267,916	4,299,747	5,567,663	-
Total assets	<u>4,381,147</u>	<u>5,847,745</u>	<u>10,228,892</u>	<u>229,137</u>
Liabilities:				
Accounts payable and accrued expenses	16,567	22,463	39,030	34
Long-term liabilities:				
Due within one year	34,809	40,000	74,809	-
Due in more than one year	119,757	2,311,000	2,430,757	-
Total liabilities	<u>171,133</u>	<u>2,373,463</u>	<u>2,544,596</u>	<u>34</u>
Net position:				
Net investment in capital assets	1,266,861	1,964,551	3,231,412	-
Restricted for:				
Debt service	-	129,752	129,752	-
Economic development	765,977	-	765,977	-
Streets	892,880	-	892,880	-
Sunrise capital projects	470,895	-	470,895	-
Unrestricted	813,401	1,379,979	2,193,380	229,103
Total net position	<u>\$ 4,210,014</u>	<u>\$ 3,474,282</u>	<u>\$ 7,684,296</u>	<u>\$ 229,103</u>

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

VILLAGE OF EDMORE

STATEMENT OF ACTIVITIES

Year Ended February 29, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 143,811	\$ 10,353	\$ -	\$ 71,816	\$ (61,642)
Public safety	79,146	515	-	-	(78,631)
Public works	293,012	26,651	139,826	-	(126,535)
Community and economic development	35,632	10,210	-	-	(25,422)
Recreation and culture	38,147	-	-	44,527	6,380
Interest on long-term debt	3,365	-	-	-	(3,365)
Total governmental activities	<u>593,113</u>	<u>47,729</u>	<u>139,826</u>	<u>116,343</u>	<u>(289,215)</u>
<i>Business-type activities:</i>					
Sewer	298,390	258,982	15,838	-	(23,570)
Water	182,538	158,440	-	-	(24,098)
Total business-type activities	<u>480,928</u>	<u>417,422</u>	<u>15,838</u>	<u>-</u>	<u>(47,668)</u>
Total primary government	<u>\$1,074,041</u>	<u>\$ 465,151</u>	<u>\$ 155,664</u>	<u>\$ 116,343</u>	<u>\$ (336,883)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 94,071</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (94,071)</u>

continued

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

VILLAGE OF EDMORE

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended February 29, 2016

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (289,215)	\$ (47,668)	\$ (336,883)	\$ (94,071)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	248,319	-	248,319	-
Property taxes captured by component unit	-	-	-	68,932
Payment in lieu of property taxes	923	-	923	-
Franchise fees	1,412	-	1,412	-
Grants and contributions not restricted to specific programs	108,890	-	108,890	-
Unrestricted investment earnings	9,687	160	9,847	-
Other	7,114	-	7,114	-
Special item:				
Net gain on disposal of capital asset	13,020	-	13,020	-
Total general revenues and special item	<u>389,365</u>	<u>160</u>	<u>389,525</u>	<u>68,932</u>
Changes in net position	100,150	(47,508)	52,642	(25,139)
Net position, beginning of year	<u>4,109,864</u>	<u>3,521,790</u>	<u>7,631,654</u>	<u>254,242</u>
Net position, end of year	<u>\$ 4,210,014</u>	<u>\$ 3,474,282</u>	<u>\$ 7,684,296</u>	<u>\$ 229,103</u>

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

VILLAGE OF EDMORE

GOVERNMENTAL FUNDS

BALANCE SHEET

February 29, 2016

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Economic Development Fund</u>
Assets:			
Cash and cash equivalents	\$ 727,573	\$ 451,011	\$ 437,447
Accounts receivable	1,608	-	-
Notes receivable	-	-	328,530
Due from other governments	<u>42,753</u>	<u>16,511</u>	<u>-</u>
Total assets	<u>\$ 771,934</u>	<u>\$ 467,522</u>	<u>\$ 765,977</u>
Liabilities:			
Accounts payable	\$ 5,980	\$ -	\$ -
Accrued expenses	<u>2,540</u>	<u>629</u>	<u>-</u>
Total liabilities	<u>8,520</u>	<u>629</u>	<u>-</u>
Deferred inflows of resources:			
Unavailable revenue - state grant	<u>-</u>	<u>2,733</u>	<u>-</u>
Fund balances:			
Nonspendable:			
Long-term receivables	-	-	328,530
Restricted for:			
Economic development	-	-	437,447
Streets	-	464,160	-
Sunrise capital projects	-	-	-
Unassigned	<u>763,414</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>763,414</u>	<u>464,160</u>	<u>765,977</u>
Total liabilities and fund balances	<u>\$ 771,934</u>	<u>\$ 467,522</u>	<u>\$ 765,977</u>

continued

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

VILLAGE OF EDMORE

GOVERNMENTAL FUNDS BALANCE SHEET, CONTINUED

February 29, 2016

	<i>Sunrise Project Fund</i>	<i>Nonmajor Fund Local Street Fund</i>	<i>Total</i>
Assets:			
Cash and cash equivalents	\$ 470,895	\$ 426,486	\$ 2,513,412
Accounts receivable	-	-	1,608
Notes receivable	-	-	328,530
Due from other governments	-	10,863	70,127
Total assets	<u>\$ 470,895</u>	<u>\$ 437,349</u>	<u>\$ 2,913,677</u>
Liabilities:			
Accounts payable	\$ -	\$ 2,666	\$ 8,646
Accrued expenses	-	497	3,666
Total liabilities	<u>-</u>	<u>3,163</u>	<u>12,312</u>
Deferred inflows of resources:			
Unavailable revenue - state grant	<u>-</u>	<u>5,466</u>	<u>8,199</u>
Fund balances:			
Nonspendable:			
Long-term receivables	-	-	328,530
Restricted for:			
Economic development	-	-	437,447
Streets	-	428,720	892,880
Sunrise capital projects	470,895	-	470,895
Unassigned	<u>-</u>	<u>-</u>	<u>763,414</u>
Total fund balances	<u>470,895</u>	<u>428,720</u>	<u>2,893,166</u>
Total liabilities and fund balances	<u>\$ 470,895</u>	<u>\$ 437,349</u>	<u>\$ 2,913,677</u>

