

Village of Lawton
Van Buren County, Michigan

FINANCIAL STATEMENTS

Year ended February 29, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Lawton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan, as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, as listed in the contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan, as of February 29, 2020, 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 and budgetary comparison information, as listed in the contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Lawton, Michigan's basic financial statements. The component unit financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2020, on our consideration of the Village of Lawton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village of Lawton, Michigan's internal control over financial reporting and compliance.



May 28, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Lawton's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended February 29, 2020. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

- The Village's total net position increased by \$417,442 (4 percent) as a result of this year's activities. Net position of the governmental activities increased by \$449,263 and net position of the business-type activities decreased by \$31,821.
- Of the \$10,051,675 total net position reported, \$1,723,235 (17 percent) is available to be used to meet the Village's ongoing obligations to its citizens and customers, without constraints established by debt covenants, enabling legislation, or other legal requirements.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$1,173,183, which represents 153 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Village's annual report is comprised of four parts: management's discussion and analysis, the basic financial statements, and required supplementary information and an optional section that presents additional information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village government, reporting the Village's operations in more detail than the government-wide financial statements.
 - Governmental funds statements explain how government services, like general government, public safety, and public works, were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds statements offer short-term and long-term financial information about the activities the government operates like a business and include the Village's sewer and water systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information and other supplementary information that further explain and support the information in the financial statements.

A comparative analysis of the government-wide financial statements for 2020 and 2019 is also presented.

Government-wide financial statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net position and how it has changed. Net position (the difference between the Village's assets and liabilities) is one way to measure the Village's financial health, or position.

- Over time, increases or decreases in the Village's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors, such as changes in the Village's property tax base and the condition of the Village's capital assets.

The government-wide financial statements of the Village are divided into three categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as public safety and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's water and sewer system is reported here.
- *Component unit* - The Village includes in its report the Downtown Development Authority. Although legally separate, this "component unit" is important because the Village is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the Village's most significant funds - not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law.
- The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues (like motor fuel taxes collected for the street funds).

The Village has two types of funds:

- *Governmental funds*. Most of the Village's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long-term and short-term financial information.
 - The Village's enterprise fund (one type of proprietary fund) is the same as its business-type activities but provides more detail and additional information, such as cash flows.
 - The Village uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the Village's other programs and activities. The Village's internal service fund manages the Village's fleet of vehicles and equipment.

Component unit

The Downtown Development Authority, although legally separate, is included in the Village's financial report because the Village is financially accountable for it. The Downtown Development Authority (DDA) was also created by the Village to capture property taxes from certain taxing units from a specific district within the Village to finance public improvements to that district.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$10,051,675. Of this total, \$6,626,195 is invested in capital assets and \$1,702,245 is restricted for various purposes. Consequently, unrestricted net position was \$1,723,235.

Condensed financial information
Net position

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,943,412	\$ 2,705,178	\$ 844,485	\$ 632,534	\$ 3,787,897	\$ 3,337,712
Capital assets	<u>2,645,891</u>	<u>2,447,537</u>	<u>6,093,193</u>	<u>6,278,297</u>	<u>8,739,084</u>	<u>8,725,834</u>
Total assets	<u>5,589,303</u>	<u>5,152,715</u>	<u>6,937,678</u>	<u>6,910,831</u>	<u>12,526,981</u>	<u>12,063,546</u>
Current and other liabilities	144,011	132,644	218,406	61,738	362,417	194,382
Long-term debt	<u>25,223</u>	<u>49,265</u>	<u>2,087,666</u>	<u>2,185,666</u>	<u>2,112,889</u>	<u>2,234,931</u>
Total liabilities	<u>169,234</u>	<u>181,909</u>	<u>2,306,072</u>	<u>2,247,404</u>	<u>2,475,306</u>	<u>2,429,313</u>
Net position:						
Net investment in capital assets	2,620,668	2,398,272	4,005,527	4,092,631	6,626,195	6,490,903
Restricted	1,573,219	1,352,765	129,026	80,951	1,702,245	1,433,716
Unrestricted	<u>1,226,182</u>	<u>1,219,769</u>	<u>497,053</u>	<u>489,845</u>	<u>1,723,235</u>	<u>1,709,614</u>
Total net position	<u>\$ 5,420,069</u>	<u>\$ 4,970,806</u>	<u>\$ 4,631,606</u>	<u>\$ 4,663,427</u>	<u>\$ 10,051,675</u>	<u>\$ 9,634,233</u>

Changes in net position

The Village's total revenues were \$2,322,276 in the current fiscal year, compared to \$2,467,316 in 2019. Approximately 32 percent of the Village's revenues comes from property taxes, 29 percent comes from utility and other charges, and 28 percent came from operating grants and contributions.

Village of Lawton

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The cost of the Village's programs totaled \$1,904,834 in 2020, \$220,036 less than last year. Approximately 44 percent of the Village's 2020 expenses comes from providing water and sewer services. General government represents 13 percent. Public safety and public works account for 17 and 12 percent, respectively, of the Village's 2020 total expenses.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	2020	2019	2020	2019	2020	2019
Program revenues:						
Charges for services	\$ 73,697	\$ 61,774	\$ 587,925	\$ 602,419	\$ 661,622	\$ 664,193
Operating grants and contributions	435,416	473,385	349,156	102,635	784,572	576,020
Capital grants and contributions	-	-	-	248,525	-	248,525
General revenues:						
Property taxes	738,739	710,401	-	-	738,739	710,401
State shared revenue	210,608	205,594	-	-	210,608	205,594
Local community stabilization share revenue	21,199	21,199	-	-	21,199	21,199
Franchise fees	30,220	31,512	-	-	30,220	31,512
Interest income	5,704	6,515	7,390	3,357	13,094	9,872
Other	2,997	-	-	-	2,997	-
Total revenues	1,518,580	1,510,380	944,471	956,936	2,463,051	2,467,316
Expenses:						
General government	246,224	277,784	-	-	246,224	277,784
Public safety	325,127	357,585	-	-	325,127	357,585
Public works	223,203	373,534	-	-	223,203	373,534
Recreation and culture	224,330	240,507	-	-	224,330	240,507
Community and economic development	50,433	14,206	-	-	50,433	14,206
Sewer	-	-	634,389	513,628	634,389	513,628
Water	-	-	341,903	347,626	341,903	347,626
Total expenses	1,069,317	1,263,616	976,292	861,254	2,045,609	2,124,870
Changes in net position before						
Special item	449,263	246,764	(31,821)	95,682	417,442	342,446
Special item - sale of easement	-	-	-	121,275	-	121,275
Changes in net position	449,263	246,764	(31,821)	216,957	417,442	463,721
Net position, end of year	\$ 5,420,069	\$ 4,970,806	\$ 4,631,606	\$ 4,663,427	\$ 10,051,675	\$ 9,634,233

Governmental activities

The governmental activities net position increased by \$449,263 in the current year compared to a \$246,764 increase in the prior year. Revenues increased by \$8,200, primarily due to increases in property taxes. Expenses decreased by \$194,299, primarily due to decreases in expenses in the Village's public works function, due to fewer road repairs.

