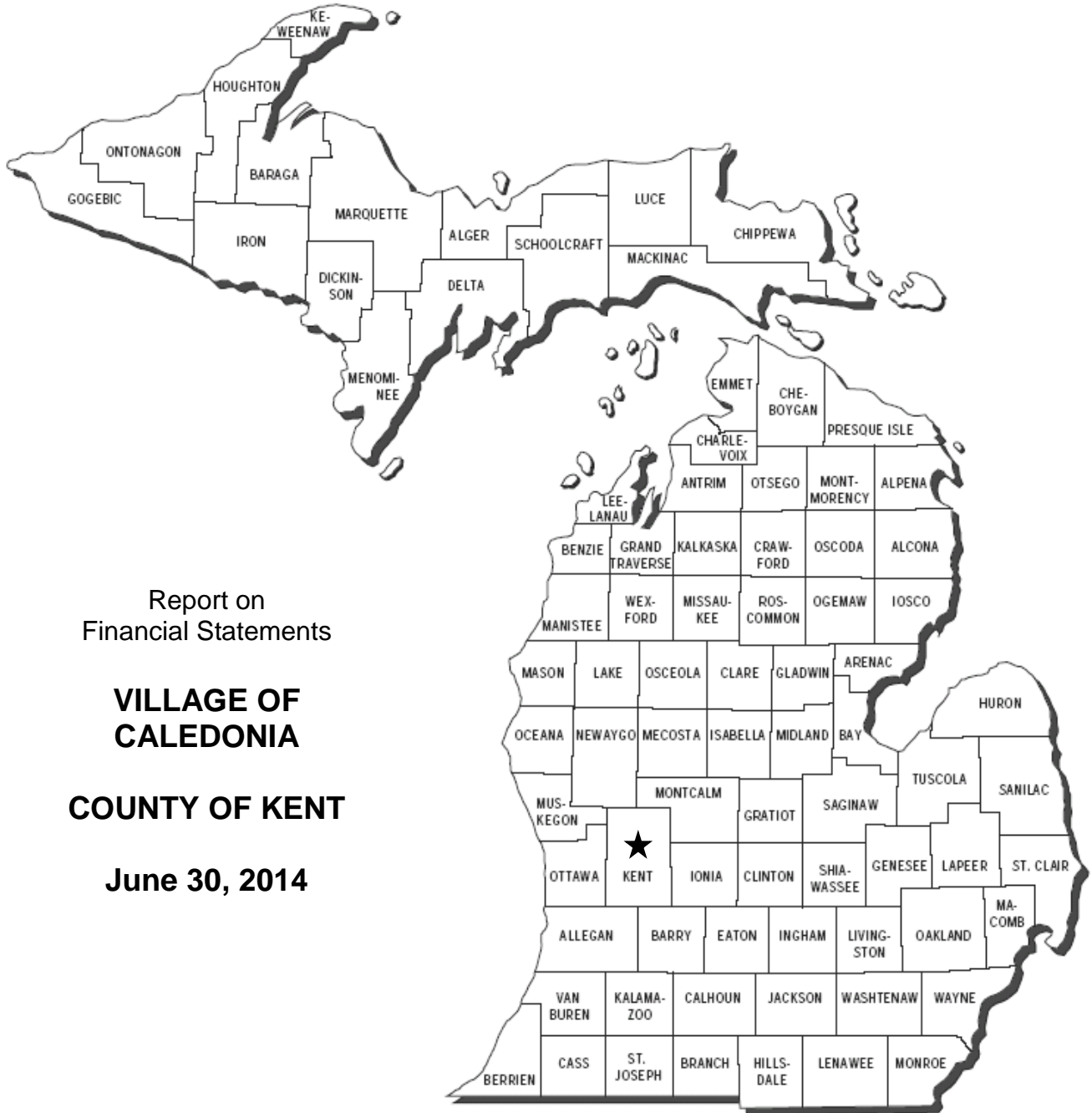


STATE OF MICHIGAN

Rick Snyder, Governor

DEPARTMENT OF TREASURY

R. Kevin Clinton, State Treasurer



Report on
Financial Statements

**VILLAGE OF
CALEDONIA**

COUNTY OF KENT

June 30, 2014

VILLAGE OF CALEDONIA--KENT COUNTY

VILLAGE COUNCIL

Glenn Gilbert
President

Dan Erskine
Council Member

Todd Grinage
Council Member

Karen Hahn
Council Member

Elizabeth Fanco
Council Member

Danise Regan
Council Member

Gary Scholl
Council Member

Sandra Ayers
Manager/Clerk

Julie Wangerin
Treasurer

VILLAGE POPULATION--2010
1,511

TAXABLE VALUATION--2013
\$50,834,211



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

December 19, 2014

Village Council
Village of Caledonia
250 South Maple Street
Caledonia, Michigan 49316

Independent Auditor's Report

Dear Council Members:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Kent County, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Village of Caledonia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers

internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the 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, and each major fund of the Village of Caledonia, Kent County, Michigan, as of June 30, 2014, 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 on pages 1 through 7 and budgetary comparison information Exhibits H through J 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 and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Caledonia's basic financial statements. The accompanying supplementary and related information presented in Exhibits K and L is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary and related information presented in Exhibits K and L is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary and related information presented in Exhibits K and L 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 December 19, 2014, on our consideration of the Village of Caledonia's internal control over financial reporting and 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 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 Caledonia's internal control over financial reporting and compliance.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF CALEDONIA--KENT COUNTY

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VILLAGE OF CALEDONIA--KENT COUNTY

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VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Our discussion and analysis of the Village of Caledonia's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2014.

USING THIS ANNUAL REPORT