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

VILLAGE OF EDMORE

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENT FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

February 29, 2016

Fund balances of governmental funds	\$ 2,893,166
Net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets not being depreciated	146,022
Capital assets being depreciated, net	1,042,317
Deferred inflows of resources are reported in the governmental funds when the revenue is unavailable but recognized as revenue in the governmental activities.	8,199
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.	
Compensated absences payable	(7,489)
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The assets and liabilities of the internal service are included in governmental activities.	<u>127,799</u>
Net position of governmental activities	<u>\$ 4,210,014</u>

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

VILLAGE OF EDMORE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2016

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Economic Development Fund</i>
Revenues:			
Property taxes	\$ 249,242	\$ -	\$ -
Licenses and permits	1,412	-	-
State grants	108,890	84,309	-
Contributions from other units	72,331	-	-
Charges for services	9,946	-	-
Interest and rents	9,405	198	5,882
Other revenue	74,009	-	-
	<u>525,235</u>	<u>84,507</u>	<u>5,882</u>
Total revenues			
Expenditures:			
Current			
General government	137,350	-	-
Public safety	80,714	-	-
Public works	152,430	26,194	-
Community and development	-	-	400
Recreation and culture	28,478	-	-
Other	4,702	-	-
Capital outlay	142,991	-	-
	<u>546,665</u>	<u>26,194</u>	<u>400</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(21,430)</u>	<u>58,313</u>	<u>5,482</u>
Other financing sources (uses):			
Transfers from (to) other funds	<u>-</u>	<u>(20,345)</u>	<u>-</u>
Changes in fund balances	(21,430)	37,968	5,482
Fund balances, beginning of year	<u>784,844</u>	<u>426,192</u>	<u>760,495</u>
Fund balances, end of year	<u>\$ 763,414</u>	<u>\$ 464,160</u>	<u>\$ 765,977</u>

continued

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

VILLAGE OF EDMORE

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES, CONTINUED

Year Ended February 29, 2016

	<i>Sunrise Project Fund</i>	<i>Nonmajor Fund Local Street Fund</i>	<i>Total</i>
Revenues:			
Property taxes	\$ -	\$ -	\$ 249,242
Licenses and permits	-	-	1,412
State grants	-	47,318	240,517
Contributions from other units	-	-	72,331
Charges for services	-	-	9,946
Interest and rents	11,403	262	27,150
Other revenue	-	22	74,031
	<u>11,403</u>	<u>47,602</u>	<u>674,629</u>
Total revenues			
Expenditures:			
Current			
General government	-	-	137,350
Public safety	-	-	80,714
Public works	-	32,564	211,188
Community and development	25,324	-	25,724
Recreation and culture	-	-	28,478
Other	-	-	4,702
Capital outlay	-	-	142,991
	<u>25,324</u>	<u>32,564</u>	<u>631,147</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>(13,921)</u>	<u>15,038</u>	<u>43,482</u>
Other financing sources (uses):			
Transfers from (to) other funds	-	20,345	-
Changes in fund balances	(13,921)	35,383	43,482
Fund balances, beginning of year	<u>484,816</u>	<u>393,337</u>	<u>2,849,684</u>
Fund balances, end of year	<u>\$ 470,895</u>	<u>\$ 428,720</u>	<u>\$ 2,893,166</u>

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

VILLAGE OF EDMORE

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2016

Changes in fund balances of governmental funds	\$ 43,482
Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Purchases of capital assets	142,991
Less depreciation expense	(28,765)
Less loss on disposal of capital assets	(14,520)
Revenues that are unavailable are reported as deferred inflows of resources in the funds; however, they are recognized as revenue in the governmental activities.	8,199
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 governmental funds.	
Change in compensated absences payable	2,685
An internal service fund is used by management to charge the costs of certain activities, such as equipment usage, to individual funds. The net revenues (expenses) attributable to that fund are included in governmental activities.	
Operating loss from governmental activities in the internal service fund	(55,766)
Interest income from governmental activities in the internal service fund	59
Interest expense from governmental activities in the internal service fund	(3,365)
Proceeds from sale of assets from governmental activities in the internal service fund	<u>5,150</u>
Change in net position of governmental activities	<u>\$ 100,150</u>

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

VILLAGE OF EDMORE

PROPRIETARY FUNDS STATEMENT OF NET POSITION

February 29, 2016

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>	
Assets:				
Current assets:				
Cash and cash equivalents	\$ 713,658	\$ 593,494	\$ 1,307,152	\$ 53,532
Accounts receivable	59,536	35,754	95,290	-
Total current assets	773,194	629,248	1,402,442	53,532
Noncurrent assets:				
Restricted cash and cash equivalents	129,752	-	129,752	-
Capital assets not being depreciated	13,050	2,754	15,804	-
Capital assets being depreciated, net	3,773,254	526,493	4,299,747	225,599
Total noncurrent assets	3,916,056	529,247	4,445,303	225,599
Total assets	4,689,250	1,158,495	5,847,745	279,131
Liabilities:				
Current liabilities:				
Accounts payable	1,661	6,498	8,159	-
Accrued expenses	2,240	2,268	4,508	890
Accrued interest payable	9,796	-	9,796	3,365
Current long-term debt	40,000	-	40,000	34,809
Total current liabilities	53,697	8,766	62,463	39,064
Noncurrent liabilities:				
Long-term debt	2,311,000	-	2,311,000	112,268
Total liabilities	2,364,697	8,766	2,373,463	151,332
Net position:				
Net investment in capital assets	1,435,304	529,247	1,964,551	78,522
Restricted for:				
Debt service	129,752	-	129,752	-
Unrestricted	759,497	620,482	1,379,979	49,277
Total net position	\$ 2,324,553	\$ 1,149,729	\$ 3,474,282	\$ 127,799