The total cost of governmental activities this year was \$1,069,317. After subtracting the direct charges to those who directly benefited from the programs (\$73,697), and operating grants and contributions (\$435,416), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$560,204.

Business-type activities

Business-type activities decreased the Village's net position by \$31,821 in the current year. Total revenues decreased by \$153,240, as capital grants were received to fund construction of sewer plant improvements in the prior year. Expenses decreased by \$25,737 in the current year, primarily due to a decrease in engineering fees.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds

At the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$2,704,168 in 2020, an increase of \$280,512 from the prior year.

The General Fund is the primary operating fund of the Village. At the end of the fiscal year, its fund balance was \$1,183,584, an increase of \$58,614, as revenues of \$825,579 exceeded expenditures of \$766,965.

The Major Street Fund experienced an increase in its fund balance of \$27,934 during the fiscal year, as revenues of \$207,870 exceeded operating and maintenance costs of \$179,936 in the current year. The Major Street Fund has a fund balance of \$583,237, which is restricted for street preservation.

The Municipal Streets Fund had a \$134,472 increase in its fund balance, as revenues of \$228,620 exceeded street maintenance expenditures of \$94,148. The Municipal Streets Fund has a fund balance of \$241,320, which is restricted for public works.

The Library Fund had a \$32,653 increase in its fund balance, as revenues of \$180,933 were higher than library operating expenditures of \$148,280. The Library Fund has a fund balance of \$534,716, which is restricted for library operations.

Proprietary funds

The Sewer Fund experienced an operating loss of \$251,372 because user charges do not fully cover operating and financing expenses. However, during the current year operating and capital grants, in the amount of \$204,106 increased net position, so that net position increased by \$62,210. Total net position was \$2,389,432 at year end, which included an unrestricted net position of \$77,235.

The Water Fund experienced an operating loss of \$70,647 and net position decreased by \$94,031 because user charges do not fully cover operating and financing expenses. Net position was \$2,242,174 at year end, of which \$419,818 is unrestricted.

General Fund budgetary highlights

The Village amended the General Fund budget during the current fiscal year to increase revenues by \$43,838 and total expenditures by \$49,059. General government expenditures were increased by \$26,347 for higher than anticipated clerk cost, community and economic development costs were increased by \$22,712 for increased costs for a housing project and capital outlay was increased by \$12,500 for the purchase of a new server.

Revenues were \$5,195 higher than anticipated. Expenditures were \$57,309 less than the amounts appropriated, as public safety and general government costs were \$63,362 and \$20,159 less than budgeted, respectively, while public works and community and economic development were \$27,855 and \$11,121 more than budgeted. The actual increase in fund balance of \$58,614 was \$62,504 more than the anticipated decrease of \$3,890.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The Village's investment in capital assets for its governmental and business-type activities as of February 29, 2020, amounts to \$8,739,084, net of accumulated depreciation. This investment includes a broad range of assets, including land, buildings, equipment, and sewer and water infrastructure. The increase in the Village's investment in capital assets for the current fiscal year was \$13,250, which includes \$448,489 in additions reduced by \$434,286 in depreciation and \$953 in the basis of disposed assets.

The major capital asset additions during the current fiscal year included the following:

- \$19,558 for library books
- \$262,312 for street improvements
- \$34,585 for the purchase of a used police car

More detailed information about the Village's capital assets is presented in Note 5 of the notes to the basic financial statements.

Debt

At the end of the fiscal year, the Village had \$2,112,889 in outstanding obligations, reflecting a \$122,042 decrease during the year due to principal payments.

Other noncurrent obligations, in the amount of \$58,000, represent accrued compensated absences.

More detailed information about the Village's noncurrent obligations is presented in Note 7 of the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village's General Fund budget for the next year is set so that revenues are expected to exceed expenditures, with a decrease in general government spending. Major revenues, including taxes and state grants, will not increase significantly in the foreseeable future. Water rates will remain stable and sewer rates will increase during the upcoming fiscal year.

COVID-19 has created uncertainties that are likely to negatively impact our operations and financial condition. While it is difficult to estimate the financial impact of COVID-19, we expect certain revenues to decline. Because economic activity has weakened, support from participating units are expected to decrease, and interest revenue will be reduced due to lower interest rates.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

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

Lisa Imus, Village Manager
Village of Lawton
125 South Main Street
Lawton, MI 49065

Phone: (269) 624-6407

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION

February 29, 2020

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total primary government</u>	<u>Downtown Development Authority</u>
ASSETS				
Current assets:				
Cash	\$ 2,671,542	\$ 428,976	\$ 3,100,518	\$ 114,150
Receivables	271,870	199,083	470,953	2,574
Inventory	-	87,400	87,400	-
	<u>2,943,412</u>	<u>715,459</u>	<u>3,658,871</u>	<u>116,724</u>
Total current assets				
Noncurrent assets:				
Restricted cash	-	129,026	129,026	-
Capital assets not being depreciated - land	231,855	239,375	471,230	52,646
Capital assets, net of accumulated depreciation	<u>2,414,036</u>	<u>5,853,818</u>	<u>8,267,854</u>	<u>6,954</u>
	<u>2,645,891</u>	<u>6,222,219</u>	<u>8,868,110</u>	<u>59,600</u>
Total noncurrent assets				
	<u>5,589,303</u>	<u>6,937,678</u>	<u>12,526,981</u>	<u>176,324</u>
Total assets				
LIABILITIES				
Current liabilities:				
Payables	86,011	177,506	263,517	-
Customer deposits	-	40,900	40,900	-
Bonds and note payable - current portion	<u>25,223</u>	<u>103,000</u>	<u>128,223</u>	<u>-</u>
	<u>111,234</u>	<u>321,406</u>	<u>432,640</u>	<u>-</u>
Total current liabilities				
Noncurrent liabilities:				
Compensated absences	58,000	-	58,000	-
Bonds and note payable	<u>-</u>	<u>1,984,666</u>	<u>1,984,666</u>	<u>-</u>
	<u>58,000</u>	<u>1,984,666</u>	<u>2,042,666</u>	<u>-</u>
Total noncurrent liabilities				
	<u>169,234</u>	<u>2,306,072</u>	<u>2,475,306</u>	<u>-</u>
Total liabilities				
NET POSITION				
Net investment in capital assets	2,620,668	4,005,527	6,626,195	59,600
Restricted for:				
Capital acquisitions	-	-	-	83,791
Public safety	10,401	-	10,401	-
Public works	1,026,214	-	1,026,214	-
Recreation and culture	536,604	-	536,604	-
Debt service	-	129,026	129,026	-
Unrestricted	<u>1,226,182</u>	<u>497,053</u>	<u>1,723,235</u>	<u>32,933</u>
	<u>\$ 5,420,069</u>	<u>\$ 4,631,606</u>	<u>\$ 10,051,675</u>	<u>\$ 176,324</u>
Total net position				

