

VILLAGE OF LAKE ODESSA
FINANCIAL STATEMENTS
For the year ended February 28, 2019

TABLE OF CONTENTS

Independent Auditors' Report	1 - 2
Management's Discussion and Analysis	3 - 7
Basic Financial Statements:	
Government-Wide Statement of Net Position	8
Government-Wide Statement of Activities	9
Governmental Funds Balance Sheet	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	11
Governmental Funds Statement of Revenues, Expenditures, and Changes In Fund Balance	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes In Fund Balance of Governmental Funds to Statement of Activities	13
Proprietary Funds Statement of Net Position	14
Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position	15
Proprietary Funds Statement of Cash Flows	16
Fiduciary Funds Statement of Net Position	17
Notes to Financial Statements	18 - 34
Required Supplementary Information:	
Budgetary Comparison Schedule - General Fund	35 - 36
Budgetary Comparison Schedule - Major Street Fund	37
Budgetary Comparison Schedule - Local Street Fund	38
Budgetary Comparison Schedule - Road Fund	39
Schedule of Changes in Employer Net Pension Liability and Related Ratios	40
Schedule of Net Pension Liability	41
Schedule of Employer Contributions	42
Other Information:	
Balance Sheet - Downtown Development Authority	43
Statement of Revenues, Expenditures and Changes in Fund Balance - Downtown Development Authority	44



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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Lake Odessa
Lake Odessa, Michigan.

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Village of Lake Odessa as of and for the year ended February 28, 2019, 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lake Odessa, as of February 28, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison schedules, schedule of changes in employer net pension liability and related ratios, schedule of net pension liability and schedule of employer contributions on pages 3-7 and 35-42 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

The balance sheet – Downtown Development Authority and statement of revenues, expenditures and changes in fund balance – Downtown Development Authority are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the balance sheet – Downtown Development Authority and statement of revenues, expenditures and changes in fund balance – Downtown Development Authority 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 July 31, 2019, on our consideration of the Authority'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 the effectiveness of the Village of Lake Odessa's 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 Village's internal control over financial reporting and compliance.

Walker Fiske - Sheldor PC

Hastings, Michigan

July 31, 2019

Management's Discussion and Analysis

As the Village Council of the Village of Lake Odessa, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of Village of Lake Odessa for the fiscal year ended February 28, 2019. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Village. We encourage readers to consider this information in conjunction with the letter of transmittal, which begins on page 1, and the financial statements, which begin on page 8.

Financial Highlights

- The assets of Village of Lake Odessa exceeded its liabilities at the close of the most recent fiscal year by \$10,386,842 (net position) compared to \$8,059,928 last year. Of this amount, \$1,560,910 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net position increased by \$2,326,914 compared to a decrease of \$50,385 last year.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,816,394 an increase of \$425,626 compared to an ending fund balance of \$1,390,768 an increase of \$89,820 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$541,113 or 86.01% of total general fund expenditures. Last year the unassigned fund balance for the general fund was \$349,074 or 45.76% total general fund expenditures.

Overview of the Financial Statements

The Village of Lake Odessa's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development and recreation and cultural. The business-type activities of the Village include water services. The government-wide financial statements include not only the Village of Lake Odessa itself (known as the primary government), but also a legally separate 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.

The government-wide financial statements can be found on pages 8-9 of this report.

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

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

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

The Village of Lake Odessa maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Local Streets and Road Funds, which are considered to be major funds. The basic governmental fund financial statements can be found on pages 10-13 of this report.

Proprietary funds. The Village maintains one proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for the Water Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, of which is considered to be a major fund of the Village. The proprietary fund financial statements can be found on pages 14-16 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are available to support the Village's own programs. The fiduciary fund financial statement can be found on page 17 of this report.

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. The notes to the financial statements can be found on pages 18-34 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required and additional supplementary information. The Village adopts an annual budget for its general, major street, local street, and road funds. Within the required supplementary information, budget comparison statements have been provided for these funds to demonstrate compliance with the budget. Also, pension related schedules have been provided describing pension related information. Required supplementary information can be found on pages 35-42 of this report. Additional supplementary information on the Downtown Development Authority is presented immediately following the required supplementary information on budgets on pages 43-44 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Village of Lake Odessa, assets exceeded liabilities by \$10,386,842 at the close of the most recent fiscal year.

\$1,560,910 of the Village's net position (15.03 percent) reflects its unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors. An additional portion of the Village's net position (13.79 percent) reflects restricted net position \$1,432,751, which are resources that are subject to external restrictions on how they may be used. The remaining portion of the Village's net position (71.18 percent) reflects its investment in capital assets \$7,393,181 (e.g. land, buildings, equipment and furniture and fixtures). The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Village of Lake Odessa's Condensed Financial Data

	Governmental		Business-Type	
	2019	2018	2019	2018
Current and Other Assets	\$ 1,867,067	\$ 1,423,622	\$ 1,413,931	\$ 1,447,765
Capital Assets	3,373,214	3,553,331	9,017,263	6,962,136
Total Assets	5,240,281	4,976,953	10,431,194	8,409,901
Deferred Outflows of Resources	3,738	2,036	-	-
Short-Term Liabilities	168,145	142,981	238,233	300,831
Long-Term Liabilities	1,053,479	1,109,112	3,817,794	3,757,058
Total Liabilities	1,221,624	1,252,093	4,056,027	4,057,889
Deferred Inflows of Resources	10,720	18,980	-	-
Net Position				
Invested in Capital Assets, Net of Related Debt	2,304,030	2,381,676	5,089,151	3,162,898
Restricted	1,114,539	891,897	318,212	251,510
Unrestricted	593,106	434,343	967,804	937,604
Total Net Position	\$ 4,011,675	\$ 3,707,916	\$ 6,375,167	\$ 4,352,012
Program Revenues				
Charges for Services	\$ 49,250	\$ 38,079	\$ 928,236	\$ 870,673
Operating Grants and Contributions	282,881	230,973	-	-
Capital Grants and Contributions	-	-	1,914,043	88,681
General Revenues				
Property Taxes	702,013	678,920	-	-
State Grants	247,370	224,940	-	-
Investment Income	7,268	4,647	6,764	4,195
Other	23,197	30,297	-	-
Gain on Disposal of Fixed Assets	12,478	5,999	-	3,272
Total Revenues	1,324,457	1,213,855	2,849,043	966,821
Program Expenses				
Governmental Activities				
Legislative	64,918	96,348	-	-
General Government	87,852	89,773	-	-
Public Safety	218,672	303,645	-	-
Public Works	552,365	582,090	-	-
Community and Economic Development	11,622	12,408	-	-
Recreation and Culture	62,032	53,636	-	-
Interest and Fiscal Charges	23,237	34,308	-	-
Business-Type Activities				
Water	-	-	739,146	878,110
Interest and Fiscal Charges	-	-	86,742	180,743
Total Expenses	1,020,698	1,172,208	825,888	1,058,853
Change in Net Position	\$ 303,759	\$ 41,647	\$ 2,023,155	\$ (92,032)

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental activities.

Governmental activities. Governmental activities increased the Village's net position by \$303,759 mainly due to increases in several revenue categories with the greatest increase being in operating grants and contributions.

Business-Type activities. Business-type activities increased the Village's net position by \$2,023,155 mainly due to a large grant received for to fund the water infrastructure improvements.

Financial Analysis of the Village's Funds

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

Governmental funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,816,394 an increase of \$425,626. Last year, the Village's governmental funds combined ending fund balance was \$1,390,768, an increase of \$89,820.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$541,113 and the total fund balance was \$724,841. Unassigned fund balance represents 86.01% of the total general fund expenditures.

The fund balance of the Village's general fund increased by \$210,900 during the current fiscal year, mainly due to significant decreases in expenditures especially in public safety and public works.

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

As of the end of the current fiscal year, the Village's water fund reported unrestricted net position of \$967,804. The Water Fund had an increase in net position of \$2,023,155.