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

VILLAGE OF EDMORE

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended February 29, 2016

	<i>Enterprise Funds</i>			<i>Internal Service Fund</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Total</i>	
Operating revenues:				
Charges for services	\$ 252,663	\$ 153,376	\$ 406,039	\$ -
Penalties	6,194	3,152	9,346	-
Equipment rental	-	-	-	62,988
Other	125	1,912	2,037	-
Total operating revenues	<u>258,982</u>	<u>158,440</u>	<u>417,422</u>	<u>62,988</u>
Operating expenses:				
Personal services	67,053	74,796	141,849	52,276
Supplies	1,545	4,912	6,457	7,083
Other services and charges	40,940	70,403	111,343	31,146
Depreciation	114,656	32,427	147,083	28,249
Total operating expenses	<u>224,194</u>	<u>182,538</u>	<u>406,732</u>	<u>118,754</u>
Operating income (loss)	<u>34,788</u>	<u>(24,098)</u>	<u>10,690</u>	<u>(55,766)</u>
Non-operating revenues (expenses):				
SAW grant	15,838	-	15,838	-
Interest income	743	160	903	59
Proceeds from sale of assets	-	-	-	5,150
SAW grant expenses	(15,838)	-	(15,838)	-
Interest expense	(59,101)	-	(59,101)	(3,365)
Net non-operating revenues (expenses)	<u>(58,358)</u>	<u>160</u>	<u>(58,198)</u>	<u>1,844</u>
Changes in net position	(23,570)	(23,938)	(47,508)	(53,922)
Net position, beginning of year	<u>2,348,123</u>	<u>1,173,667</u>	<u>3,521,790</u>	<u>181,721</u>
Net position, end of year	<u>\$ 2,324,553</u>	<u>\$ 1,149,729</u>	<u>\$ 3,474,282</u>	<u>\$ 127,799</u>

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

VILLAGE OF EDMORE

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended February 29, 2016

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>	
Cash flows from operating activities:				
Cash received from customers	\$ 250,924	\$ 148,989	\$ 399,913	\$ -
Cash received (payments) for interfund services	(9,416)	(10,078)	(19,494)	62,988
Cash payments to employees and on behalf of employees	(66,142)	(74,299)	(140,441)	(52,545)
Cash payments to suppliers for goods and services	<u>(31,408)</u>	<u>(58,738)</u>	<u>(90,146)</u>	<u>(38,229)</u>
Net cash provided (used) by operating activities	<u>143,958</u>	<u>5,874</u>	<u>149,832</u>	<u>(27,786)</u>
Cash flows from capital and related financing activities:				
Proceeds from installment loans	-	-	-	187,289
Proceeds from sale of capital assets	-	-	-	5,150
Acquisition and construction of capital assets	-	-	-	(213,189)
Principal paid on debt	(39,000)	-	(39,000)	(40,212)
Interest paid on debt	<u>(59,263)</u>	<u>-</u>	<u>(59,263)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(98,263)</u>	<u>-</u>	<u>(98,263)</u>	<u>(60,962)</u>
Cash flows from investing activities:				
Interest received	<u>743</u>	<u>160</u>	<u>903</u>	<u>59</u>
Net increase (decrease) in cash and cash equivalents	46,438	6,034	52,472	(88,689)
Cash and cash equivalents, beginning of year	<u>796,972</u>	<u>587,460</u>	<u>1,384,432</u>	<u>142,221</u>
Cash and cash equivalents, end of year	<u>\$ 843,410</u>	<u>\$ 593,494</u>	<u>\$ 1,436,904</u>	<u>\$ 53,532</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 34,788	\$ (24,098)	\$ 10,690	\$ (55,766)
Adjustments:				
Depreciation	114,656	32,427	147,083	28,249
Change in assets and liabilities:				
Accounts receivable	(8,058)	(9,451)	(17,509)	-
Accounts payable	1,661	6,499	8,160	-
Accrued expenses	<u>911</u>	<u>497</u>	<u>1,408</u>	<u>(269)</u>
Net cash provided (used) by operating activities	<u>\$ 143,958</u>	<u>\$ 5,874</u>	<u>\$ 149,832</u>	<u>\$ (27,786)</u>

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

VILLAGE OF EDMORE

FIDUCIARY FUND

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

February 29, 2016

	<u><i>Agency Funds</i></u>
Assets:	
Cash and cash equivalents	\$ <u>43,042</u>
Liabilities:	
Accounts payable and accrued expenses	\$ <u>43,042</u>

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

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the Village of Edmore, (the “Village”):

Reporting Entity:

The Village of Edmore is governed by a seven-member Council. The Village provides the following services: general administrative services, police protection, highway and street maintenance, recreation and other governmental functions.

The accompanying financial statements present the Village as the primary government. Component units are separate legal entities for which the Village is financially accountable. Blended component units are, in substance, part of the primary government’s operations, and presented as funds of the primary government. Discretely presented component units are reported in separate columns in the government-wide financial statements. The Village has determined that it has one component unit and that it should be discretely presented.

Discretely Presented Component Unit:

Downtown Development Authority – The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Separate financial statements of the Downtown Development Authority are not prepared.

Accounting and Reporting Principles:

The Village follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Village's enterprise functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are not included in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting:

The Village accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow the Village to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds.

Proprietary funds provide goods or services to users in exchange for charges or fees.

Fiduciary funds account for the 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 the funds are not available to support the Village's own programs

The Village reports the following major governmental funds:

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

Special Revenue Fund – Major Street Fund – The Major Street Fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as major streets in the Village.