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended February 29, 2020

Functions/Programs	Net (expenses) revenues and changes in net position							
	Program revenues			Primary government			Component unit	
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	Downtown Development Authority
Governmental activities:								
General government	\$ 246,224	\$ 30,644	\$ -	\$ -	\$ (215,580)		\$ (215,580)	
Public safety	325,127	13,313	2,238	-	(309,576)		(309,576)	
Public works	223,203	6,739	314,589	-	98,125		98,125	
Community and economic development	50,433	175	-	-	(50,258)		(50,258)	
Recreation and culture	224,330	22,826	118,589	-	(82,915)		(82,915)	
Total governmental activities	<u>1,069,317</u>	<u>73,697</u>	<u>435,416</u>	<u>-</u>	<u>(560,204)</u>		<u>(560,204)</u>	
Business-type activities:								
Sewer	634,389	348,023	349,156	-	-	\$ 62,790	62,790	
Water	341,903	239,902	-	-	-	(102,001)	(102,001)	
Total business-type activities	<u>976,292</u>	<u>587,925</u>	<u>349,156</u>	<u>-</u>		<u>(39,211)</u>	<u>(39,211)</u>	
Total primary government	<u>\$ 2,045,609</u>	<u>\$ 661,622</u>	<u>\$ 784,572</u>	<u>\$ -</u>	<u>(560,204)</u>	<u>(39,211)</u>	<u>(599,415)</u>	
Component unit:								
Downtown Development Authority	<u>\$ 2,512</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 140,608</u>				<u>\$ 138,096</u>
General revenues:								
Property taxes								
Operating					501,602	-	501,602	2,574
Streets					197,620	-	197,620	-
Library					39,517	-	39,517	-
State shared revenue					210,608	-	210,608	-
Franchise fees					30,220	-	30,220	-
Local community stabilization revenue					21,199	-	21,199	-
Interest income					5,704	7,390	13,094	-
Other					2,997	-	2,997	-
Total general revenues and special item					<u>1,009,467</u>	<u>7,390</u>	<u>1,013,860</u>	<u>2,574</u>
Changes in net position					449,263	(31,821)	417,442	140,670
Net position - beginning					<u>4,970,806</u>	<u>4,663,427</u>	<u>9,634,233</u>	<u>35,654</u>
Net position - ending					<u>\$ 5,420,069</u>	<u>\$ 4,631,606</u>	<u>\$ 10,051,675</u>	<u>\$ 176,324</u>

See notes to financial statements

BALANCE SHEET - governmental funds

February 29, 2020

	<u>General</u>	<u>Major Street</u>	<u>Municipal Street</u>	<u>Library</u>	<u>Nonmajor fund</u>	<u>Total governmental funds</u>
ASSETS						
Cash	\$ 1,173,388	\$ 547,204	\$ 240,684	\$ 471,314	\$ 149,905	2,582,495
Receivables	107,316	38,863	42,797	68,697	14,197	271,870
Total assets	<u>\$ 1,280,704</u>	<u>\$ 586,067</u>	<u>\$ 283,481</u>	<u>\$ 540,011</u>	<u>\$ 164,102</u>	<u>\$ 2,854,365</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities - payables	\$ 73,753	\$ 2,830	\$ 1,815	\$ 3,407	\$ 2,791	\$ 84,596
Deferred inflows of resources:						
Unavailable property tax revenues	23,367	-	40,346	1,888	-	65,601
Fund balances:						
Restricted for:						
Police training programs	10,035	-	-	-	-	10,035
Drug enforcement programs	366	-	-	-	-	366
Street maintenance and improvement	-	583,237	241,320	-	161,311	985,868
Library operations	-	-	-	534,716	-	534,716
Unassigned	1,173,183	-	-	-	-	1,173,183
Total fund balances	<u>1,183,584</u>	<u>583,237</u>	<u>241,320</u>	<u>534,716</u>	<u>161,311</u>	<u>2,704,168</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,280,704</u>	<u>\$ 586,067</u>	<u>\$ 283,481</u>	<u>\$ 540,011</u>	<u>\$ 164,102</u>	<u>\$ 2,854,365</u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds \$ 2,704,168

Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 2,411,838

Certain assets used in *governmental activities* are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 65,601

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (58,000)

An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net position. 296,462

Net position of *governmental activities* \$ 5,420,069

Village of Lawton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended February 29, 2020

	<u>General</u>	<u>Major Street</u>	<u>Municipal Streets</u>	<u>Library</u>	<u>Nonmajor fund</u>	<u>Total governmental funds</u>
REVENUES						
Property taxes	\$ 503,046	\$ -	\$ 197,620	\$ 39,517	\$ -	\$ 740,183
Licenses and permits	43,262	-	-	-	-	43,262
State grants	242,478	201,631	-	3,894	73,525	521,528
Contributions from local units	-	-	31,000	114,695	-	145,695
Charges for services	20,682	-	-	-	-	20,682
Fines and forfeitures	-	-	-	14,730	-	14,730
Interest and rentals	5,704	1,300	-	4,608	500	12,112
Other	10,407	4,939	-	3,489	-	18,835
	<u>825,579</u>	<u>207,870</u>	<u>228,620</u>	<u>180,933</u>	<u>74,025</u>	<u>1,517,027</u>
Total revenues						
EXPENDITURES						
Current:						
General government	263,653	-	-	-	-	263,653
Public safety	320,488	-	-	-	-	320,488
Public works	47,855	179,936	94,148	-	47,186	369,125
Community and economic development	50,433	-	-	-	-	50,433
Recreation and culture	58,934	-	-	146,675	-	205,609
Capital outlay	25,602	-	-	1,605	-	27,207
	<u>766,965</u>	<u>179,936</u>	<u>94,148</u>	<u>148,280</u>	<u>47,186</u>	<u>1,236,515</u>
Total expenditures						
NET CHANGES IN FUND BALANCES	58,614	27,934	134,472	32,653	26,839	280,512
FUND BALANCES - BEGINNING	<u>1,124,970</u>	<u>555,303</u>	<u>106,848</u>	<u>502,063</u>	<u>134,472</u>	<u>2,423,656</u>
FUND BALANCES - ENDING	<u>\$ 1,183,584</u>	<u>\$ 583,237</u>	<u>\$ 241,320</u>	<u>\$ 534,716</u>	<u>\$ 161,311</u>	<u>\$ 2,704,168</u>