General Fund Budgetary Highlights

The most significant changes to the budget during the fiscal year can be summarized by:

- \$17,900 decrease to Legislative, due to less attorney fees
- \$22,680 decrease to Manager, due to a partial year of a part-time manager
- \$39,169 increase to Buildings and Grounds, due to anticipated improvements
- \$46,850 decrease to Police, due to a partial year without a chief and a smaller staff
- \$29,000 increase to Capital Outlay, due to the purchase of two trucks

Capital Assets

The Village's investment in capital assets for its governmental activities as of February 28, 2019, amounts to \$3,373,214 (net of accumulated depreciation). This investment in capital assets includes: land, buildings, improvements, equipment and furniture and fixtures.

Major capital asset events during the current fiscal year included the purchase of two trucks, improvements to the Village office, a new zero turn lawnmower, and some additional equipment for the DPW. The water fund purchased part of one of the two trucks with the general fund, the construction in progress for water mains in Tupper, Washington, Lakeview, and Second streets were finalized and put in service and water mains for 5th and 6th streets were started. Details of the Village's capital assets are continued in the notes to the financial statements on pages 25 and 26.

Long-Term Debt

At the end of the current fiscal year, the Village had total bonded debt outstanding of \$4,931,000, notes outstanding of \$66,296 and general obligation debt of \$16,847. The Village's debt represents bonds secured by specified revenue sources, equipment secured by the equipment and compensated absences, respectively.

**The Village's Outstanding Debt
General Obligation and Revenue Bonds**

	Governmental-Type Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Primary Government:						
Revenue Bonds	\$ 1,059,700	\$ 1,156,000	\$ 3,871,300	\$ 3,739,000	\$ 4,931,000	\$ 4,895,000
Notes Payable	9,484	15,655	56,812	60,238	66,296	75,893
Compensated Absences	16,847	13,830	-	-	16,847	13,830
Total	\$ 1,086,031	\$ 1,185,485	\$ 3,928,112	\$ 3,799,238	\$ 5,014,143	\$ 4,984,723

The Village's debt increased by \$29,420 during the current fiscal year.

Additional information on the Village's long-term debt can be found on pages 27-28 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Village continues to receive the maximum amount of State Revenue Sharing from the Department of Treasury. The Village has been able to maintain the same level of service to its residents that they have come to expect. The Village has been awarded a \$936,493 Transportation Alternative Program (TAP) Grant from Michigan Department of Transportation (MDOT) for construction of the Jordan Lake Trail Phase 1B. This is a pedestrian, biking, inline skating trail which will also include cross country skiing and snow shoeing in the winter. The trail will connect with Phase 1a of the Jordan Lake Trail which will be completed summer 2020 to 2021. The Village obligation for match dollars is 30.6% (\$414,000) which will be provided for by the Jordan Lake Trail Board and Odessa Township. Odessa Township has been awarded a \$300,000 Michigan Department of Natural Resources (MDNR) Trust Fund Grant for construction of the Trail. Total cost of the project is anticipated to be \$1,350,493. Village staff will also continue to seek ways to improve streets and water-related infrastructure. One project anticipated for 2020-2021 will be street and water-infrastructure improvements to Pearl, Ionia, Pleasant, and Emerson Streets. These improvements are not anticipated to directly impact rates for services. Village staff will also work to identify any and all state or federal grant opportunities that have the potential to maximize Village funds in the continual pursuit of providing high quality, reliable, and safe services to the community, with a watchful eye on the present and the future of Lake Odessa. Furthermore, the Village does not anticipate the raising of any current millage tax levies in the coming fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Village of Lake Odessa's finances for all those with an interest in the village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the (Village Manager/Treasurer), Village of Lake Odessa, 839 Fourth Ave, Lake Odessa, MI 48849. 616-374-7110.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF NET POSITION
February 28, 2019

<u>ASSETS</u>	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Downtown Development Authority</u>
Cash and Cash Equivalents	\$ 1,455,886	\$ 993,263	\$ 2,449,149	\$ 27,716
Investments	299,336	222,561	521,897	-
Receivables (Net)				
Taxes - Delinquent	636	-	636	-
Accounts	-	124,331	124,331	-
Other	3,113	-	3,113	-
Due from State	76,613	72,370	148,983	-
Due from other Governments	12,070	-	12,070	-
Due from other Funds	19,413	1,406	20,819	-
Capital Assets not being Depreciated	-	2,228,154	2,228,154	-
Capital Assets being Depreciated, Net	<u>3,373,214</u>	<u>6,789,109</u>	<u>10,162,323</u>	<u>-</u>
Total Assets	<u>5,240,281</u>	<u>10,431,194</u>	<u>15,671,475</u>	<u>27,716</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Pension Outflows	<u>3,738</u>	<u>-</u>	<u>3,738</u>	<u>-</u>
LIABILITIES				
Accounts Payable	25,907	118,676	144,583	-
Accrued Liabilities	6,210	9,145	15,355	-
Due To other Funds	18,556	94	18,650	-
Noncurrent Liabilities				
Due Within One Year	117,472	110,318	227,790	-
Due In more than One Year	968,559	3,817,794	4,786,353	-
Net Pension Liability	<u>84,920</u>	<u>-</u>	<u>84,920</u>	<u>-</u>
Total Liabilities	<u>1,221,624</u>	<u>4,056,027</u>	<u>5,277,651</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Pension Inflows	<u>10,720</u>	<u>-</u>	<u>10,720</u>	<u>-</u>
NET POSITION				
Net Position				
Invested in Capital Assets,				
Net of Related Debt	2,304,030	5,089,151	7,393,181	-
Restricted for Roads	1,091,553	-	1,091,553	-
Restricted for Community Activities	22,986	-	22,986	27,716
Restricted for Debt	-	215,938	215,938	-
Restricted for Improvements	-	102,274	102,274	-
Unrestricted	<u>593,106</u>	<u>967,804</u>	<u>1,560,910</u>	<u>-</u>
Total Net Position	<u>\$ 4,011,675</u>	<u>\$ 6,375,167</u>	<u>\$ 10,386,842</u>	<u>\$ 27,716</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Primary Government								
Governmental Activities								
Legislative	\$ 64,918	\$ -	\$ -	\$ -	\$ (64,918)	\$ -	\$ (64,918)	
General Government	87,852	46,866	8,595	-	(32,391)	-	(32,391)	
Public Safety	218,672	2,364	-	-	(216,288)	-	(216,288)	
Public Works	552,365	-	274,286	-	(278,079)	-	(278,079)	
Community and Economic Development	11,622	-	-	-	(11,622)	-	(11,622)	
Recreation and Culture	62,032	-	-	-	(62,032)	-	(62,032)	
Interest and Fiscal Charges	23,237	-	-	-	(23,237)	-	(23,237)	
Total Governmental Activities	1,020,888	49,250	282,881	-	(688,567)	-	(688,567)	
Business-Type Activities								
Water	739,146	928,236	-	1,914,043	-	2,103,133	2,103,133	
Interest and Fiscal Charges	86,742	-	-	-	-	(86,742)	(86,742)	
Total Business-Type Activities	825,888	928,236	-	1,914,043	-	2,016,391	2,016,391	
Total Primary Government	\$ 1,846,586	\$ 977,486	\$ 282,881	\$ 1,914,043	(688,567)	2,016,391	1,327,824	
Component Unit								
Downtown Development Authority	\$ (8,813)	\$ -	\$ -	\$ -				\$ (8,813)
Total Component Unit	\$ (8,813)	\$ -	\$ -	\$ -				(8,813)
General Revenues								
Taxes and Penalties					702,013	-	702,013	28,902
State Grants					247,370	-	247,370	-
Investment Income					7,268	6,764	14,032	31
Other					23,197	-	23,197	1,890
Total General Revenue					979,848	6,764	986,612	30,823
Gain (Loss) on Disposal of Capital Assets					12,478	-	12,478	-
Change in Net Position					303,759	2,023,155	2,326,914	22,010
Net Position-Beginning					3,707,916	4,352,012	8,059,928	5,706
Net Position-Ending					\$ 4,011,675	\$ 6,375,167	\$ 10,386,842	\$ 27,716

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF LAKE ODESSA
GOVERNMENTAL FUNDS BALANCE SHEET
February 28, 2019**