Special Revenue Fund – Economic Development Fund – The Economic Development Fund accounts for loans and repayments (revolving loans) to local businesses to encourage economic growth in the Village.

Capital Project Fund – Sunrise Project Fund – The Sunrise Project Fund accounts for the revenues and expenditures in connection with the development, operation and/or sale of the former Hitachi Magnetics Corporation manufacturing facility.

The Village reports the following major proprietary funds:

Enterprise Fund – Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the Village's sewage disposal system.

Enterprise Fund – Water Fund – The Water Fund account for the operation and maintenance of the Village's water supply system.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Additionally, the Village reports the following fund types:

Special Revenue Funds – Special revenue funds 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.

Capital Project Funds – Capital project funds 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 (other than those financed by proprietary funds).

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, on a cost-reimbursement basis. The Village reports on one internal service fund: 1) the motor pool fund is used for the purchase and maintenance of the Village's fleet through rental charges for equipment to other funds.

Fiduciary Funds – Agency Funds – Agency funds account for assets held by the Village in a trustee capacity. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results in operations.

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Village considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period.

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions:

Deposits and Investments – Cash includes cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the Village considers all investments (including restricted assets) to be cash equivalents.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 – Restricted assets consist of cash and cash equivalents held for wastewater system debt service.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are defined by the Village as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15-20 years
Vehicles	5-10 years
Equipment	5-20 years
Distribution systems	25-80 years

Long-term Obligations – In the government-wide financial statements and the proprietary fund type 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. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting.

Net Position Flow Assumption – Sometimes the Village will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the Village is bound to honor constraints on the specific purpose for which amounts can be spent:

Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.

Committed – Amounts that have been formally set aside by the Village Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Village Council.

Assigned – Amounts that are intended to be used for specific purposes expressed by the Village Council.

Unassigned – Amounts that do not fall into any category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Property Taxes – Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. The 2015 taxable valuation of the Village totaled \$22,245,647 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments), on which ad valorem taxes levied consisted of 10.9387 mills for operating purposes and 1.5520 mills for rubbish collection. The delinquent real property taxes of the Village are purchased by Montcalm County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Compensated Absences (Vacation and Sick Leave) – Individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in Village policies. In addition, the Village's policy is to pay terminated or resigned employees for any accumulated unused sick hours (max 280). Accumulated benefits of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because they are not expected to be liquidated with expendable available financial resources.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Proprietary Funds Operating Classification – Proprietary funds distinguish operating revenues and expenses from nonoperating 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 proprietary funds are charges to customers for sales and services. The proprietary funds recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not included in these classifications are reported as nonoperating expenses.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Interfund Activity:

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

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

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. Before the beginning of the next fiscal year, a proposed operating budget is submitted to the Village Council by fund. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to March 1, the budget is legally enacted by adoption of the Village Council. Any revision that alters the total expenditures of any fund must be approved by the Village Council. Formal budgetary integration is employed as a management control device during the year for all funds. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the budgeted amounts for the General Fund as well as any other major funds is included in the required supplementary information. All annual appropriations lapse at fiscal year end.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village incurred expenditures that were in excess of the amounts budgeted, as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund:			
General government:			
Manager	\$ 21,288	\$ 21,735	\$ 447
Administration	27,233	27,431	198
Public safety:			
Police	74,618	80,714	6,096
Major Street Fund:			
Transfers to other funds	20,000	20,345	345

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Village Council is in accordance with Public Act 196 of 1997. The Village's deposits and investments have been made in accordance with statutory authority.

The Village's deposits are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank 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 does not have a deposit policy for custodial credit risk. At year end, the Village had \$4,341,277, of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,041,972 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits, and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with acceptable estimated risk level are used as depositories.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

Sewer Fund Reserves:

The Village is required to have these specific accounts established and monies deposited as follows:

Bond and Interest Redemption Account – Monthly transfers are to be made equal to 1/6 of the next interest payment due plus 1/12 of the next principal payment due.

Sewer Bond Reserve Account – Annually \$10,200 is to be transferred to this account until \$102,000 is accumulated.

Repair, Replacement, and Improvement Fund – Annually \$13,000 is to be deposited into this account until the Bond Reserve Account is fully funded. From that time on, annual installments of \$23,200 are to be deposited for the life of the loan.

At February 29, 2016 the Village had \$129,752 restricted cash for bond and interest redemption.

NOTE 5: NOTES RECEIVABLE

The Economic Development Fund makes low and non-interest bearing loans to businesses located within the Village's Downtown Development District. The balance of these notes at February 29, 2016 was \$328,530. This balance was recorded on the statement of net position as a receivable. No allowance has been made for uncollectible amounts because the Village believes all are currently collectible.

NOTE 6: CAPITAL ASSETS

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

	<u>March 1,</u> <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29,</u> <u>2016</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 146,022	\$ -	\$ -	\$ 146,022
Capital assets being depreciated:				
Buildings and improvements	565,512	142,991	(1,142)	707,361
Infrastructure	301,258	-	-	301,258
Land improvements	176,857	-	-	176,857
Machinery and equipment	267,965	163,594	(20,962)	410,597
Vehicles	201,267	49,595	(67,106)	183,756
Total capital assets being depreciated	<u>1,512,859</u>	<u>356,180</u>	<u>(89,210)</u>	<u>1,779,829</u>

continued

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 6: CAPITAL ASSETS, CONTINUED