See notes to financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended February 29, 2020

Reconciliation of the statement of revenues, expenditures, and changes
in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 14)	\$ 280,512
Amounts reported for <i>governmental activities</i> in the statement of activities (page 12) are different because:	
Capital assets:	
Asset acquisitions	329,871
Provision for depreciation	(953)
Basis of asset dispositions	(178,684)
Net change in other liabilities:	
Decrease in compensated absences	(1,400)
Net change in deferred inflows of resources:	
Decrease in unavailable property tax revenues	(1,444)
Net income of the internal service fund is reported with <i>governmental activities</i>	<u>21,361</u>
Change in net position of <i>governmental activities</i>	<u>\$ 449,263</u>

See notes to financial statements

STATEMENT OF NET POSITION - proprietary funds

February 29, 2020

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
ASSETS				
Current assets:				
Cash	\$ 37,640	\$ 391,336	\$ 428,976	\$ 89,047
Receivables	178,813	20,270	199,083	-
Inventory	19,700	67,700	87,400	-
Total current assets	236,153	479,306	715,459	89,047
Noncurrent assets:				
Restricted cash	129,026	-	129,026	-
Capital assets not being depreciated - land	239,375	-	239,375	-
Capital assets, net of accumulated depreciation	2,787,796	3,066,022	5,853,818	234,053
Total noncurrent assets	3,156,197	3,066,022	6,222,219	234,053
Total assets	3,392,350	3,545,328	6,937,678	323,100
LIABILITIES				
Current liabilities:				
Payables	158,918	18,588	177,506	1,415
Customer deposits	-	40,900	40,900	-
Bonds and note payable - current portion	13,000	90,000	103,000	25,223
Total current liabilities	171,918	149,488	321,406	26,638
Noncurrent liabilities - Bonds and note payable	831,000	1,153,666	1,984,666	-
Total liabilities	1,002,918	1,303,154	2,306,072	26,638
NET POSITION				
Net investment in capital assets	2,183,171	1,822,356	4,005,527	208,830
Restricted for debt service	129,026	-	129,026	-
Unrestricted	77,235	419,818	497,053	87,632
Total net position	\$ 2,389,432	\$ 2,242,174	\$ 4,631,606	\$ 296,462

Village of Lawton

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - proprietary funds**

Year ended February 29, 2020

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
OPERATING REVENUES				
Charges for services:				
Public utility fees	\$ 348,023	\$ 239,902	\$ 587,925	\$ -
Equipment rental	-	-	-	157,718
Total operating revenues	<u>348,023</u>	<u>239,902</u>	<u>587,925</u>	<u>157,718</u>
OPERATING EXPENSES				
Sewer	505,573	-	505,573	-
Water	-	184,141	184,141	-
Motor pool	-	-	-	102,916
Depreciation	<u>93,822</u>	<u>126,408</u>	<u>220,230</u>	<u>35,372</u>
Total operating expenses	<u>599,395</u>	<u>310,549</u>	<u>909,944</u>	<u>138,288</u>
OPERATING INCOME (LOSS)	<u>(251,372)</u>	<u>(70,647)</u>	<u>(322,019)</u>	<u>19,430</u>
NONOPERATING REVENUES (EXPENSES)				
Gain on sale of capital asset	-	-	-	3,950
State grant	344,881	4,275	349,156	-
Interest revenue	3,695	3,695	7,390	-
Interest expense	<u>(34,994)</u>	<u>(31,354)</u>	<u>(66,348)</u>	<u>(2,019)</u>
Net nonoperating expenses	<u>313,582</u>	<u>(23,384)</u>	<u>290,198</u>	<u>1,931</u>
CHANGES IN NET POSITION	62,210	(94,031)	(31,821)	21,361
NET POSITION - BEGINNING	<u>2,327,222</u>	<u>2,336,205</u>	<u>4,663,427</u>	<u>275,101</u>
NET POSITION - ENDING	<u>\$ 2,389,432</u>	<u>\$ 2,242,174</u>	<u>\$ 4,631,606</u>	<u>\$ 296,462</u>

See notes to financial statements

STATEMENT OF CASH FLOWS - proprietary funds

Year ended February 29, 2020

	<i>Business-type activities</i>			<i>Governmental activities</i>
	<i>Enterprise funds</i>			<i>Internal service</i>
	<i>Sewer</i>	<i>Water</i>	<i>Totals</i>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 210,577	\$ 244,713	\$ 455,290	\$ 157,718
Payments to vendors and suppliers	(262,916)	(113,676)	(376,592)	(78,582)
Payments to employees	(97,981)	(65,643)	(163,624)	(24,828)
Net cash provided by (used in) operating activities	(150,320)	65,394	(84,926)	54,308
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
State grant	357,529	-	357,529	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital asset	-	-	-	3,950
Capital grants	-	4,275	4,275	-
Decrease in payables related to capital assets	(25,301)	-	(25,301)	-
Acquisition of capital assets	-	(9,826)	(9,826)	(83,492)
Principal payments on capital debt	(13,000)	(85,000)	(98,000)	(24,042)
Interest payments on capital debt	(23,389)	(32,154)	(55,543)	(2,419)
Net cash provided by (used in) capital and related financing activities	(61,690)	(122,705)	(184,395)	(106,003)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	3,695	3,695	7,390	-
NET CHANGE IN CASH	149,214	(53,616)	95,598	(51,695)
CASH - BEGINNING (\$80,951 restricted - sewer)	17,452	444,952	462,404	140,742
CASH - ENDING (\$129,026 restricted - sewer)	\$ 166,666	\$ 391,336	\$ 558,002	\$ 89,047
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	\$ (251,372)	\$ (70,647)	\$ (322,019)	\$ 19,430
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	93,822	126,408	220,230	35,372
(Increase) decrease in receivables	(137,446)	5,046	(132,400)	-
(Increase) decrease in inventory	1,700	1,700	3,400	-
Increase (decrease) in payables	142,976	3,122	146,098	(494)
Increase (decrease) in customer deposits	-	(235)	(235)	-
Net cash provided by (used in) operating activities	\$ (150,320)	\$ 65,394	\$ (84,926)	\$ 54,308