ASSETS	General	Major Streets	Local Streets	Road Fund	Total Governmental Funds
Cash and Cash Equivalents	\$ 610,608	\$ 268,078	\$ 332,224	\$ 244,976	\$ 1,455,886
Investments	70,713	102,354	-	126,269	299,336
Receivables					
Taxes	636	-	-	-	636
Other	3,113	-	-	-	3,113
Due from State	34,289	31,659	10,665	-	76,613
Due from Other Governments	12,070	-	-	-	12,070
Due from Other Funds	19,413	-	-	-	19,413
Total Assets	\$ 750,842	\$ 402,091	\$ 342,889	\$ 371,245	\$ 1,867,067
LIABILITIES					
Accounts Payable	\$ 25,907	\$ -	\$ -	\$ -	\$ 25,907
Accrued Liabilities	-	-	-	6,210	6,210
Due To Other Funds	94	13,342	5,120	-	18,556
Total Liabilities	26,001	13,342	5,120	6,210	50,673
FUND BALANCE					
Restricted	22,986	388,749	337,769	365,035	1,114,539
Committed	160,742	-	-	-	160,742
Unassigned	541,113	-	-	-	541,113
Total Fund Balances	724,841	388,749	337,769	365,035	1,816,394
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 750,842	\$ 402,091	\$ 342,889	\$ 371,245	\$ 1,867,067

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF LAKE ODESSA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
February 28, 2019**

Governmental Fund Balance - February 28, 2019 **\$ 1,816,394**

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

Governmental capital assets	\$6,588,409	
Less: accumulated depreciation	<u>(3,215,195)</u>	3,373,214

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(1,059,700)	
Notes payable	(9,484)	
Accumulated vacation and sick leave	(16,847)	
Net pension liability	<u>(84,920)</u>	(1,170,951)

Deferred outflows of resources are not accrued in the current period and are not reported in the funds

Deferred pension outflows		3,738
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Deferred inflows of resources not due and payable in the current period and are not reported in the funds

Deferred pension inflows		<u>(10,720)</u>
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Net Position of Governmental Activities **\$ 4,011,675**

**VILLAGE OF LAKE ODESSA
GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended February 28, 2019**

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes and Penalties	\$ 487,767	\$ -	\$ -	\$ 214,246	\$ 702,013
Licenses and Permits	8,056	-	-	-	8,056
State Grants	247,370	172,196	102,090	-	521,656
Fines and Forfeitures	1,466	-	-	-	1,466
Interest and Rentals	33,575	1,709	1,065	1,845	38,194
Charges for Services	7,884	-	-	-	7,884
Other Revenue	<u>32,710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,710</u>
Total Revenues	<u>818,828</u>	<u>173,905</u>	<u>103,155</u>	<u>216,091</u>	<u>1,311,979</u>
Expenditures					
Current					
Legislative	64,918	-	-	-	64,918
General Government	33,813	-	-	-	33,813
Public Safety	207,292	-	-	-	207,292
Public Works	188,478	92,389	34,363	32,724	347,954
Community and Economic Development	11,622	-	-	-	11,622
Recreation and Culture	40,574	-	-	-	40,574
Debt Service					
Principal	6,171	-	-	96,300	102,471
Interest	588	-	-	22,649	23,237
Capital Outlay	<u>75,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,677</u>
Total Expenditures	<u>629,133</u>	<u>92,389</u>	<u>34,363</u>	<u>151,673</u>	<u>907,558</u>
Excess of Revenues Over (Under)					
Expenditures	<u>189,695</u>	<u>81,516</u>	<u>68,792</u>	<u>64,418</u>	<u>404,421</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	21,205	-	-	-	21,205
Operating Transfers In (Out)	<u>-</u>	<u>(57,068)</u>	<u>57,068</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>21,205</u>	<u>(57,068)</u>	<u>57,068</u>	<u>-</u>	<u>21,205</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	210,900	24,448	125,860	64,418	425,626
Fund Balance-March 1, 2018	<u>513,941</u>	<u>364,301</u>	<u>211,909</u>	<u>300,617</u>	<u>1,390,768</u>
Fund Balance-February 28, 2019	<u>\$ 724,841</u>	<u>\$ 388,749</u>	<u>\$ 337,769</u>	<u>\$ 365,035</u>	<u>\$ 1,816,394</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2019

Net Change in Fund Balances - Total Governmental Funds		\$ 425,626
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(3,017)
Repayment of bonds and notes payable principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)		102,471
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		
Expenditures for capital assets	\$ 75,677	
Expenditures for infrastructure assets	51,977	
Less: Current year depreciation	(299,043)	
Less: Proceeds from sale of fixed assets	(21,205)	
Plus: Gain on sale of fixed assets	<u>12,478</u>	(180,116)
Government funds report pension expenditures. However, in the statement of activities, the costs of pension expenses are deferred for timing differences		9,961
Net (increase) decrease in pension liability		<u>(51,166)</u>
Change in Net Position of Governmental Activities		<u>\$ 303,759</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF NET POSITION
February 28, 2019

	Enterprise Fund Water System	Total
ASSETS		
Cash and Cash Equivalents	\$ 993,263	\$ 993,263
Investments	222,561	222,561
Receivables (Net)		
Accounts	124,331	124,331
Due from State	72,370	72,370
Due from other Funds	1,406	1,406
Capital Assets not being Depreciated	2,228,154	2,228,154
Capital Assets being Depreciated, Net	6,789,109	6,789,109
Total Assets	\$ 10,431,194	\$ 10,431,194
LIABILITIES		
Accounts Payable	\$ 118,676	\$ 118,676
Accrued Liabilities	9,145	9,145
Due to other Funds	94	94
Notes Payable	56,812	56,812
Bonds Payable	3,871,300	3,871,300
Total Liabilities	4,056,027	4,056,027
NET POSITION		
Investment in Capital Assets, Net of Related Debt	5,089,151	5,089,151
Restricted	318,212	318,212
Unrestricted	967,804	967,804
Total Net Position	6,375,167	6,375,167
Total Liabilities and Net Position	\$ 10,431,194	\$ 10,431,194

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended February 28, 2019

	Enterprise Fund Water System	Total
Operating Revenues		
Charges for Services	\$ 924,512	\$ 924,512
Other Operating Revenue	3,724	3,724
Total Operating Revenues	928,236	928,236
Operating Expenses		
Administration	35,079	35,079
Salaries and Fringe Benefits	209,238	209,238
Bank Fees	20	20
Supplies	96,413	96,413
Office Supplies	4,589	4,589
Contractual Services	19,839	19,839
Repairs and Maintenance	103,308	103,308
Gasoline	4,701	4,701
Depreciation	180,432	180,432
Dues and Memberships	2,869	2,869
Miscellaneous	824	824
Telephone	3,557	3,557
Utilities	57,551	57,551
Education and Training	2,915	2,915
Insurance and Bonds	16,515	16,515
Water Testing	1,296	1,296
Total Operating Expenses	739,146	739,146
Operating Income	189,090	189,090
Nonoperating Revenues (Expenses)		
State Grants	1,914,043	1,914,043
Interest Earned on Investments	6,764	6,764
Interest Expense	(86,742)	(86,742)
Total Nonoperating Revenues (Expenses)	1,834,065	1,834,065
Change in Net Position	2,023,155	2,023,155
Net Position-March 1, 2018	4,352,012	4,352,012
Net Position-February 28, 2019	\$ 6,375,167	\$ 6,375,167

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended February 28, 2019

	Enterprise Fund Water System	Total
Cash Flows from Operating Activities:		
Cash Charges for Services	\$ 874,583	\$ 874,583
Other Operating Revenue	3,724	3,724
Administrative Costs	(35,079)	(35,079)
Cash Payments to Employees for Services	(209,238)	(209,238)
Cash Payments to Suppliers for Goods and Services	(315,202)	(315,202)
Net Cash Provided by Operating Activities	318,788	318,788
Cash Flows From Capital and Related Financing Activities:		
Payment of Principal	(107,127)	(107,127)
Payment of Interest	(87,169)	(87,169)
Bond Proceeds	236,000	236,000
Net Cash Used by Capital and Related Financing Activities	41,704	41,704
Cash Flows from Investing Activities:		
Interest Earned on Cash Equivalents and Investments	6,764	6,764
State Grants	1,841,673	1,841,673
Purchase of Capital Assets	(2,365,552)	(2,365,552)
Net Cash Provided (Used) by Investing Activities	(517,115)	(517,115)
Net Increase in Cash and Cash Equivalents	(156,623)	(156,623)
Cash and Cash Equivalents at Beginning of the Year (Including \$219,762 in investments)	1,372,447	1,372,447
Cash and Cash Equivalents at End of the Year (Including \$222,561 in investments)	\$ 1,215,824	\$ 1,215,824
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 189,090	\$ 189,090
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	180,432	180,432
Decrease (Increase) in Receivables	(49,929)	(49,929)
(Decrease) Increase in Accounts Payable	(805)	(805)
Net Cash Provided by Operating Activities	\$ 318,788	\$ 318,788