	<i>March 1, 2015</i>	<i>Additions</i>	<i>Retirements</i>	<i>February 29, 2016</i>
Less accumulated depreciation for:				
Buildings and improvements	(56,815)	(7,080)	1,142	(62,753)
Infrastructure	(38,702)	(11,520)	-	(50,222)
Land improvements	(64,164)	(5,776)	-	(69,940)
Machinery and equipment	(187,443)	(25,993)	20,962	(192,474)
Vehicles	(182,465)	(6,645)	52,586	(136,524)
Total accumulated depreciation	<u>(529,589)</u>	<u>(57,014)</u>	<u>74,690</u>	<u>(511,913)</u>
Capital assets being depreciated, net	<u>983,270</u>	<u>299,166</u>	<u>(14,520)</u>	<u>1,267,916</u>
Governmental activities, capital assets, net	<u>\$ 1,129,292</u>	<u>\$ 299,166</u>	<u>\$ (14,520)</u>	<u>\$ 1,413,938</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 15,804	\$ -	\$ -	\$ 15,804
Capital assets being depreciated:				
Equipment	184,974	-	(903)	184,071
Sewer system	4,640,347	-	(10,002)	4,630,345
Water system	1,521,015	-	(5,104)	1,515,911
Total capital assets being depreciated	<u>6,346,336</u>	<u>-</u>	<u>(16,009)</u>	<u>6,330,327</u>
Less accumulated depreciation for:				
Equipment	(89,915)	(10,280)	903	(99,292)
Sewer system	(819,643)	(105,975)	10,002	(915,616)
Water system	(989,948)	(30,828)	5,104	(1,015,672)
Total accumulated depreciation	<u>(1,899,506)</u>	<u>(147,083)</u>	<u>16,009</u>	<u>(2,030,580)</u>
Capital assets being depreciated, net	<u>4,446,830</u>	<u>(147,083)</u>	<u>-</u>	<u>4,299,747</u>
Business-type activities, capital assets, net	<u>\$ 4,462,634</u>	<u>\$ (147,083)</u>	<u>\$ -</u>	<u>\$ 4,315,551</u>

Depreciation expense was charged to functions as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>
General government	\$ 1,759	\$ -
Public safety	1,117	-
Public works	6,062	-
Community and economic development	9,908	-
Recreation and culture	9,919	-
Internal service	28,249	-
Sewer	-	114,656
Water	-	32,427
	<u>\$ 57,014</u>	<u>\$ 147,083</u>

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables in the aggregate for the year ended February 29, 2016 were as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit</u>
Receivables:			
Property taxes	\$ -	\$ -	\$ 35,323
Accounts	1,608	95,290	-
Notes	328,530	-	-
Intergovernmental	70,127	-	-
Total receivables	<u>\$ 400,265</u>	<u>\$ 95,290</u>	<u>\$ 35,323</u>
Accounts payable and accrued expenses:			
Accounts	\$ 8,646	\$ 8,159	\$ -
Payroll and related liabilities	4,556	4,508	34
Accrued interest	3,365	9,796	-
Total accounts payable and accrued expenses	<u>\$ 16,567</u>	<u>\$ 22,463</u>	<u>\$ 34</u>

The notes receivable balance includes \$293,618, which is considered long-term and not expected to be received within one year.

NOTE 8: LONG-TERM LIABILITIES

The Village may issue bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. The following is a summary of long-term liabilities transactions for the year ended February 29, 2016:

	<u>March 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29, 2016</u>	<u>Due Due Within One Year</u>
Governmental activities:					
<i>General obligations:</i>					
2015 Lease Purchase Agreement, due in annual amounts of \$10,999 including interest at 5.45% through 6/5/2019	\$ -	\$ 49,595	\$ (10,999)	\$ 38,596	\$ 8,895
2015 Lease Purchase Agreement, due in annual amounts of \$29,213 including interest at 3.04% through 8/12/2019	-	137,694	(29,213)	108,481	25,914
<i>Other liabilities:</i>					
Compensated absences	10,174	-	(2,685)	7,489	-
Total long-term liabilities	<u>\$ 10,174</u>	<u>\$ 187,289</u>	<u>\$ (42,897)</u>	<u>\$ 154,566</u>	<u>\$ 34,809</u>

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

	<u>March 1,</u> <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>February 29,</u> <u>2016</u>	<u>Due</u> <u>Due Within</u> <u>One Year</u>
Business-type activities:					
<i>Revenue bonds:</i>					
2011 Sewage Disposal System					
Revenue Bond, due in annual amounts ranging from \$38,000 to \$100,000 at an interest rate of 2.50% through 2051.					
	\$ 2,390,000	\$ -	\$ (39,000)	\$ 2,351,000	\$ 40,000

Annual debt service requirements to maturity for the above bond obligations is as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 74,809	\$ 66,593	\$ 141,402
2018	77,082	64,256	141,338
2019	79,405	61,844	141,249
2020	81,781	59,351	141,132
2021	44,000	56,779	100,779
2022-2026	241,000	265,507	506,507
2027-2031	273,000	231,802	504,802
2032-2036	311,000	193,529	504,529
2037-2041	354,000	149,969	503,969
2042-2046	403,000	100,421	503,421
2047-2051	459,000	43,904	502,904
2052	100,000	1,313	101,313
	<u>\$ 2,498,077</u>	<u>\$ 1,295,268</u>	<u>\$ 3,793,345</u>

NOTE 9: INTERFUND BALANCES AND TRANSFERS

There were no interfund receivable or payable balances outstanding at February 29, 2016.

Interfund transfers reported in the fund statements were as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
Major Street Fund	Local Street Fund	\$ 20,345

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

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 10: 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; natural disasters; injuries to employees (workers' compensation); and certain medical benefits provided to employees. The Village manages its risk liability with products administered through the Michigan Municipal League. Liability and property risk, by participating in Liability and Property Pool, workers compensation, by participating in the Worker's Compensation Fund, health insurance, by participating in Municipal Benefit Services, and unemployment, by participating in the Unemployment Compensation Fund. All these plans are self-sustaining through member premiums and provide, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 11: BENEFIT PLANS

The Village has a defined contribution pension plan administered by The Equitable Life Assurance Society of the United States. All employees that have reached age 18, worked at least six months in the last five plan years, and made more than \$450 in the plan year are eligible for benefits.