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Lawton, Michigan (the Village), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

Reporting entity:

As required by generally accepted accounting principles, these financial statements present the Village (the primary government), located in Van Buren County, and its component unit described below, for which the Village is financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the primary government. Separate financial statements for the component unit have not been issued, as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

Discretely presented component unit - Downtown Development Authority

The Authority was established pursuant to Public Act 197 of 1975, as amended, to correct and prevent deterioration and promote economic growth within the downtown district. The Authority's governing body is appointed by the Village Council and its budget must be approved by the Village Council.

Government-wide and fund financial statements:

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

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

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

Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Village generally considers property tax revenues to be available if they are expected to be 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 and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, 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 use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.

The Municipal Street Fund accounts for the use of street funds levied by the Village. Revenues are derived from property taxes.

The Library Fund accounts for operations of a public library within the Village. Revenues are primarily derived from local unit contributions, property taxes, and penal fines.

The Village reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the Village's sewage collection system and treatment plant.

The Water Fund accounts for the activities of the Village's water distribution system.

Additionally, the Village reports the following fund type:

The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, liabilities, deferred inflows of resources, and equity:

Cash - Cash is considered to be cash on hand, demand deposits, and highly-liquid short-term investments with original maturities of three months or less from the date of acquisition.

Receivables - No allowance for uncollectible accounts has been recorded, as the Village considers all receivables to be fully collectible and all are due within one year.

Inventory of supplies - Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., sewer and water systems, streets, 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 Village as assets with an initial, individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value as of the date received. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning March 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	10 - 50 years

Compensated absences - It is the Village’s policy to permit employees to accumulate earned, but unused, sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Village. Vested compensated absences are accrued when earned in the government-wide funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, deferred inflows of resources, and equity (continued):

Deferred inflows of resources - The governmental funds balance sheet includes a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The related revenue will not be recognized until a future event occurs. Currently, the Village reports several items in this category, which represent revenues considered earned, but are unavailable (collected more than 60 days after the end of the Village's fiscal year). Such resources are deferred at year end and will be recognized as an inflow of resources in the period that the revenues become available.

Long-term obligations - In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund statements of net position.

Net position - Net position represents the difference between assets, and liabilities and deferred inflows of resources. The Village reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Village's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Village.

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

Fund equity - Governmental funds report restricted fund balance when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Village Council retains the right to assign fund balance. Unassigned fund balance is the residual classification for amounts in the General Fund. When the Village incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Village's policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, liabilities, deferred inflows of resources, and equity (continued):

Property tax revenue recognition - The Village’s property tax is levied each July 1 on the assessed values as of December 31 of the prior year. The Village’s property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village’s governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

Excess of expenditures over appropriations - The following schedule sets forth reportable budget variances:

<i>Fund</i>	<i>Function</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance</i>
General	Public works	\$ 20,000	\$ 47,855	\$ 27,855
	Community and economic development	39,312	50,433	11,121
	Capital outlay	21,200	25,602	4,402

NOTE 3 - CASH

The Village’s cash balances at February 29, 2020, were as follows:

	<i>Primary government</i>			<i>Total</i>
	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Component unit</i>	
Deposits	\$ 2,671,542	\$ 558,002	\$ 114,150	\$ 3,343,694

Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Village’s investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. The Village’s investment policy does not specifically address custodial credit risk for deposits. At February 29, 2020, \$2,709,666 of the Village’s bank balances of \$3,365,037 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The Village maintains a pooled cash account for all of its funds and its component unit. As such, it is not practicable to allocate the balance exposed to custodial credit risk between the primary government and the component unit.

NOTE 4 - RECEIVABLES

Receivables as of February 29, 2020, all of which are considered fully collectible and due within one year, for the Village’s individual funds were as follows:

<i>Fund</i>	<i>Property taxes</i>	<i>Accounts</i>	<i>Inter-governmental</i>	<i>Totals</i>
Governmental:				
General	\$ 29,496	\$ 9,000	\$ 68,820	\$ 107,316
Major Street	-	1,300	37,563	38,863
Municipal Street	11,797	-	31,000	42,797
Library	2,378	-	66,319	68,697
Nonmajor	-	500	13,697	14,197
Total governmental	\$ 43,671	\$ 10,800	\$ 217,399	\$ 271,870
Proprietary:				
Sewer	\$ -	\$ 38,038	\$ 140,775	\$ 178,813
Water	-	20,270	-	20,270
Total proprietary	\$ -	\$ 58,308	\$ 140,775	\$ 199,083
Component unit:				
Downtown Development Authority	\$ 2,574	\$ -	\$ -	\$ 2,574

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2020, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 217,843	\$ 14,012	\$ -	\$ 231,855
Capital assets being depreciated:				
Vehicles	353,351	34,585	(52,405)	335,531
Land improvements	102,686	-	(2,485)	100,201
Furniture, fixtures, and equipment	924,312	87,454	(43,351)	968,415
Infrastructure	2,006,081	262,312	-	2,268,393
Buildings and improvements	<u>864,958</u>	<u>15,000</u>	<u>(17,717)</u>	<u>862,241</u>
Subtotal	<u>4,251,388</u>	<u>399,351</u>	<u>(115,958)</u>	<u>4,534,781</u>
Less accumulated depreciation for:				
Vehicles	(281,023)	(17,370)	52,405	(245,988)
Land improvements	(96,968)	-	2,485	(94,483)
Furniture, fixtures, and equipment	(550,275)	(61,881)	42,678	(569,478)
Infrastructure	(607,791)	(117,519)	-	(725,310)
Buildings and improvements	<u>(485,637)</u>	<u>(17,286)</u>	<u>17,437</u>	<u>(485,486)</u>
Subtotal	<u>(2,021,694)</u>	<u>(214,056)</u>	<u>115,005</u>	<u>(2,120,745)</u>
Total capital assets being depreciated, net	<u>2,229,694</u>	<u>185,295</u>	<u>(953)</u>	<u>2,414,036</u>
Governmental activities capital assets, net	<u>\$ 2,447,537</u>	<u>\$ 199,307</u>	<u>\$ (953)</u>	<u>\$ 2,645,891</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 15,897
Public safety	7,661
Public works	118,132
Recreation and culture	36,994
Depreciation on capital assets held by internal service fund	<u>35,372</u>
Total governmental activities	<u>\$ 214,056</u>