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
FIDUCIARY FUNDS STATEMENT OF NET POSITION
February 28, 2019

ASSETS	Trust and Agency
Current Assets	
Cash and Cash Equivalents	<u>\$ 2,359</u>
Total Assets	<u>2,359</u>
LIABILITIES	
Current Liabilities	
Accrued Liabilities	190
Due to Other Funds	<u>2,169</u>
Total Liabilities	<u>\$ 2,359</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Lake Odessa conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Lake Odessa:

REPORTING ENTITY

The Village operates under an elected council of seven members and provides services to its residents in many areas including police protection, maintenance of Village streets and other property, water and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance services are provided by outside entities. The Village is assessed for its respective share of the expenditures.

DISCRETELY PRESENTED COMPONENT UNIT

Downtown Development Authority (DDA)

The downtown development authority was created to correct and prevent deterioration in the downtown district, to encourage historical preservation, and to promote economic growth within the downtown district. The members of the governing board of the downtown development authority are appointed by the Village Council. The Village has the ability to significantly influence operations of the downtown development authority.

Complete financial statements for the component unit are not separately reported.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The statement of net position includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net position is reported in three parts: invested in capital assets, net of related debt; restricted net position; and unrestricted net positions.

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

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

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2018 State taxable valuation of the Village totaled \$45,870,168 on which ad valorem taxes levied consisted of 10.7204 mills for Village operating purposes and 4.8045 mills for Village street operations, raising \$491,747 for operating and \$220,383 for street operations. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2018 taxes levied.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Road Fund accounts for the maintenance of the Village's roads. Revenues are primarily derived from property taxes.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Village in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenue 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. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Taxes are payable through August 31st, and at that time, all unpaid taxes are deemed delinquent and turned over to Ionia County. Ionia County remits payment to the Village of Lake Odessa on all delinquent property taxes.

Committed Assets - The Village has committed assets for capital purchases and community activities. By committing a portion of the fund balance for a specific purpose, the Village has limited the use of the funds for that specific purpose, unless the council rescinds via resolution.

Restricted Assets - The Village has restricted assets for roads, community activities, debt and improvements. By restricting a portion of the net position for a specific purpose, the Village has limited the use of the funds for that specific purpose only. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose than roads and community activities.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>General Assets</u>	
Buildings and Improvements	30 to 50 years
Water System	20 to 50 years
Land Improvements	20 years
Equipment	5 to 15 years
Data Processing	5 years
Furniture	10 years
<u>Infrastructure Assets</u>	
Roads	8 to 30 years
Bridges	12 to 50 years
Sidewalks	10 to 30 years
Drains, Curbs, Gutters	8 to 40 years

Deferred Outflows - This reflects a decrease in net position that applies to a future period. The deferred outflows related to the defined benefit pension plan.

Deferred Inflows - This reflects an increase in net position that applies to a future period. The deferred inflows related to the defined benefit pension plan.

Fund Equity - In March 2009 the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund-Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. This statement establishes fund balance classifications that comprise hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with five new classifications - nonspendable, restricted, committed, assigned, and unassigned.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY (Continued)

Fund Equity - In the fund financial statements, governmental funds report the following components of fund balance:

- **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 council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the council.
- **Assigned:** Intent to spend resources on specific purposes expressed by the council, or the director, who is authorized by resolution approved by the council to make assignments.
- **Unassigned:** All other amounts available for any purpose.

Restricted/Unrestricted Resources - When expenses are incurred for which both restricted and unrestricted resources are available, it is the Village's policy to first apply restricted resources. Once restricted resources are exhausted, the Village's policy is to apply unrestricted resources in the following order: committed, assigned, and unassigned.

Compensated Absences (Vacation and Sick Leave) - Village employees earn from 10-25 vacation days a year. The amount of vacation pay earned is determined according to the length of their employment. Vacation time not taken or paid in lieu prior to each individual's hire anniversary date each year is forfeited. Upon termination, all unearned and unused vacation pay is paid at current wage rates.

Sick leave benefits are earned by hourly employees at a rate of 1.85 hours per pay period of service worked. Upon voluntary termination, with eight years of service with the employer and upon submitting written notice at least two weeks prior to termination, the employee shall be paid for 50% of documented accrued sick leave, not to exceed 20 days, at the current wage rate. Employees that are involuntarily discharged are not eligible for payment of unused sick days. Salaried and hourly employees can carry forward 30 days for use in a subsequent year.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted for general and special revenue funds, which are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The village manager submits to the village council a proposed annual budget prior to February 28. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 28, 2019, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>BUDGET APPROPRIATION</u>	<u>ACTUAL EXPENDITURE</u>	<u>BUDGET VARIANCE</u>
General			
Community and Economic Development			
Redevelopment and Housing	\$ 4,100	\$ 4,612	\$ 512
Recreation and Culture			
Other	\$ 2,245	\$ 3,385	\$ 1,140
Debt Service			
Principal	\$ -	\$ 6,171	\$ 6,171
Interest	\$ -	\$ 588	\$ 588
Major Street			
Street Winter Maintenance	\$ 17,100	\$ 26,376	\$ 9,276
Local Street			
Street Winter Maintenance	\$ 9,550	\$ 11,903	\$ 2,353

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Lake Odessa.

USE OF ESTIMATES

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

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated four banks, one savings bank and one credit union for the deposit of the Village of Lake Odessa funds. The DDA has designated one bank for the deposit of the DDA's funds.

The Village's deposits and investments are in accordance with statutory authority.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

DEPOSITS AND INVESTMENTS (Continued)

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ 1,455,886	\$ 993,263	\$ 2,359	\$ 2,451,508	\$ 27,716
Investments	299,336	222,561	-	521,897	-
Restricted Assets	-	-	-	-	-
Total	<u>\$ 1,755,222</u>	<u>\$ 1,215,824</u>	<u>\$ 2,359</u>	<u>\$ 2,973,405</u>	<u>\$ 27,716</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 2,973,125	\$ 27,716
Investment in Securities (Mutual Funds and Similar Vehicles)	-	-
Petty Cash and Cash on Hand	<u>280</u>	-
Total	<u>\$ 2,973,405</u>	<u>\$ 27,716</u>

Custodial credit risk is the risk that the Village will not be able to recover its deposits in the event of financial institution failure. The Village's deposits are exposed to custodial credit risk if they are not covered by federal depository or securities investor insurance and are uncollateralized. At February 28, 2019, the Village had deposits with a carrying amount of \$2,973,125 and a bank balance of \$3,014,983. Of the bank balance, \$1,569,294 is covered by federal depository insurance, \$1,445,689 is uninsured and \$0 is collateralized. The DDA has deposits with a carrying amount of \$27,716 and a bank balance of \$33,354. Of the bank balance, \$33,354 is covered by federal depository insurance, \$0 is uninsured and \$0 is collateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of the FDIC and SIPC 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 an acceptable estimated risk level are used as depositories. The Village has, however, secured an agreement with Union Bank. Union Bank has pledged \$750,000 of FHLB Agency Notes to secure the Village's excess deposits. The Village's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not being Depreciated/Amortized				
Land	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-
Capital Assets being Depreciated/Amortized				
Buildings	528,273	7,113	-	535,386
Land Improvements	369,287	4,395	-	373,682
Equipment	582,009	64,169	84,081	562,097
Data Processing Equipment	68,538	-	1,689	66,849
Infrastructure	<u>5,032,934</u>	<u>51,977</u>	<u>34,516</u>	<u>5,050,395</u>
Subtotal	<u>6,581,041</u>	<u>127,654</u>	<u>120,286</u>	<u>6,588,409</u>
Less Accumulated Depreciation/Amortization for				
Buildings	455,400	7,079	-	462,479
Land Improvements	80,655	18,759	-	99,414
Equipment	400,701	44,110	75,353	369,458
Data Processing Equipment	60,188	2,848	1,689	61,347
Infrastructure	<u>2,030,766</u>	<u>228,247</u>	<u>34,516</u>	<u>2,222,497</u>
Subtotal	<u>3,027,710</u>	<u>299,043</u>	<u>111,558</u>	<u>3,215,195</u>
Net Capital Assets being Depreciated/Amortized	<u>3,553,331</u>	<u>(171,389)</u>	<u>8,728</u>	<u>3,373,214</u>
Governmental Activities Total				
Capital Assets-Net of Depreciation/Amortization	<u>\$ 3,553,331</u>	<u>\$ (171,389)</u>	<u>\$ 8,728</u>	<u>\$ 3,373,214</u>