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. This report also contains supplementary information in addition to the basic financial statements. The basic financial statements include a series of financial statements. The Statement of Net Position and the Statement of Activities on Exhibit A and B provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements start with Exhibit C. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant funds. The remaining statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Reporting the Village as a Whole

The Statement of Net Position and the Statement of Activities

One of the most important questions asked about the Village's finances is, "Is the Village as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Village's net position and changes in them. You can think of the Village's net position — the difference between assets and liabilities — as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Village's property tax base and the condition of Village's infrastructure, to assess the overall health of the Village.

In the Statement of Net Position and the Statement of Activities we divide the Village into two kinds of activities:

- Governmental activities--Most of the Village's basic services are reported here, including the public works and general administration. Property taxes, franchise fees, and state grants finance most of these activities.

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

- Business-type activities--The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's sewer system is reported here.

Reporting the Village's Major Fund

Fund Financial Statements

Our analysis of the Village's major funds begins with Exhibit C and D with additional information provided in Note A of the Notes to the Financial Statements. The special revenue funds are required to be established by state law such as the Major Street Fund and the Local Street Fund. The Village's two kinds of funds, governmental and proprietary, use different accounting approaches.

- *Governmental funds*—Most of the Village's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Position and the Statement of Activities) and governmental *funds* in reconciliation at the bottom of the fund financial statements of Exhibit C and D.
- *Proprietary funds*—When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the Village's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

Additional Required Supplementary Information (RSI)

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules.

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

The Village as a Whole

The Village's combined net position increased from \$7,815,836 to \$7,830,733 or \$14,897 for the fiscal year ended June 30, 2014. This is similar to the previous year when the net position increased \$44,971. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the Village's governmental and business-type activities.