NOTE 5 - CAPITAL ASSETS (Continued)

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 239,375	\$ -	\$ -	\$ 239,375
Capital assets being depreciated:				
Sewer system	4,262,774	25,300	-	4,288,074
Water system	4,790,243	-	-	4,790,243
Equipment	157,147	9,826	-	166,973
Subtotal	<u>9,210,164</u>	<u>35,126</u>	<u>-</u>	<u>9,245,290</u>
Less accumulated depreciation for:				
Sewer system	(1,214,064)	(90,459)	-	(1,304,523)
Water system	(1,845,894)	(118,026)	-	(1,963,920)
Equipment	(111,284)	(11,745)	-	(123,029)
Subtotal	<u>(3,171,242)</u>	<u>(220,230)</u>	<u>-</u>	<u>(3,391,472)</u>
Total capital assets being depreciated, net	<u>6,038,922</u>	<u>(185,104)</u>	<u>-</u>	<u>5,853,818</u>
Business-type activities capital assets, net	<u>\$ 6,278,297</u>	<u>\$ (185,104)</u>	<u>\$ -</u>	<u>\$ 6,093,193</u>
	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Component unit activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 52,646	\$ -	\$ 52,646
Capital assets being depreciated - equipment	-	7,320	-	7,320
Less accumulated depreciation for - equipment	-	(366)	-	(366)
Total capital assets being depreciated, net	<u>-</u>	<u>6,954</u>	<u>-</u>	<u>6,954</u>
Business-type activities capital assets, net	<u>\$ -</u>	<u>\$ 59,600</u>	<u>\$ -</u>	<u>\$ 59,600</u>

NOTE 6 - PAYABLES

Payables as of February 29, 2020, for the Village’s individual funds were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Interest</u>	<u>Totals</u>
Governmental:				
General	\$ 62,631	\$ 11,122	\$ -	\$ 73,753
Major Street	2,095	735	-	2,830
Municipal Street	1,754	61	-	1,815
Library	339	3,068	-	3,407
Nonmajor	<u>2,095</u>	<u>696</u>	<u>-</u>	<u>2,791</u>
Total governmental	<u>\$ 68,914</u>	<u>\$ 15,682</u>	<u>\$ -</u>	<u>\$ 84,596</u>
Proprietary:				
Sewer	\$ 143,621	\$ 3,692	\$ 11,605	\$ 158,918
Water	<u>2,263</u>	<u>3,325</u>	<u>13,000</u>	<u>18,588</u>
Total enterprise	<u>\$ 145,884</u>	<u>\$ 7,017</u>	<u>\$ 24,605</u>	<u>\$ 177,506</u>
Internal Service	<u>\$ -</u>	<u>\$ 1,015</u>	<u>\$ 400</u>	<u>\$ 1,415</u>

NOTE 7 - LONG-TERM LIABILITIES

At February 29, 2020, long-term liabilities, consist of the following:

Governmental activities:

Note and compensated absences:

2016 \$120,488 Installment note payable - payable in annual installments ranging from \$21,845 to \$25,223, plus interest of 4.91%; final payment due October 2020 \$ 25,223

Accrued compensated absences 58,000

Total governmental activities \$ 83,223

Business-type activities:

Bonds:

2010 \$3,240,000 Drinking Water Revolving Fund revenue bonds - payable in annual installments ranging from \$74,000 to \$125,000, plus interest at 2.50%; final payment due April 2031 \$ 1,243,666

2017 \$870,000 Sewer improvement revenue bonds - payable in annual installments ranging from \$13,000 to \$35,000, plus interest at 2.75%; final payment due March 2057 844,000

Total business-type activities \$ 2,087,666

NOTE 7 - LONG-TERM LIABILITIES (Continued)

Long-term liability activity for the year ended February 29, 2020, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Direct placement debt:					
2016 Note payable	\$ 49,265	\$ -	\$ (24,042)	\$ 25,223	\$ 25,223
Compensated absences	<u>56,600</u>	<u>51,400</u>	<u>(50,000)</u>	<u>58,000</u>	<u>-</u>
Total governmental activities	<u>\$ 105,865</u>	<u>\$ 51,400</u>	<u>\$ (74,042)</u>	<u>\$ 83,223</u>	<u>\$ 25,223</u>
Business-type activities:					
Non direct placement debt:					
2010 Water revenue bonds	\$ 1,328,666	\$ -	\$ (85,000)	\$ 1,243,666	\$ 90,000
2017 Sewer revenue bonds	<u>857,000</u>	<u>-</u>	<u>(13,000)</u>	<u>844,000</u>	<u>13,000</u>
Total business-type activities	<u>\$ 2,185,666</u>	<u>\$ -</u>	<u>\$ (98,000)</u>	<u>\$ 2,087,666</u>	<u>\$ 103,000</u>

At February 29, 2020, debt service requirements, excluding compensated absences, are as follows:

<u>Year ended February 28</u>	<u>Governmental activities</u>		<u>Business-type activities</u>	
	<u>Direct placement debt</u>		<u>Non direct placement debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 25,223	\$ 1,238	\$ 103,000	\$ 41,393
2022	-	-	103,000	50,391
2023	-	-	104,000	47,770
2024	-	-	109,000	45,072
2025	-	-	109,000	122,199
2025 - 2029	-	-	618,000	166,754
2030 - 2034	-	-	332,666	96,132
2035 - 2039	-	-	102,000	76,918
2040 - 2044	-	-	117,000	61,861
2045 - 2049	-	-	134,000	44,633
2050 - 2054	-	-	154,000	24,833
2055 - 2058	<u>-</u>	<u>-</u>	<u>102,000</u>	<u>4,263</u>
Totals	<u>\$ 25,223</u>	<u>\$ 1,238</u>	<u>\$ 2,087,666</u>	<u>\$ 782,217</u>

NOTE 8 - TAX REVENUE

The 2019 taxable valuation of the Village approximated \$43,000,000, on which ad valorem taxes levied consisted of 11.4594 mills for operating purposes, 4.5835 mills for streets, and 0.9166 mills for library operations, raising approximately \$493,000 for operating purposes, \$197,000 for streets, and \$39,000 for library operations. These amounts are recognized in the respective fund financial statements as property tax revenue. The following information is presented regarding the taxes levied for a major taxpayer:

	<u>Total tax revenue</u>	<u>Major taxpayer</u>	<u>Taxpayer percentage</u>
Current property taxes	\$ 729,521	\$ 172,763	24%

NOTE 9 - MAJOR CUSTOMER

A major commercial customer accounts for revenues of \$123,175, which represents 22 percent of total water and sewer revenues for the year ended February 29, 2020.