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets not Being Depreciated/Amortized				
Land	\$ 2,150	\$ -	\$ -	\$ 2,150
Construction in Progress	<u>3,555,056</u>	<u>2,199,559</u>	<u>3,528,611</u>	<u>2,226,004</u>
Subtotal	<u>3,557,206</u>	<u>2,199,559</u>	<u>3,528,611</u>	<u>2,228,154</u>
Capital Assets Being Depreciated/Amortized				
Buildings and Water System	4,795,483	3,528,611	-	8,324,094
Land Improvements	1,737	-	-	1,737
Office Equipment	23,761	-	6,210	17,551
Equipment	<u>389,278</u>	<u>36,000</u>	<u>-</u>	<u>425,278</u>
Subtotal	<u>5,210,259</u>	<u>3,564,611</u>	<u>6,210</u>	<u>8,768,660</u>
Less Accumulated Depreciation/Amortization for				
Buildings and Water System	1,496,930	149,152	-	1,646,082
Land Improvements	2,249	87	-	2,336
Office Equipment	17,944	1,160	6,210	12,894
Equipment	<u>288,206</u>	<u>30,033</u>	<u>-</u>	<u>318,239</u>
Subtotal	<u>1,805,329</u>	<u>180,432</u>	<u>6,210</u>	<u>1,979,551</u>
Net Capital Assets Being Depreciated/Amortized	<u>3,404,930</u>	<u>3,384,179</u>	<u>-</u>	<u>6,789,109</u>
Governmental Activities Total Capital Assets-Net of Depreciation/Amortization	<u>\$ 6,962,136</u>	<u>\$ 5,583,738</u>	<u>\$ 3,528,611</u>	<u>\$ 9,017,263</u>

Depreciation/Amortization expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 9,817
Public Safety	11,380
Public Works	256,388
Recreation and Culture	<u>21,458</u>
Total Governmental Activities	<u>\$ 299,043</u>
Business-Type Activities	
Water Fund	<u>\$ 180,432</u>
Total Business-Type Activities	<u>\$ 180,432</u>

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Fund</u>	<u>Interfund Payables</u>
General	\$ 19,413	General	94
Water	<u>1,406</u>	Major	13,342
		Local	5,120
	<u>\$ 20,819</u>	Water	94
		Payroll	<u>2,169</u>
			<u>\$ 20,819</u>
<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Local Streets	<u>\$ 57,068</u>	Major Streets	<u>\$ 57,068</u>
	<u>\$ 57,068</u>		<u>\$ 57,068</u>

The interfund receivables and payables represent money owed to the funds for expenses paid by other funds for various expenses. The major street fund is allowed under Act 51 to share a portion of its Act 51 revenues with the local street fund.

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

LEASE COMMITMENTS

The Village has entered into an operating lease for a John Deere backhoe. The lease is for 36 months at \$535.76 per month. At the end of 36 months, the Village has the option to renew the lease. At any point during the lease, if the Village has not defaulted on any payments, it has the option to purchase the backhoe for the remaining backhoe value.

The annual requirements und the lease commitment are as follows:

<u>Year End Feb 28</u>	
2020	\$ 6,429
2021	<u>3,750</u>
Total	<u>\$ 10,179</u>

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

LONG-TERM DEBT (Continued)

The following is a summary of the outstanding debt of the Village as of February 28, 2019:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>(Reduction)</u>	<u>Addition</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government Governmental Activities							
Notes							
Equipment Note	2.000%	2025	\$ 15,655	\$ (6,171)	\$ -	\$ 9,484	\$ 825
Bonds							
2017 Refunding Bond	2.260%	2029	508,200	(32,900)	-	475,300	36,400
2016 Refunding Bond	1.800%	2026	647,800	(63,400)	-	584,400	63,400
Other Liabilities							
Compensated Absences			13,830	-	3,017	16,847	16,847
Total Governmental Activities			<u>\$ 1,185,485</u>	<u>\$ (102,471)</u>	<u>\$ 3,017</u>	<u>\$ 1,086,031</u>	<u>\$ 117,472</u>
Business-Type Activities							
Notes							
Equipment Note	2.000%	2025	\$ 60,238	\$ (3,426)	\$ -	\$ 56,812	\$ 4,118
Water Bonds							
2017 Refunding Bond	2.260%	2029	217,800	(14,100)	-	203,700	15,600
2016 Rural Development	2.250%	2057	3,259,000	(63,000)	236,000	3,432,000	64,000
2016 Refunding Bond	1.800%	2026	262,200	(26,600)	-	235,600	26,600
Total Business-Type Activities			<u>\$ 3,799,238</u>	<u>\$ (107,126)</u>	<u>\$ 236,000</u>	<u>\$ 3,928,112</u>	<u>\$ 110,318</u>

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on notes and long-term bonds outstanding for the primary government and component units are as follows:

<u>Year End Feb 28</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 100,625	\$ 23,363	\$ 110,318	\$ 87,169
2021	105,625	19,518	112,417	84,765
2022	112,725	17,464	114,418	82,327
2023	112,725	15,273	116,521	79,830
2024	116,725	13,082	123,625	77,298
2025 to 2029	467,025	31,609	599,376	345,630
2030 to 2034	53,734	1,519	454,437	286,153
2035 to 2039	-	-	470,000	235,280
2040 to 2044	-	-	527,000	178,987
2045 to 2049	-	-	588,000	116,072
2050 to 2054	-	-	609,000	42,609
2055 to 2059	-	-	103,000	3,141
Total	<u>\$ 1,069,184</u>	<u>\$ 121,828</u>	<u>\$ 3,928,112</u>	<u>\$ 1,619,261</u>

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits through a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers' compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member. The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

At February 28, 2019, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

DEFINED BENEFIT PENSION PLAN

Plan Description

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

Benefits Provided

Benefits provided include plans with a multiplier of 2.50% (80% max).

Vesting period is 6 years.

Normal retirement age is 60 with unreduced early retirement benefits at 55 with 15 years of service and reduced retirement benefits at 50 with 25 years of service.

Final average compensation is calculated based on 3 years.

Employee contributions are 10% of covered wages.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

DEFINED BENEFIT PENSION PLAN (Continued)

Employees Covered by Benefit Terms

At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employee entitled to but not yet receiving benefits	0
Active employees	<u>2</u> <u>4</u>

Contributions

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

Employer contributions for the fiscal year were \$11,309
Employee contributions for the fiscal year were \$11,303

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2018, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of that date.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary increases: 3.75% in the long-term

Investment rate of return: 7.75%, net investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with the price inflation of 2.5%.

Mortality rates used were based on the 2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the RP-2014 Disabled Retiree Mortality Table is used.