Table 1
Net Position of Governmental and Business-Type Activities

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Current and Other Assets	\$ 977,678	\$ 1,133,562	\$ 545,699	\$ 523,292	\$ 1,523,377	\$ 1,656,854
Noncurrent Assets	5,337,867	5,295,339	2,111,023	1,999,954	7,448,890	7,295,293
Total Assets	6,315,545	6,428,901	2,656,722	2,523,246	8,972,267	8,952,147
Deferred Outflow of Resources	-	-	15,938	14,875	15,938	14,875
Total Deferred Outflow of Resources	-	-	15,938	14,875	15,938	14,875
Current Liabilities	23,920	48,382	62,350	76,645	86,270	125,027
Noncurrent Liabilities	513,097	493,497	573,002	517,765	1,086,099	1,011,262
Total Liabilities	537,017	541,879	635,352	594,410	1,172,369	1,136,289
Net Position						
Net Investment in						
Capital Assets	4,827,867	4,815,339	1,381,278	1,319,912	6,209,145	6,135,251
Restricted	363,459	358,588	169,745	170,042	533,204	528,630
Unrestricted	587,202	713,095	486,285	453,757	1,073,487	1,166,852
Total Net Position	\$ 5,778,528	\$ 5,887,022	\$ 2,037,308	\$ 1,943,711	\$ 7,815,836	\$ 7,830,733

Net position of the Village's governmental activities increased by 1.9%, or \$108,494 (\$5,887,022 compared to \$5,778,528). The net investment in capital assets decreased due to the continued depreciation of the Village's capital assets. The decrease in the restricted net position was due to the increased winter maintenance and snowplowing costs for the Major and Local Street Funds. The increase in the unrestricted net position was due to no funds being appropriated for street projects by the General Fund this year.

The Village's business-type activities consist of the Sewer Fund. The Village provides sewage treatment to all of their residents. Net position of the Village's business-type activities decreased by 4.6%, or \$93,597 (\$1,943,711 compared to \$2,037,308). The net investment in capital assets decreased due to the continued depreciation of the sewer system. The decrease in the unrestricted net position is due an increase in the maintenance and repairs as the amounts increased approximately \$85,000 over last year's amounts.

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Table 2
Changes in Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
Program Revenue						
Charges for Services	\$ 23,988	\$ 48,660	\$ 583,464	\$ 572,051	\$ 607,452	\$ 620,711
Operating Grants and Contributions	103,131	115,614	-	3,477	103,131	119,091
General Revenue						
Property Taxes	322,334	323,844	-	-	322,334	323,844
State-Shared Revenues	111,158	113,348	-	-	111,158	113,348
Franchise Fees	10,833	11,828	-	-	10,833	11,828
Unrestricted Investment Earnings	1,620	2,584	4,119	2,961	5,739	5,545
Other	3,400	7,710	-	-	3,400	7,710
Total Revenues	576,464	623,588	587,583	578,489	1,164,047	1,202,077
Program Expenses						
General Government	128,484	121,926	-	-	128,484	121,926
Public Safety	1,075	1,075	-	-	1,075	1,075
Public Works	321,160	358,126	-	-	321,160	358,126
Community and Economic Development	9,472	9,369	-	-	9,472	9,369
Recreation and Cultural	3,225	5,743	-	-	3,225	5,743
Other	4,295	4,316	-	-	4,295	4,316
Interest	34,430	14,539	-	-	34,430	14,539
Sewer	-	-	616,935	672,086	616,935	672,086
Total Expenses	502,141	515,094	616,935	672,086	1,119,076	1,187,180
Change in Net Position	\$ 74,323	\$ 108,494	\$ (29,352)	\$ (93,597)	\$ 44,971	\$ 14,897

Governmental Activities

The revenues for the Village's governmental activities increased by less than 8.2% (\$47,124), while expenses increased 2.6% (\$12,953). The decrease in revenues is due to the increase in charges for services for increased vehicle rental charges for winter snowplowing and an increase in operating grants due to a one-time FEMA reimbursement for a flood event and a one-time additional distribution from the state to assist with snow related expenses. The expenses increased primarily in the public works area due to the previously mention winter maintenance costs offset by the decrease in interest costs incurred during prior year for the refinancing of the capital improvement bond.

Business-Type Activities

The revenues for the Village's business-type activities decreased by 1.5% (\$9,094), while expenses increased by 8.9% (\$55,151). The expenses increased due the numerous repairs performed to the system as previously mentioned.