NOTE 10 - DEFINED CONTRIBUTION PENSION PLAN

The Village and its employees contribute to the Village of Lawton Group Pension Plan, a defined contribution pension plan, which is administered by a third-party administrator. The plan covers all full-time employees and part-time employees (over 20 hours per week). Benefit terms, including contribution requirements, for the Plan are established, and may be amended, by the Village Council. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Employees are eligible to participate, as described above. The Village makes a matching contribution (not to exceed 5% of covered payroll) for all personnel who contribute to the plan. Employees are permitted to make contributions to the Plan, up to applicable Internal Revenue Code limits. For the year ended February 29, 2020, the Village and eligible employees made contributions of \$21,967 and \$29,787, respectively. At February 29, 2020, the Village reported no accrued liability as part of the contributions to the plan.

The Village’s contributions for each employee (and investment earnings allocated to the employee’s account) are fully vested on the day the employee is eligible to participate in the plan, which occurs after one year of service.

The Village is not a trustee of the defined contribution pension plan, nor is the Village responsible for investment management of the pension plan assets. Accordingly, plan assets, and changes therein, are not reported in these financial statements.

NOTE 11 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended February 29, 2020, is as follows.

Cumulative excess revenues, beginning of year	<u>\$ 1,099</u>
Revenues	\$ 12,817
Expenses	<u>(20,592)</u>
Excess of revenues over expenses	<u>\$ (7,775)</u>
Cumulative excess revenues, end of year	<u>\$ -</u>

NOTE 12 - JOINT VENTURE

The Village is a member of the Lawton Fire Department (the Fire Department), which is a joint venture of the Townships of Antwerp and Porter, and the Village of Lawton. The Administrative Board of the Fire Department consists of six members, which consists of two members appointed by each participating unit. The Fire Department was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. The interlocal agreement governing the Authority does not convey an equity interest to its members. During the year ended February 29, 2020, the Village of Lawton was not required to make a contribution to the Fire Department.

The Village is unaware of any indication that the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit or burden on the Village in the near future. Complete financial statements for the Fire Department can be obtained from the Treasurer of the Fire Department.

NOTE 13 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 14 - RESTRICTED NET POSITION

In the government-wide statement of net position, the governmental activities report restricted net position in the amount of \$1,573,219. Of this amount, \$985,868 is restricted by enabling legislation for public works expenditures and \$10,401 is restricted by enabling legislation for public safety expenditures.

NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the GASB in June 2017 and will be effective for periods beginning after June 15, 2021. The objective of this Statement is to increase 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 recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities

NOTE 16 - SUBSEQUENT EVENT

As a result of COVID-19, which occurred subsequent to the end of the fiscal year, economic uncertainties have arisen which are likely to negatively impact the Village. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the financial impact on the Village. Therefore, the Village expects this matter to negatively impact its operations and financial condition. However, the related financial impact and duration cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended February 29, 2020

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
Property taxes	\$ 494,552	\$ 494,552	\$ 503,046	\$ 8,494
Licenses and permits	36,600	36,600	43,262	6,662
State grants	213,672	257,510	242,478	(15,032)
Charges for services	25,700	25,700	20,682	(5,018)
Interest and rentals	3,502	3,502	5,704	2,202
Other	2,520	2,520	10,407	7,887
Total revenues	<u>776,546</u>	<u>820,384</u>	<u>825,579</u>	<u>5,195</u>
EXPENDITURES				
General government:				
Village Council	10,515	10,515	10,042	473
President	1,550	1,550	1,615	(65)
Clerk	95,300	121,647	108,572	13,075
Treasurer	1,125	1,125	546	579
Building and grounds	44,875	44,875	40,355	4,520
Insurance and bonds	20,100	20,100	16,604	3,496
Cemetery	50,500	50,500	52,957	(2,457)
Other	33,500	33,500	32,962	538
Total general government	<u>257,465</u>	<u>283,812</u>	<u>263,653</u>	<u>20,159</u>
Public safety:				
Police protection	<u>383,850</u>	<u>383,850</u>	<u>320,488</u>	<u>63,362</u>
Public works:				
Public works department	20,000	20,000	40,692	(20,692)
Sidewalks	<u>-</u>	<u>-</u>	<u>7,163</u>	<u>(7,163)</u>
Total public works	<u>20,000</u>	<u>20,000</u>	<u>47,855</u>	<u>(27,855)</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended February 29, 2020

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Community and economic development:				
Housing	\$ -	\$ 22,712	\$ 22,712	\$ -
Planning and zoning	<u>16,600</u>	<u>16,600</u>	<u>27,721</u>	<u>(11,121)</u>
Total community and economic development	<u>16,600</u>	<u>39,312</u>	<u>50,433</u>	<u>(11,121)</u>
Recreation and culture:				
Parks and recreation	31,700	31,700	32,128	(428)
Civic betterment	<u>56,900</u>	<u>44,400</u>	<u>26,806</u>	<u>17,594</u>
Total recreation and culture	<u>88,600</u>	<u>76,100</u>	<u>58,934</u>	<u>17,166</u>
Capital outlay	<u>8,700</u>	<u>21,200</u>	<u>25,602</u>	<u>(4,402)</u>
Total expenditures	<u>775,215</u>	<u>824,274</u>	<u>766,965</u>	<u>57,309</u>
NET CHANGES IN FUND BALANCES	1,331	(3,890)	58,614	62,504
FUND BALANCES - BEGINNING	<u>1,124,970</u>	<u>1,124,970</u>	<u>1,124,970</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 1,126,301</u>	<u>\$ 1,121,080</u>	<u>\$ 1,183,584</u>	<u>\$ 62,504</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended February 29, 2020