The actuarial assumptions and methods are adopted by the MERS Retirement Board, and are reviewed every five years in an Experience Study. The most recent study was completed in 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	57.50%	5.02%
Global Fixed Income	20.00%	2.18%
Real Assets	12.50%	4.23%
Diversifying Strategies	10.00%	6.56%

Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates of employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

DEFINED BENEFIT PENSION PLAN (Continued)

Changes in Net Pension Liability

	Calculating the Net Pension Liability Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Position Liability</u>
Balance at 12/31/17	\$ 441,984	\$ 408,230	\$ 33,754
Changes for the Year			
Service Cost	21,982	-	21,982
Interest on Total Pension Liability	34,009	-	34,009
Changes in Benefits	-	-	-
Difference Between Expected and Actual Experience	(133)	-	(133)
Changes in Assumptions	-	-	-
Employer Contributions	-	11,309	(11,309)
Employee Contributions	-	11,303	(11,303)
Net Investment Income	-	(16,031)	16,031
Benefit Payments Including Employee Refunds	(28,292)	(28,292)	-
Administrative Expense	-	(792)	792
Other Changes	1,097	-	1,097
Net Changes	<u>28,663</u>	<u>(22,503)</u>	<u>51,166</u>
Balances as of 12/31/18	<u>\$ 470,647</u>	<u>\$ 385,727</u>	<u>\$ 84,920</u>

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

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1% point lower (7.00%) or 1% higher (9.00%) than the current rate.

	<u>1% Decrease 7.00%</u>	<u>Current Discount Rate 8.00%</u>	<u>1% Increase 9.00%</u>
Net Pension Liability at 12-31-18		\$ 84,920	
Change in Net Pension Liability	\$ 56,149	-	\$ (46,356)
Calculated Net Pension Liability	<u>\$ 141,069</u>	<u>\$ 84,920</u>	<u>\$ 38,564</u>

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

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019**

DEFINED BENEFIT PENSION PLAN (Continued)

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

For the year ended February 28, 2019, the employer recognized expense of \$24,541. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in Experience	\$ -	\$ (17,242)
Differences in Assumptions	-	-
Excess (Deficit) Investment Returns	-	27,962
Contributions Subsequent to the Measurement Date	3,737	-
Total	\$ 3,737	\$ 10,720

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the Net Pension Liability for year ending February 28, 2019.

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

Year ended	
2019	\$ 7,221
2020	\$ 8,175
2021	\$ (8,776)
2022	\$(12,673)
2023	\$ (1,569)
Thereafter	\$ (3,097)

DEFERRED COMPENSATION PENSION PLAN

The Village has a 401(k) deferred compensation pension plan which is available to all of its qualifying employees. A qualifying employee has attained the age of 21, works at least 1,000 hours per year and has at least one year of employment with the Village. The plan permits them to defer a portion of their current salary until termination, retirement, death, or unforeseeable emergency. Employees may contribute any amount of their compensation (in whole percent increments) to the plan. The Village contributes an amount equal to an employee's contribution between 1-10%. The plan is subject to IRS rules. The total village contributions for the year ended February 28, 2019 were \$18,217 and employee contributions were \$19,552. Monies are invested in individual annuities in the names of the individuals and held in trust for employees. Employee's rights created under the plan are equivalent to those of general creditors of the Village and only in an amount equal to their fair market value on the deferred account maintained with respect to each employee.

In the past, the plan assets have been used for no purpose other than to pay benefits and administrative costs. In addition, the Village believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2019

ACCOUNTING PRONOUNCEMENTS

GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement is to address accounting and financial reporting for certain asset retirement obligation. This standard will be effective in 2020. The Village does not believe that this standard will have any impact on its financial statements.

GASB issued Statement No. 84, *Fiduciary activities*. This Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This standard will be effective in 2020. The Village is currently evaluating the impact of this standard.

GASB issued Statement No 87, *Leases*. This Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognize as inflows of resources or outflows of resources based on the payment provisions of the contract. This standard will be effective in 2021. The Village is currently evaluating the impact of this standard.

GASB issued Statement No 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. This Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The standard will be in effect for 2020. The Village does not believe that this standard will have any impact on its financial statements.

GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement established accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62. This statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The standard will be in effect for 2021. The Village does not believe that this standard will have any impact on its financial statements.

GASB issued Statement No. 90, *Majority Equity Interest* an amendment of GASB Statements No. 14 and No. 61. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevant of financial statement information for certain component units. The standard will be in effect for 2020. The Village does not believe that this standard will have any impact on its financial statements.

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended February 28, 2019

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 513,941	\$ 513,941	\$ 513,941	\$ -
Resources (Inflows)				
Taxes and Penalties	487,000	487,000	487,767	767
Licenses and Permits	9,300	9,300	8,056	(1,244)
State Grants	232,007	232,007	247,370	15,363
Contributions from Local Units	8,900	8,900	-	(8,900)
Fines and Forfeitures	4,000	4,000	1,466	(2,534)
Interest and Rentals	33,504	33,504	33,575	71
Charges for Services	6,585	6,585	7,884	1,299
Other Revenue	18,200	18,200	32,710	14,510
Total Resources	<u>799,496</u>	<u>799,496</u>	<u>818,828</u>	<u>19,332</u>
Charges to Appropriations (Outflows)				
Legislative				
Governing Body	105,105	87,205	64,918	22,287
General Government				
Manager	47,920	25,240	17,839	7,401
Buildings and Grounds	19,950	59,119	15,974	43,145
Public Safety				
Police	339,220	292,370	207,292	85,078
Public Works				
Street Lighting	37,000	37,000	32,476	4,524
Garage and Maintenance	181,189	179,589	156,002	23,587
Community and Economic Development				
Planning and Zoning	7,570	7,570	7,010	560
Redevelopment and Housing	4,100	4,100	4,612	(512)
Recreation and Culture				
Parks	21,610	25,410	21,197	4,213
Art's Commission	16,174	16,174	15,992	182
Other	2,245	2,245	3,385	(1,140)
Debt Service				
Principal	-	-	6,171	(6,171)
Interest	-	-	588	(588)
Capital Outlay	48,500	77,500	75,677	1,823
Total Charges to Appropriations	<u>830,583</u>	<u>813,522</u>	<u>629,133</u>	<u>184,389</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (Continued)
For the Year Ended February 28, 2019

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Excess of Resources Over (Under) Appropriations	<u>(31,087)</u>	<u>(14,026)</u>	<u>189,695</u>	<u>203,721</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Asset:	<u>10,500</u>	<u>10,500</u>	<u>21,205</u>	<u>(10,705)</u>
Total Other Financing Sources (Uses)	<u>10,500</u>	<u>10,500</u>	<u>21,205</u>	<u>(10,705)</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>(20,587)</u>	<u>(3,526)</u>	<u>210,900</u>	<u>214,426</u>
Budgetary Fund Balance - February 28, 2019	<u>\$ 493,354</u>	<u>\$ 510,415</u>	<u>\$ 724,841</u>	<u>\$ 214,426</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended February 28, 2019

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 364,301	\$ 364,301	\$ 364,301	\$ -
Resources (Inflows)				
State Grants	175,000	175,000	172,196	(2,804)
Interest and Rentals	1,200	1,200	1,709	509
Other Revenue	<u>800</u>	<u>800</u>	<u>-</u>	<u>(800)</u>
Total Resources	<u>177,000</u>	<u>177,000</u>	<u>173,905</u>	<u>(3,095)</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	5,600	5,600	2,050	3,550
Street Routine Maintenance	100,970	86,400	63,963	22,437
Street Winter Maintenance	<u>12,530</u>	<u>17,100</u>	<u>26,376</u>	<u>(9,276)</u>
Total Charges to Appropriations	<u>119,100</u>	<u>109,100</u>	<u>92,389</u>	<u>16,711</u>
Excess of Resources Over (Under) Appropriations	<u>57,900</u>	<u>67,900</u>	<u>81,516</u>	<u>13,616</u>
Other Financing Sources (Uses)				
Operating Transfers (Out)	<u>(50,000)</u>	<u>(60,000)</u>	<u>(57,068)</u>	<u>2,932</u>
Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>(60,000)</u>	<u>(57,068)</u>	<u>2,932</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>7,900</u>	<u>7,900</u>	<u>24,448</u>	<u>16,548</u>
Budgetary Fund Balance - February 28, 2019	<u>\$ 372,201</u>	<u>\$ 372,201</u>	<u>\$ 388,749</u>	<u>\$ 16,548</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended February 28, 2019