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

THE VILLAGE'S FUNDS

As the Village completed the year, its governmental funds (as presented in the balance sheet on Exhibit C) reported a fund balance of \$1,085,180 which is more than last year's \$953,758. The primary reasons for the governmental funds' increase mirror the governmental activities analysis highlighted in the prior paragraph. The major governmental funds of the Village for 2014 included the General Fund, Major Street Fund, and Local Street Fund.

The General Fund pays for most of the Village's governmental services. The most significant are for general government and public works activities. These services are supported by the operating millage and State-shared revenues. The Major Street Fund and the Local Street Fund account for the Michigan Transportation Funds received from the State and the maintenance performed on the Village's street system. The Sewer Fund is described above.

GENERAL FUND BUDGETARY HIGHLIGHT

Over the course of the year, the Village's budget was monitored monthly to continuously evaluate the financial position of the Village. Adjustments were approved throughout the year to try and take into account the activities of the Village for the year. The largest adjustment was to account for the increased winter costs and road maintenance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the Village had \$7,125,251 invested in a broad range of capital assets, including land, buildings, land improvements, vehicles, equipment, and sewer infrastructure. This amount represents a net decrease (including additions and deductions) of \$153,894.

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

Table 3
Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
	Land	\$ 3,487,649	\$ 3,487,649	\$ 108,268	\$ 108,268	\$ 3,595,917
Buildings and Improvements	314,080	314,080	-	-	314,080	314,080
Equipment	59,260	59,260	137,660	137,660	196,920	196,920
Vehicles	146,180	142,128	-	-	146,180	142,128
Infrastructure	2,104,004	2,159,127	-	-	2,104,004	2,159,127
Sewer System	-	-	3,326,528	3,326,528	3,326,528	3,326,528
Total Capital Assets	6,111,173	6,162,244	3,572,456	3,572,456	9,683,629	9,734,700
Total Accumulated Depreciation	(773,306)	(866,905)	(1,631,178)	(1,742,544)	(2,404,484)	(2,609,449)
Total Net Capital Assets	\$ 5,337,867	\$ 5,295,339	\$ 1,941,278	\$ 1,829,912	\$ 7,279,145	\$ 7,125,251

This year's capital asset additions consisted of \$25,400 for a new pickup truck and \$55,123 for sidewalk and street improvements.

The Village's fiscal-year 2014-2015 capital budget calls for continued infrastructure improvements to the Village's sidewalks and streets. The Village has no plans to issue additional debt to finance these projects. More detailed information about the Village's capital assets is presented in Note G to the financial statements.

Debt

At year-end, the Village had \$990,000 in bonds outstanding versus \$1,070,000 last year, a decrease of \$80,000, as shown in Table 4. The decrease is due to the refinancing of both bonds owned by the Village during the fiscal year.

Table 4
Outstanding Debt at Year-End

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2014	2013	2014	2013	2014
	Bonds Payable	\$ 510,000	\$ 480,000	\$ 560,000	\$ 510,000	\$ 1,070,000
Total	\$ 510,000	\$ 480,000	\$ 560,000	\$ 510,000	\$ 1,070,000	\$ 990,000

VILLAGE OF CALEDONIA--KENT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Village's budget for 2014/2015 has been modified to reflect the prior years' activities in a more accurate manner. The primary change in the upcoming budget is to increase the balances for street improvement projects.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office at: 250 South Maple Street, Caledonia, MI 49316 (Phone Number 616-891-9384).