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
State grants	\$ 171,606	\$ 207,035	\$ 201,631	\$ (5,404)
Interest	-	-	1,300	1,300
Other	-	-	4,939	4,939
	<u>171,606</u>	<u>207,035</u>	<u>207,870</u>	<u>835</u>
Total revenues				
EXPENDITURES				
Public works:				
Street construction	150,620	150,620	133,427	17,193
Preservation	31,300	31,300	21,024	10,276
Administration	2,800	9,493	9,896	(403)
Traffic services	4,590	4,590	5,048	(458)
Winter maintenance	23,110	23,110	10,541	12,569
	<u>212,420</u>	<u>219,113</u>	<u>179,936</u>	<u>39,177</u>
Total expenditures				
NET CHANGES IN FUND BALANCES	(40,814)	(12,078)	27,934	40,012
FUND BALANCES - BEGINNING	<u>555,303</u>	<u>555,303</u>	<u>555,303</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 514,489</u>	<u>\$ 543,225</u>	<u>\$ 583,237</u>	<u>\$ 40,012</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - Municipal Streets Fund

Year ended February 29, 2020

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 188,330	\$ 188,330	\$ 197,620	\$ 9,290
Intergovernmental	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>	<u>-</u>
Total revenues	<u>219,330</u>	<u>219,330</u>	<u>228,620</u>	<u>9,290</u>
EXPENDITURES				
Public works	<u>173,515</u>	<u>173,515</u>	<u>94,148</u>	<u>79,367</u>
NET CHANGES IN FUND BALANCES	45,815	45,815	134,472	88,657
FUND BALANCES - BEGINNING	<u>106,848</u>	<u>106,848</u>	<u>106,848</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 152,663</u>	<u>\$ 152,663</u>	<u>\$ 241,320</u>	<u>\$ 88,657</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE - Library Fund

Year ended February 29, 2020

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 37,000	\$ 37,000	\$ 39,517	\$ 2,517
State grants	3,000	3,000	3,894	894
Contributions from local units	97,000	97,000	114,695	17,695
Fines and forfeitures	18,000	18,000	14,730	(3,270)
Interest and rentals	4,000	4,000	4,608	608
Other	4,700	4,700	3,489	(1,211)
	<u>163,700</u>	<u>163,700</u>	<u>180,933</u>	<u>17,233</u>
Total revenues				
EXPENDITURES				
Recreation and culture:				
Salaries and wages	70,000	70,000	74,090	(4,090)
Payroll taxes and fringe benefits	31,300	31,300	22,878	8,422
Office supplies	250	250	287	(37)
Operating supplies	5,000	5,000	6,395	(1,395)
Telephone	2,400	2,400	1,427	973
Electric	4,000	4,000	3,998	2
Heat	500	500	139	361
Custodial services	1,000	1,000	893	107
Building and equipment rental	1,200	1,200	200	1,000
Miscellaneous	11,350	11,350	9,424	1,926
Books, magazines, and periodicals	25,000	25,000	19,558	5,442
Audio and video	3,500	3,500	4,792	(1,292)
Education and training	500	500	-	500
Computer software and internet	5,000	5,000	2,225	2,775
Memberships and dues	2,000	2,000	369	1,631
Travel	300	300	-	300
	<u>163,300</u>	<u>163,300</u>	<u>146,675</u>	<u>16,625</u>
Total recreation and culture				
Capital outlay	<u>5,518</u>	<u>5,518</u>	<u>1,605</u>	<u>3,913</u>
Total expenditures	<u>168,818</u>	<u>168,818</u>	<u>148,280</u>	<u>20,538</u>
NET CHANGES IN FUND BALANCES	(5,118)	(5,118)	32,653	37,771
FUND BALANCES - BEGINNING	<u>502,063</u>	<u>502,063</u>	<u>502,063</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 496,945</u>	<u>\$ 496,945</u>	<u>\$ 534,716</u>	<u>\$ 37,771</u>

SUPPLEMENTARY INFORMATION

BALANCE SHEET - component unit

February 29, 2020

	<u>Downtown Development Authority</u>
ASSETS	
Cash	\$ 114,150
Taxes receivable	<u>2,574</u>
Total assets	<u><u>\$ 116,724</u></u>
FUND BALANCES	
Restricted for capital projects	\$ 83,791
Unassigned	<u>32,933</u>
Total fund balances	<u>116,724</u>
Reconciliation of the balance sheet to the statement of net position:	
Total fund balances	116,724
Amounts reported for <i>component unit activities</i> in the statement of net position (page 11) are different because:	
Capital assets used in <i>governmental funds</i> are not financial resources and, therefore, are not reported in the funds.	<u>59,600</u>
Net position of <i>component units</i>	<u><u>\$ 176,324</u></u>

Village of Lawton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND

BALANCE - component unit

Year ended February 29, 2020

	<u><i>Downtown Development Authority</i></u>
REVENUES	
Tax increment financing	\$ 2,574
Other	<u>140,608</u>
Total revenues	<u>143,182</u>
EXPENDITURES	
Current:	
Community and economic development	2,146
Capital outlay	<u>59,966</u>
Total expenditures	<u>62,112</u>
NET CHANGE IN FUND BALANCE	81,070
FUND BALANCE - BEGINNING	<u>35,654</u>
FUND BALANCE - ENDING	<u>\$ 116,724</u>
Net change in fund balance	\$ 81,070
Capital assets:	
Capital asset acquisitions	59,966
Provision for depreciation	<u>(366)</u>
Change in net position of the <i>component unit</i>	<u>\$ 140,670</u>

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

Village Council
Village of Lawton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan (the Village), as of and for the year ended February 29, 2020, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated May 28, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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 Village'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 a deficiency in internal control, described in the accompanying Schedule of Findings, that we consider to be a material weakness. Item 2020-001 is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village'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 Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Siegfried Crandall P.C.

May 28, 2020

INTERNAL CONTROL DEFICIENCIES

Finding 2020-001 - Material audit adjustments and Preparation of Financial Statements

Criteria: All governmental units in Michigan are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related notes to the financial statements (i.e. external financial reporting).

Condition: We identified and proposed several material audit adjustments that management reviewed and approved. Adjustments were recorded to:

- Correct opening balances, as prior year adjustments were not recorded
- Correct receivable balances
- Capitalize capital asset acquisitions of the proprietary funds
- Provide for depreciation on capital assets of the proprietary funds
- Correct property tax revenue recognition, and the related receivables and deferred inflows
- Correct payable balances
- Correct classification of debt service payments
- Convert the fund-based data necessary to prepare the government-wide financial statements.

As is the case with many small and medium-sized governmental units, the Village has historically relied on its independent external auditor to assist with the preparation of the financial statements, the related notes, and the management's discussion and analysis as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditor, who cannot, by definition, be considered part of the Village's internal controls. This is a repeat finding.

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

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

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

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