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 211,909	\$ 211,909	\$ 211,909	\$ -
Resources (Inflows)				
State Grants	59,000	59,000	102,090	43,090
Interest and Rentals	<u>400</u>	<u>400</u>	<u>1,065</u>	<u>665</u>
Total Resources	<u>59,400</u>	<u>59,400</u>	<u>103,155</u>	<u>43,755</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	2,230	2,230	820	1,410
Street Routine Maintenance	38,605	44,605	21,640	22,965
Street Winter Maintenance	<u>9,550</u>	<u>9,550</u>	<u>11,903</u>	<u>(2,353)</u>
Total Charges to Appropriations	<u>50,385</u>	<u>56,385</u>	<u>34,363</u>	<u>22,022</u>
Excess of Resources Over (Under) Appropriations	<u>9,015</u>	<u>3,015</u>	<u>68,792</u>	<u>65,777</u>
Other Financing Sources (Uses)				
Operating Transfers In	<u>50,000</u>	<u>60,000</u>	<u>57,068</u>	<u>(2,932)</u>
Total Other Financing Sources (Uses)	<u>50,000</u>	<u>60,000</u>	<u>57,068</u>	<u>(2,932)</u>
Excess of Resources and Other Sources Over (Under) Appropriations and Other Uses	<u>59,015</u>	<u>63,015</u>	<u>125,860</u>	<u>62,845</u>
Budgetary Fund Balance - February 28, 2019	<u>\$ 270,924</u>	<u>\$ 274,924</u>	<u>\$ 337,769</u>	<u>\$ 62,845</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
For the Year Ended February 28, 2019

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 300,617	\$ 300,617	\$ 300,617	\$ -
Resources (Inflows)				
Taxes and Penalties	212,940	212,940	214,246	1,306
Interest and Rentals	800	800	1,845	1,045
Other	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>(1,000)</u>
Total Resources	<u>214,740</u>	<u>214,740</u>	<u>216,091</u>	<u>1,351</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	43,314	43,314	27,797	15,517
Sidewalk Replacement	10,000	10,000	4,927	5,073
Debt Service				
Principal	96,300	96,300	96,300	-
Interest	<u>24,236</u>	<u>24,236</u>	<u>22,649</u>	<u>1,587</u>
Total Charges to Appropriations	<u>173,850</u>	<u>173,850</u>	<u>151,673</u>	<u>22,177</u>
Excess of Resources Over (Under) Appropriations	<u>40,890</u>	<u>40,890</u>	<u>64,418</u>	<u>23,528</u>
Budgetary Fund Balance - February 28, 2019	<u>\$ 341,507</u>	<u>\$ 341,507</u>	<u>\$ 365,035</u>	<u>\$ 23,528</u>

VILLAGE OF LAKE ODESSA
SCHEDULE OF CHANGES IN EMPLOYER NET
PENSION LIABILITY AND RELATED RATIOS
Amounts determined as of December 31 of each fiscal year

	<u>2018</u>	<u>2017</u>
Total Pension Liability		
Service Cost	\$ 21,982	\$ 24,799
Interest	34,009	26,016
Changes of Benefit Terms	-	(471)
Difference Between Expected and Actual Experience	(133)	69,344
Changes of Assumptions	-	-
Benefit Payments Including Employee Refunds	(28,292)	(3,671)
Other	1,097	839
Net Change in Total Pension Liability	<u>28,663</u>	<u>116,856</u>
Total Pension Liability beginning	<u>441,984</u>	<u>325,128</u>
Total Pension Liability ending	<u>\$ 470,647</u>	<u>\$ 441,984</u>
Plan Fiduciary Net Position		
Contributions-Employer	11,309	15,554
Contributions-Employee	11,303	15,942
Net Investment Income	(16,031)	46,481
Benefit Payments Including Employee Refunds	(28,292)	(3,671)
Administrative Expense	(792)	(731)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>(22,503)</u>	<u>73,575</u>
Plan Fiduciary Net Position beginning	<u>408,230</u>	<u>334,655</u>
Plan Fiduciary Net Position ending	<u>385,727</u>	<u>408,230</u>
Employer Net Pension Liability (Asset)	<u>\$ 84,920</u>	<u>\$ 33,754</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82%	92%
Covered Employee Payroll	131,868	129,772
Employer's Net Pension Liability as a percentage of covered employee payroll	64%	26%

Notes to schedule:

Benefit changes (if any) can be found in the actuarial valuation section titled: "Benefit Provision History"
Changes in assumptions: There were not changes in actuarial assumptions or methods affecting the 2018 valuation
(This information can be found in the actuarial valuation section titled: "Plan Provisions, Actuarial Assumptions and Actuarial Funding Method; and also in the Appendix link of the actuarial valuation).

VILLAGE OF LAKE ODESSA
SCHEDULE OF NET PENSION LIABILITY
Amounts determined as of December 31 for each fiscal year

<u>Fiscal Year Ended December 31</u>	<u>Total Pension Liability</u>	<u>Plan Net Position</u>	<u>Net Pension Liability (Asset)</u>	<u>Plan Net Position as Percentage of Total Pension Liability (Asset)</u>	<u>Covered Payroll</u>	<u>Net Pension Liability as Percentage of Covered Payroll</u>
2015	\$ 284,120	\$ 278,553	\$ 5,567	98%	\$ 90,787	6%
2016	325,128	334,655	(9,527)	103%	157,782	-6%
2017	441,984	408,230	33,754	92%	129,772	26%
2018	470,647	385,727	84,920	82%	131,868	64%

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

VILLAGE OF LAKE ODESSA
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Amounts determined as of February 28 of each fiscal year

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial Determined Contributions*	\$ 11,309	\$ 15,554	\$ 12,353	\$ 7,383
Contributions in Relation to the Actuarially Determined Contribution	<u>11,309</u>	<u>15,554</u>	<u>12,353</u>	<u>7,383</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered Employee Payroll	 \$ 131,868	 \$ 129,772	 \$ 157,782	 \$ 89,292
 Contributions as a Percentage of Covered Employee Payroll	 9%	 12%	 8%	 8%

Notes to Schedule

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, open
Remaining Amortization Period	25 years
Asset Valuation Method	5 year smoothed
Inflation	2.5%
Salary Increases	3.75%
Investment Rate of Return	7.75%
Retirement Age	Varies depending on plan ad
Mortality	50% Female/50% Male 2014 Group Annuity Mortality Table

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

VILLAGE OF LAKE ODESSA
BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY
February 28, 2019

ASSETS	
Cash and Cash Equivalents	\$ 27,716
Total Assets	27,716
LIABILITIES	
Liabilities	
Accounts Payable	-
Total Liabilities	-
FUND BALANCE	
Restricted	27,716
Total Fund Balance	27,716

**Reconciliation of the Downtown Development Authority Balance Sheet
to the Statement of Net Position:**

Long-Term liabilities are not due and payable in the current period and are
not reported in the funds

Notes Payable	-
Net Position of Downtown Development Authority	\$ 27,716

**VILLAGE OF LAKE ODESSA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY
For the Year Ended February 28, 2019**

Revenues	
Taxes and Penalties	\$ 28,902
Interest and Rentals	31
Other Income	<u>1,890</u>
Total Revenues	<u>30,823</u>
Expenditures	
Advertising & Marketing	442
Dues and Subscriptions	25
Supplies	<u>8,346</u>
Total Expenditures	<u>8,813</u>
Excess of Revenues Over (Under) Expenditures	22,010
Fund Balance-March 1, 2018	<u>5,706</u>
Fund Balance-February 28, 2019	<u>\$ 27,716</u>
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of the Downtown Development Authority to the Statement of Activities:	
Net Change in Fund Balance - Downtown Development Authority	\$ 22,010
Repayment of notes payable is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)	<u>-</u>
Change in Net Position of Downtown Development Authority	<u>\$ 22,010</u>

VILLAGE OF LAKE ODESSA
SINGLE AUDIT COMPLIANCE
For the year ended February 28, 2019

TABLE OF CONTENTS

Independent Auditors' Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	1
Schedule of Expenditures of Federal Awards	2
Notes to Schedule of Expenditures of Federal Awards	3
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4 - 5
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	6 - 7
Schedule of Findings and Questioned Costs	8 - 10
Corrective Action Plan	11