VILLAGE OF CALEDONIA--KENT COUNTY
GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2014

EXHIBIT A

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets			
Cash and Cash Equivalents	\$ 1,091,148	\$ 354,942	\$ 1,446,090
Accounts Receivable	7,121	5,860	12,981
Due From Township	-	162,490	162,490
Due From State	35,293	-	35,293
Total Current Assets	<u>1,133,562</u>	<u>523,292</u>	<u>1,656,854</u>
Noncurrent Assets			
Restricted Cash and Investments	-	170,042	170,042
Capital Assets--Nondeprecating	3,487,649	108,268	3,595,917
Capital Assets--Net of Accumulated Depreciation	1,807,690	1,721,644	3,529,334
Total Noncurrent Assets	<u>5,295,339</u>	<u>1,999,954</u>	<u>7,295,293</u>
Total Assets	<u>6,428,901</u>	<u>2,523,246</u>	<u>8,952,147</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Deferred Outflow of Resources			
Refunding Bond Issuance Costs	-	14,875	14,875
Total Deferred Outflow of Resources	<u>-</u>	<u>14,875</u>	<u>14,875</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	47,161	76,645	123,806
Accrued Liabilities	1,221	-	1,221
Total Current Liabilities	<u>48,382</u>	<u>76,645</u>	<u>125,027</u>
Long-Term Liabilities			
Bonds Payable--Due Within One Year	30,000	45,000	75,000
Bonds Payable--Due in More Than One year	450,000	465,000	915,000
Vested Employee Benefits Payable	13,497	7,765	21,262
Total Long-Term Liabilities	<u>493,497</u>	<u>517,765</u>	<u>1,011,262</u>
Total Liabilities	<u>541,879</u>	<u>594,410</u>	<u>1,136,289</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	4,815,339	1,319,912	6,135,251
Restricted for			
Major Street	300,353	-	300,353
Local Street	58,235	-	58,235
Sewer Bonds and Improvements	-	170,042	170,042
Unrestricted	<u>713,095</u>	<u>453,757</u>	<u>1,166,852</u>
Total Net Position	<u>\$ 5,887,022</u>	<u>\$ 1,943,711</u>	<u>\$ 7,830,733</u>

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

VILLAGE OF CALEDONIA--KENT COUNTY
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

EXHIBIT B

Functions/Programs	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities						
General Government	\$ 121,926	\$ -	\$ -	\$ (121,926)	\$ -	\$ (121,926)
Public Safety	1,075	756	-	(319)	-	(319)
Public Works	358,126	45,553	115,614	(196,959)	-	(196,959)
Community and Economic Development	9,369	2,351	-	(7,018)	-	(7,018)
Recreation and Culture	5,743	-	-	(5,743)	-	(5,743)
Other	4,316	-	-	(4,316)	-	(4,316)
Interest	14,539	-	-	(14,539)	-	(14,539)
Total Governmental Activities	<u>515,094</u>	<u>48,660</u>	<u>115,614</u>	<u>(350,820)</u>	<u>-</u>	<u>(350,820)</u>
Business-Type Activities						
Sewer	<u>672,086</u>	<u>572,051</u>	<u>3,477</u>	<u>-</u>	<u>(96,558)</u>	<u>(96,558)</u>
Total Business-Type Activities	<u>672,086</u>	<u>572,051</u>	<u>3,477</u>	<u>-</u>	<u>(96,558)</u>	<u>(96,558)</u>
Total Primary Government	<u>\$ 1,187,180</u>	<u>\$ 620,711</u>	<u>\$ 119,091</u>	<u>(350,820)</u>	<u>(96,558)</u>	<u>(447,378)</u>
			General Revenues			
			Property Taxes	323,844	-	323,844
			State-Shared Revenues	113,348	-	113,348
			Franchise Fees	11,828	-	11,828
			Unrestricted Investment Earnings	2,584	2,961	5,545
			Other Revenues	<u>7,710</u>	<u>-</u>	<u>7,710</u>
			Total General Revenues--Special Items	<u>459,314</u>	<u>2,961</u>	<u>462,275</u>
			Change in Net Position	108,494	(93,597)	14,897
			Net Position--Beginning	<u>5,778,528</u>	<u>2,037,308</u>	<u>7,815,836</u>
			Net Position--Ending	<u>\$ 5,887,022</u>	<u>\$ 1,943,711</u>	<u>\$ 7,830,733</u>