The Village contributes 10% of each eligible employee's pay to the plan. For the fiscal year ended February 29, 2016, the Village made contributions of \$19,526 into the pension plan.

The Village provides no other benefit plans to its employees and/or retirees.

NOTE 12: CONTRIBUTION FROM HITACHI MAGNETICS CORPORATION/ SUNRISE CAPITAL PROJECT FUND

During the year ended February 29, 2008 the Village of Edmore entered into a Property Donation Agreement with Hitachi Magnetics Corporation (HMC). The agreement dated August 27, 2007 sets forth certain obligations and conditions for the donation and conveyance of a former Hitachi manufacturing facility, buildings and property (approximately 62 acres) to the Village of Edmore. As part of this agreement, HMC also gave the Village \$2,400,000 which must be used exclusively to help the Village defray the cost of future upgrades, demolition, remodeling, new structures, operation and maintenance of the donated property. The agreement required that the Village enter into a lease with HMC for a term of five (5) years to provide HMC with office space.

The Village accounts for this donation as an economic development activity in a capital project fund entitled the Sunrise Project Fund. Because of the various restrictions, conditions and obligations connected with the property the Village had, in 2008, determined that no value for the property should be recorded. It is the Village's intent to prepare, dispose or sell the property for future commercial and business use. During the year ended February 28, 2009 the Village sold a service building and 8.2 acres to Orchard Forklift, Inc. The Village has had no property sales since that date.

During the current year, the Village Council voted to allow the Hitachi office lease agreement (referred to above) to expire on December 31, 2015.

VILLAGE OF EDMORE

NOTES TO FINANCIAL STATEMENTS

February 29, 2016

NOTE 13: RESTRICTED NET POSITION

The governmental activities statement of net position reports \$2,129,752 of restricted net position, of which \$892,880 is restricted in the Street Funds by Act 51 enabling legislation.

NOTE 14: CONTRACTUAL COMMITMENT

On April 15, 2015, the Village entered into a long term contract with Utility Service Co., Inc. for professional services to maintain the Village's 200,000 gallon water storage tank. Terms of the contract state the first five (5) annual fees shall be \$86,627 per contract year. The annual fee for contract year six (6) and each subsequent annual fee shall be \$18,258 per contract year; however, in contract year nine (9) and each third anniversary thereafter, the annual fee shall be adjusted to reflect the current cost of service.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF EDMORE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 243,905	\$ 252,635	\$ 249,242	\$ (3,393)
Licenses and permits	1,500	1,500	1,412	(88)
State grants	110,300	110,409	108,890	(1,519)
Contributions from other units	4,000	75,326	72,331	(2,995)
Charges for services	10,650	10,711	9,946	(765)
Interest and rents	7,500	9,457	9,405	(52)
Other revenue	16,110	75,051	74,009	(1,042)
Total revenues	393,965	535,089	525,235	(9,854)
Expenditures:				
Current				
General government				
Council	24,449	26,436	26,028	(408)
Manager	19,510	21,288	21,735	447
Administration	25,705	27,233	27,431	198
Clerk	-	993	989	(4)
Audit	1,475	1,475	1,475	-
Treasurer	2,709	3,063	3,063	-
Elections	500	500	-	(500)
Hall and grounds	4,100	4,100	3,699	(401)
Attorney	400	1,250	1,250	-
Cemetery	55,845	53,745	48,548	(5,197)
Other	3,132	3,132	3,132	-
Total general government	137,825	143,215	137,350	(5,865)
Public safety				
Police	74,618	74,618	80,714	6,096
Public works				
Department of public works	69,739	65,739	54,351	(11,388)
Street lighting	29,000	29,000	28,148	(852)
Refuse collection	70,762	70,762	69,931	(831)
Total public works	169,501	165,501	152,430	(13,071)
Recreation				
Parks and recreation	16,179	28,575	28,478	(97)
Other				
Insurance and bonds	4,749	4,749	4,702	(47)
Capital outlay	-	148,816	142,991	(5,825)
Total expenditures	402,872	565,474	546,665	(18,809)

continued

VILLAGE OF EDMORE

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended February 29, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Change in fund balance	(8,907)	(30,385)	(21,430)	8,955
Fund balance, beginning of year	<u>784,844</u>	<u>784,844</u>	<u>784,844</u>	<u>-</u>
Fund balance, end of year	<u>\$ 775,937</u>	<u>\$ 754,459</u>	<u>\$ 763,414</u>	<u>\$ 8,955</u>

VILLAGE OF EDMORE

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
State grants	\$ 73,000	\$ 82,011	\$ 84,309	\$ 2,298
Interest and rents	<u>200</u>	<u>200</u>	<u>198</u>	<u>(2)</u>
Total revenues	<u>73,200</u>	<u>82,211</u>	<u>84,507</u>	<u>2,296</u>
Expenditures:				
Current				
Public works	<u>60,730</u>	<u>39,730</u>	<u>26,194</u>	<u>(13,536)</u>
Excess (deficiency) of revenues over expenditures	<u>12,470</u>	<u>42,481</u>	<u>58,313</u>	<u>15,832</u>
Other financing sources (uses):				
Transfers from (to) other funds	<u>(18,000)</u>	<u>(20,000)</u>	<u>(20,345)</u>	<u>345</u>
Change in fund balance	(5,530)	22,481	37,968	15,487
Fund balance, beginning of year	<u>426,192</u>	<u>426,192</u>	<u>426,192</u>	<u>-</u>
Fund balance, end of year	<u>\$ 420,662</u>	<u>\$ 448,673</u>	<u>\$ 464,160</u>	<u>\$ 15,487</u>