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**INDEPENDENT AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lake Odessa as of and for the year ended February 28, 2019 and the related notes to the financial statements, which collectively comprise the Village's basic financial statements. We issued our report thereon dated July 31, 2019, which contained unmodified opinions on those financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund balance. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Walker, Fluke & Sheldon PLC

Hastings, Michigan
July 31, 2019

**VILLAGE OF LAKE ODESSA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2019**

Federal Agency Program Title	CFDA Number	Pass-Through Grantor Number	Other ID Number	Direct Federal Expenditures
US Department of Agriculture Rural Utilities Service Water and Waste Disposal System for Rural Communities Water and Waste Disposal System Direct Loans	10.760	N/A	12-4226	\$ 236,000
US Department of Housing and Urban Development Community Development Block Grant	14.228	N/A	MSC 216037-ICE	\$ 1,914,043

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

VILLAGE OF LAKE ODESSA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended February 28, 2019

BASIS FOR PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Lake Odessa, Michigan under programs of the federal government for the year ended February 28, 2019. The information in the schedule is presented in accordance with the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Village, it is not intended to and does not present the financial position, changes in net position or cash flows of the Village.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting, which is described in the Village's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

For purposes of charging indirect costs to federal awards, the Village has not elected to use the 10% de minimis cost rate as permitted by 200.414 of the Uniform Guidance.

FEDERAL LOANS

The Village was approved by USDA Rural Utilities Service to receive one loan totaling \$3,934,000 to upgrade the water system. During the year, the Village took draws on this loan for a total of \$236,000. There was \$439,000 available on the loan at February 28, 2019.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Lake Odessa, Michigan as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the Village of Lake Odessa, Michigan's basic financial statements, and have issued our report thereon dated July 31, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village of Lake Odessa, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Lake Odessa, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Lake Odessa, Michigan'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. [2019-001 and 2019-002]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Lake Odessa, Michigan'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*.

Village of Lake Odessa Michigan's Response to Findings

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

Purpose of this Report

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

Walker, F. Luke: Sheldes PLC

Hastings, Michigan
July 31, 2019



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

We have audited Village of Lake Odessa Michigan's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Village's major federal programs for the year ended February 28, 2019. The Village of Lake Odessa, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Village of Lake Odessa, Michigan's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Lake Odessa, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Village of Lake Odessa, Michigan's compliance.

Opinion on Each Major Federal Program

In our opinion, the Village of Lake Odessa, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended February 28, 2019.

Report on Internal Control over Compliance

Management of the Village of Lake Odessa, Michigan, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village of Lake Odessa, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village of Lake Odessa, Michigan's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Walker, Y. M.: Sheldon AC

Hastings, Michigan
July 31, 2019

VILLAGE OF LAKE ODESSA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended February 28, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal controls over financial reporting:
 Material weakness(es) identified? x yes no

Significant deficiency(ies) identified? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes x no

Significant deficiency(ies) identified? yes x none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516. (a)? yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.760	Water and Waste Disposal System for Rural Communities
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

VILLAGE OF LAKE ODESSA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended February 28, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

2019-001 PREPARATION OF FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

Material Weakness in Internal Control over Financial Reporting

Criteria: Governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP) and prepare a report of expenditures made from federal awards listing the federal department from which the funds were drawn. This responsibility rests with the Village of Lake Odessa's management. Preparation of financial statements in accordance with GAAP requires internal controls over (1) recording, processing and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including related note disclosures. Preparation of the SEFA requires that the Village identify federal awards and then organize this information into a single document organized by federal department with identification of pass-through entity and award number.

Condition: Over the years, it has been common for smaller governments to rely on the independent auditors to assist in various year-end accruals and other adjustments, the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements for external reporting purposes and preparation of the SEFA report. Because of this, the government's ability to prepare financial statements in accordance with GAAP has been based mostly on its reliance on the independent auditors, who cannot by definition be part of the government's internal controls.

Cause: The condition noted above exists with the Village of Lake Odessa. The condition exists because it is more cost effective for the Village to outsource the financial statement preparation to the independent auditors than to incur additional time and expenses to train or hire an employee that would possess the expertise required to perform this task.

Effect: As a result of this condition, the Village employees and/or management may not possess the necessary qualifications to prepare the year-end accrual entries, financial statements and notes to the financial statements in accordance with GAAP. The Village relies on the independent auditors, in part, for assistance with the preparation of the year-end accrual entries, financial statements and notes to the financial statements in accordance with GAAP.

View of Responsible Officials: The Village has evaluated the condition and determined that costs associated with establishing internal controls over the financial statement and schedule of federal awards preparation far outweigh the benefits derived from outsourcing the task to its independent auditors. Management and appropriate personnel will carefully review the draft financial statements and notes prior to approving and accepting responsibility for the content and presentation.

2019-002 MATERIAL AUDIT ADJUSTMENTS

Material Weakness in Internal Control over Financial Reporting

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed material adjustments related to recording fixed assets, infrastructure and depreciation expenditures. In addition, we proposed adjustments to adjust the balances in the bond payable, and construction payables.

Cause: The conditions noted above exist with the Village of Lake Odessa. The conditions exist because expenditures for fixed assets and infrastructure were classified as repair and maintenance or posted in other accounts. Corresponding liabilities were adjusted to actual and payables related to construction projects were recorded.

Effect: As a result of this condition, the Village's financial statements required several material audit entries.

**VILLAGE OF LAKE ODESSA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended February 28, 2019**

SECTION II - FINANCIAL STATEMENT FINDINGS (Continued)

2019-002 MATERIAL AUDIT ADJUSTMENTS (Continued)

Material Weakness in Internal Control over Financial Reporting

View of Responsible Officials: Management agrees with the adjustments proposed by its auditors, and they have been posted in the Village's records. Transactions related to the infrastructure project will be reviewed and costs that contribute to the construction of new assets will be capitalized and funds borrowed to cover those costs will be recorded as liabilities in the Village's accounting records.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported

SECTION IV - PRIOR YEAR FINDINGS

Finding 2018-001 - PREPARATION OF FINANCIAL STATEMENTS

The Village has adopted the common practice of smaller governments to rely on the independent auditors to assist in in year-end accruals and other adjustments, the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements. Because of this, the government's ability to prepare financial statements in accordance with GAAP is based on its reliance on the independent auditor, who cannot by definition be a part of the government's internal controls. This comment has been repeated in 2019-001.

Finding 2018-002 – MATERIAL AUDIT ADJUSTMENTS

The Village required material adjustments related to recording fixed assets, infrastructure and depreciation expenditures. In addition, we proposed adjustments to adjust the balances in the bond payable, and construction payables. The Village made significant progress during this fiscal year and fewer adjustments were needed. This comment has been repeated in 2019-002.

Finding 2018-003 – IMPROPER SUPPORTING DOCUMENTATION

The Village incurred several credit card, fuel credit card, and Sam's Club card expenditures not supported with proper documentation. It was also noted that some charges were allocated to former employees, and vehicles listed on the Fuel man accounts did not match vehicles listed on the Village insurance policy. No expenditures were noted that did not have proper documentation for 2019.

CORRECTIVE ACTION PLAN

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated these matters as described below and have described our planned action as a result.

2019-001 - Preparation of Financial Statements and Schedule of Expenditures of Federal Awards (SEFA)

Planned Corrective Action: The Village has evaluated the condition and determined that costs associated with establishing internal controls over the financial statement and schedule of federal awards preparation far outweigh the benefits derived from outsourcing the task to its independent auditors. Management and appropriate personnel will carefully review the draft financial statements and notes prior to approving and accepting responsibility for the content and presentation.

Management Assessment: We concur with the audit assessment regarding this matter.

2019-002 - Material Audit Adjustments

Planned Corrective Action: We have worked with our accountant to try to understand the adjustments. Going forward we correctly classify expenditures for fixed assets per our capital outlay policy. To do this we will need to work closely with our auditors and rely on their help for expenditures for which we are unsure of the classification.

Responsible Party: Treasurer

Date of Planned Corrective Action: September 2019

Management Assessment: We concur with the audit assessment regarding this matter.