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

**VILLAGE OF CALEDONIA--KENT COUNTY
BALANCE SHEET--GOVERNMENTAL FUNDS AND
RECONCILIATION TO STATEMENT OF NET POSITION
June 30, 2014**

EXHIBIT C

	MAJOR FUNDS			Total Governmental Funds
	General	Major Street	Local Street	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 742,635	\$ 293,191	\$ 55,322	\$ 1,091,148
Accounts Receivables	7,121	-	-	7,121
Due From State	19,407	11,341	4,545	35,293
Total Assets	<u>\$ 769,163</u>	<u>\$ 304,532</u>	<u>\$ 59,867</u>	<u>\$ 1,133,562</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 41,350	\$ 4,179	\$ 1,632	\$ 47,161
Accrued Liabilities	1,221	-	-	1,221
Total Liabilities	<u>42,571</u>	<u>4,179</u>	<u>1,632</u>	<u>48,382</u>
Fund Equity				
Fund Balances				
Restricted for				
Major Street	-	300,353	-	300,353
Local Street	-	-	58,235	58,235
Assigned	151,440	-	-	151,440
Unassigned	575,152	-	-	575,152
Total Fund Equity	<u>726,592</u>	<u>300,353</u>	<u>58,235</u>	<u>1,085,180</u>
Total Liabilities and Fund Equity	<u>\$ 769,163</u>	<u>\$ 304,532</u>	<u>\$ 59,867</u>	<u>\$ 1,133,562</u>
Fund Balances--Total Governmental Funds				\$ 1,085,180
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				5,295,339
Certain liabilities, such as compensated absences and long-term debt, are not due and payable in the current period and, therefore, are not reported in the funds.				<u>(493,497)</u>
Net Position of Governmental Activities				<u>\$ 5,887,022</u>

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

VILLAGE OF CALEDONIA--KENT COUNTY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
AND RECONCILIATION TO STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2014

EXHIBIT D

	MAJOR FUNDS			Total Governmental Funds
	General	Major Street	Local Street	
Revenues				
Taxes	\$ 323,844	\$ -	\$ -	\$ 323,844
Licenses and Permits	12,584	-	-	12,584
Federal Grants	-	3,679	954	4,633
State Grants	113,348	71,207	38,906	223,461
Charges for Services	2,351	-	-	2,351
Interest and Rentals	48,137	803	65	49,005
Other Revenue	7,710	-	-	7,710
Total Revenues	507,974	75,689	39,925	623,588
Expenditures				
Current				
General Government	119,577	-	-	119,577
Public Works	108,986	50,138	68,975	228,099
Community and Economic Development	9,369	-	-	9,369
Recreation and Cultural	5,743	-	-	5,743
Other	4,316	-	-	4,316
Capital Outlay	33,598	17,600	29,325	80,523
Debt Service	44,539	-	-	44,539
Total Expenditures	326,128	67,738	98,300	492,166
Excess of Revenues Over (Under) Expenditures	181,846	7,951	(58,375)	131,422
Other Financing Sources (Uses)				
Interfund Transfers In	-	19,605	25,948	45,553
Interfund Transfers (Out)	(45,553)	-	-	(45,553)
Total Other Financing Sources (Uses)	(45,553)	19,605	25,948	-
Net Change in Fund Balance	136,293	27,556	(32,427)	131,422
Fund Balance--July 1, 2013	590,299	272,797	90,662	953,758
Fund Balance--June 30, 2014	<u>\$ 726,592</u>	<u>\$ 300,353</u>	<u>\$ 58,235</u>	<u>\$ 1,085,180</u>
Net Change in Fund Balances--Total Governmental Funds				\$ 131,422
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.				
Add--Capital Outlay				80,523
Deduct--Depreciation Expense				(123,051)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position net the cost refunding bonds.				30,000
Long-term liabilities are not due and payable in the current period and are not reported in the funds.				(10,400)
Change in Net Position of Governmental Activities				<u><u>\$ 108,494</u></u>