VILLAGE OF EDMORE

SPECIAL REVENUE FUND – ECONOMIC DEVELOPMENT FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2016

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
Charges for services	\$ 250	\$ 68	\$ -	\$ (68)
Interest and rents	<u>2,500</u>	<u>5,882</u>	<u>5,882</u>	<u>-</u>
Total revenues	<u>2,750</u>	<u>5,950</u>	<u>5,882</u>	<u>(68)</u>
Expenditures:				
Current				
Community and economic development	<u>400</u>	<u>400</u>	<u>400</u>	<u>-</u>
Change in fund balance	2,350	5,550	5,482	(68)
Fund balance, beginning of year	<u>760,495</u>	<u>760,495</u>	<u>760,495</u>	<u>-</u>
Fund balance, end of year	<u>\$ 762,845</u>	<u>\$ 766,045</u>	<u>\$ 765,977</u>	<u>\$ (68)</u>



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

To the Members of Village Council
Village of Edmore, 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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Edmore, as of and for the year ended February 29, 2016, and the related notes to the financial statements, which collectively comprise the Village of Edmore's basic financial statements, and have issued our report thereon dated May 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Edmore's internal control over financial reporting (internal controls) 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 of Edmore's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Edmore's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given those limitations, we identified, and noted below, deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. Other material weaknesses may exist that have not been identified.

1. Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the Village has placed reliance on its external auditors, who cannot by definition be considered a part of the internal controls.

To the Members of Village Council
Village of Edmore, Michigan

Cause: This condition was caused by the decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the Village to perform these tasks internally.

Effect: As a result of this condition, the Village lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Village Council has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the Village to outsource this task to its external auditors and to carefully review, approve, and accept responsibility for all non-attest work performed by the external auditors.

2. Bank Account Reconciliations

Criteria: As an important control over the Village cash balance, bank accounts/ reconciliations must be promptly prepared at the end of each month. Adjustments and corrections, if any, should be promptly made so that the cash balance is reported correctly.

Condition: We found that bank reconciliations were not being timely prepared throughout the year. Also, at year-end, there existed an unreconciled difference of approximately \$2,500 between the book and bank balance. (bank balance was higher than book)

Cause: The Village Treasurer did not timely prepare the reconciliations.

Effect: The cash balance and related revenues and expenditures could monthly be misstated and incorrectly reported to management. The timely discovery of errors, differences and discrepancies and related corrections could not be made.

Recommendation: We recommend that the monthly bank reconciliation task be assigned to the Village office assistant, and that monthly the Village Manager be provided a copy of reconciliations for review and verification of correct completion.

Management Response: Administrative assistant will assist Treasurer in reconciliation of monthly bank statements. This will assist in the reconciliation being completed in a timely manner.

3. Deposits

Criteria: Proper internal control over cash and cash receipts requires a process wherein receipts are deposited in the bank promptly, without delay, and on a regular schedule.

Condition: Our review of the year and bank account reconciliations revealed some Utility Billing receipts that were not timely deposited in the bank. Late deposits found were as follows:

- \$23,400 (approx.) collected before February 29, 2016 was deposited in March 2016
- \$12,900 (approx.) collected before February 29, 2016 was deposited in April 2016
- \$18,600 (approx.) collected before February 29, 2016 was not yet deposited at the time of our audit fieldwork on April 19, 2016

Cause: The Village Finance Director was not making deposits on a timely basis and no plausible explanation was provided.

Effect: There is a higher possibility of discrepancies, unreconciled differences and misappropriation of cash and material errors on the financial statements.

To the Members of Village Council
Village of Edmore, Michigan

Recommendation: Procedures should be established and maintained that requires receipts be deposited promptly each week. Copies of the monthly bank reconciliations should be provided to the Village Manager. He or she should then review, monitor or substantiate the reconciling item, “deposits in transit”, as needed.

Management Response: Administrative assistant will provide assistance to the Finance Director to ensure bank deposits are done in a timely manner. Procedures have been established that deposits are to be deposited within 5 business days of receipt report generation.

4. Utility Revenues and Receivables

Criteria: The amount of Utility Billings as calculated and recorded in the UB system should be the same amount (as reconciled for adjustments, etc.) that is reported as utility revenue in the general ledger and the financial statements.

Condition: We found that the UB billing amounts, for the year ended February 29, 2016, did not agree with the general ledger revenues. The UB water billings were \$158,000 while the general ledger showed revenues with \$5,000 less at \$153,000. The UB sewer billings were \$267,000 while the general ledger showed revenues with \$15,000 less at \$252,000. No complete reconciliation analysis of the difference was provided to us.

Cause: The reason for the difference was not provided to us, and, under the scope of our current engagement, could not be determined. A likely cause is the fact that the Village UB system is currently being operated without integration with the general ledger. The Fund Balance software and internal control feature that allows integration of the two modules (UB and G/L) has not been turned on. Consequently, with the current set-up, unreconciled differences between billings, receipts, adjustments and balances can very easily exist. With integration of the systems, transactions recorded in the UB system (billings, receipts, adjustments) are also, and automatically, recorded in the general ledger, thus preventing differences as have been noted.

Effect: Without a reconciliation of the UB billing records, and the general ledger revenues, there is a higher possibility of misappropriation, unreconciled differences and material errors in the financial statements.

Recommendation: Procedures should be established and maintained that require the preparation of a monthly reconciliation of the UB billings to the utility revenues reported in the general ledger accounts. Further, a procedure should be established that requires the detail UB receivable balance be monthly reconciled to the general ledger account receivable balance. A copy of these reconciliation and analysis worksheets should be provided to the Village Manager so that he/she can monitor the completion of the procedure and validate the related financial reports.

Management Response: Procedure has been established that Utility Billing and General Ledger have been integrated. By doing so, this will aid in prevention of discrepancies and aid in the reconciliation of accounts.

Compliance and Other Matters

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

To the Members of Village Council
Village of Edmore, Michigan

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.

Berthiaume & Co.

Saginaw, Michigan
May 24, 2016



**REQUIRED COMMUNICATION TO THE VILLAGE OF EDMORE
IN ACCORDANCE WITH PROFESSIONAL STANDARDS**

To the Village Council
Village of Edmore

We have audited 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 Edmore for the year ended February 29, 2016, and we have issued our report thereon dated May 24, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Engagement Letter to you, dated June 30, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Edmore are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no difficulties 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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The Village Finance Director has been provided with twenty-two (22) recommended adjusting journal entries.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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



Supplementary Information

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

Communication of Internal Control Matters Identified in the Audit

In planning and performing our audit of 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 Edmore as of and for the year ended February 29, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Edmore's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did identify deficiencies in internal control that we are required to consider material weaknesses, as noted below. However, other material weaknesses may exist that have not been identified.

1. Recording, Processing and Summarizing Accounting Data

Criteria: All governments are required to have in place internal controls over recording, processing, summarizing accounting data and preparing financial statements.

Conditions: As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the recording, processing, summarizing accounting data and preparing financial statements as part of its external financial reporting process. Accordingly, the Village has placed reliance on its external auditors, who cannot by definition be considered a part of the internal controls.

Cause: This condition was caused by the decision that it is more cost effective to have external auditors recommend the necessary adjusting journal entries to its general ledger and prepare the financial statements than to incur the time and expense for the Village to perform these tasks internally.



Effect: As a result of this condition, the Village lacks internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and instead relied, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The Village Council has evaluated the cost versus benefit of establishing internal controls over the recording, processing, summarizing accounting data and preparing financial statements, and determined that it is in the best interests of the Village to outsource this task to its external auditors and to carefully review, approve, and accept responsibility for all non-attest work performed by the external auditors.

2. Bank Account Reconciliations

Criteria: As an important control over the Village cash balance, bank accounts/reconciliations must be promptly prepared at the end of each month. Adjustments and corrections, if any, should be promptly made so that the cash balance is reported correctly.

Condition: We found that bank reconciliations were not being timely prepared throughout the year. Also, at year-end, there existed an unreconciled difference of approximately \$2,500 between the book and bank balance. (bank balance was higher than book)

Cause: The Village Treasurer did not timely prepare the reconciliations.

Effect: The cash balance and related revenues and expenditures could monthly be misstated and incorrectly reported to management. The timely discovery of errors, differences and discrepancies and related corrections could not be made.

Recommendation: We recommend that the monthly bank reconciliation task be assigned to the Village administrative assistant, and that monthly the Village Manager be provided a copy of reconciliations for review and verification of correct completion.

Management Response: Administrative assistant will assist Treasurer in reconciliation of monthly bank statements. This will assist in the reconciliation being completed in a timely manner.

3. Deposits

Criteria: Proper internal control over cash and cash receipts requires a process wherein receipts are deposited in the bank promptly, without delay, and on a regular schedule.

Condition: Our review of the year and bank account reconciliations revealed some Utility Billing receipts that were not timely deposited in the bank. Late deposits found were as follows:

- \$23,400 (approx.) collected before February 29, 2016 was deposited in March 2016
- \$12,900 (approx.) collected before February 29, 2016 was deposited in April 2016
- \$18,600 (approx.) collected before February 29, 2016 was not yet deposited at the time of our audit fieldwork on April 19, 2016

Cause: The Village Finance Director was not making deposits on a timely basis and no plausible explanation was provided.

Effect: There is a higher possibility of discrepancies, unreconciled differences and misappropriation of cash and material errors on the financial statements.



Recommendation: Procedures should be established and maintained that requires receipts be deposited promptly each week. Copies of the monthly bank reconciliations should be provided to the Village Manager. He or she should then review, monitor or substantiate the reconciling item, “deposits in transit”, as needed.

Management Response: Administrative assistant will provide assistance to the Finance Director to ensure bank deposits are done in a timely manner. Procedures have been established that deposits are to be deposited within 5 business days of receipt report generation.

4. Utility Revenues and Receivables

Criteria: The amount of Utility Billings as calculated and recorded in the UB system should be the same amount (as reconciled for adjustments, etc.) that is reported as utility revenue in the general ledger and the financial statements.

Condition: We found that the UB billing amounts, for the year ended February 29, 2016, did not agree with the general ledger revenues. The UB water billings were \$158,000 while the general ledger showed revenues with \$5,000 less at \$153,000. The UB sewer billings were \$267,000 while the general ledger showed revenues with \$15,000 less at \$252,000. No complete reconciliation analysis of the difference was provided to us.

Cause: The reason for the difference was not provided to us, and, under the scope of our current engagement, could not be determined. A likely cause is the fact that the Village UB system is currently being operated without integration with the general ledger. The Fund Balance software and internal control feature that allows integration of the two modules (UB and G/L) has not been turned on. Consequently, with the current set-up, unreconciled differences between billings, receipts, adjustments and balances can very easily exist. With integration of the systems, transactions recorded in the UB system (billings, receipts, adjustments) are also, and automatically, recorded in the general ledger, thus preventing differences as have been noted.

Effect: Without a reconciliation of the UB billing records, and the general ledger revenues, there is a higher possibility of misappropriation, unreconciled differences and material errors in the financial statements.

Recommendation: Procedures should be established and maintained that require the preparation of a monthly reconciliation of the UB billings to the utility revenues reported in the general ledger accounts. Further, a procedure should be established that requires the detail UB receivable balance be monthly reconciled to the general ledger account receivable balance. A copy of these reconciliation and analysis worksheets should be provided to the Village Manager so that he/she can monitor the completion of the procedure and validate the related financial reports.

Management Response: Procedure has been established that Utility Billing and General Ledger have been integrated. By doing so, this will aid in prevention of discrepancies and aid in the reconciliation of accounts.



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

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
May 24, 2016