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

**VILLAGE OF CALEDONIA--KENT COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014**

EXHIBIT E

	ENTERPRISE FUND
	<u>Sewer</u>
<u>ASSETS</u>	
Current Assets	
Cash and Cash Equivalents	\$ 354,942
Accounts Receivable	5,860
Due From Township	<u>162,490</u>
Total Current Assets	<u>523,292</u>
Noncurrent Assets	
Restricted Cash and Investments	170,042
Capital Assets--Nondepreciating	108,268
Capital Assets--Net of Accumulated Depreciation	<u>1,721,644</u>
Total Noncurrent Assets	<u>1,999,954</u>
Total Assets	<u>2,523,246</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>	
Deferred Outflow of Resources	
Refunding Bond Issuance Costs	<u>14,875</u>
Total Deferred Outflow of Resources	<u>14,875</u>
<u>LIABILITIES</u>	
Current Liabilities	
Accounts Payable	<u>76,645</u>
Total Current Liabilities	<u>76,645</u>
Noncurrent Liabilities	
Bonds Payable--Due Within One Year	45,000
Bonds Payable--Due in More Than One Year	465,000
Vested Employee Benefits	<u>7,765</u>
Total Noncurrent Liabilities	<u>517,765</u>
Total Liabilities	<u>594,410</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets	1,319,912
Restricted for Sewer Bonds and Improvements	170,042
Unrestricted	<u>453,757</u>
Total Net Position	<u>\$ 1,943,711</u>

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

**VILLAGE OF CALEDONIA--KENT COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION--PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014**

EXHIBIT F

	ENTERPRISE FUND
	<u>Sewer</u>
Operating Revenues	
Charges for Services	\$ 572,051
Total Operating Revenues	<u>572,051</u>
Operating Expenses	
Wages and Fringes	62,128
Operating Expenses	47,984
Repairs and Maintenance	92,284
Contracted Services	255,259
General Insurance	3,986
Utilities	89,724
Depreciation	<u>111,366</u>
Total Operating Expenses	<u>662,731</u>
Operating Income (Loss)	<u>(90,680)</u>
Nonoperating Revenues (Expenses)	
Federal Grant	3,477
Interest Earned on Investments	2,961
Interest Expense	<u>(9,355)</u>
Total Nonoperating Revenues (Expenses)	<u>(2,917)</u>
Change in Net Position	(93,597)
Total Net Position--July 1, 2013	<u>2,037,308</u>
Total Net Position--June 30, 2014	<u>\$ 1,943,711</u>

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

**VILLAGE OF CALEDONIA--KENT COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2014**

EXHIBIT G

	ENTERPRISE FUND
	<u>Sewer</u>
Cash Flows From Operating Activities	
Cash Received From Customers	\$ 673,329
Cash Payments to Employees for Services and Benefits	(67,365)
Cash Payments to Suppliers for Goods and Services	<u>(474,941)</u>
Net Cash Provided by Operating Activities	<u>131,023</u>
Cash Flows From Capital and Related Financing Activities	
Federal Grant	3,477
Reduction of Debt	(48,936)
Interest Paid on Bonds	<u>(9,355)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(54,814)</u>
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>2,961</u>
Net Cash Provided by Investing Activities	<u>2,961</u>
Net Increase (Decrease) in Cash and Cash Equivalents	79,170
Cash and Cash Equivalents at Beginning of Year	<u>445,814</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 524,984</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (90,680)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation Expense	111,366
(Increase) Decrease in Accounts Receivable	101,279
Increase (Decrease) in Accrued Liabilities	(5,237)
Increase (Decrease) in Accounts Payable	<u>14,295</u>
Net Cash Provided by Operating Activities	<u><u>\$ 131,023</u></u>

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

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Caledonia is located in Kent County and provides services to its 1,511 residents in many areas including public works and general government. The Village is a general law Village incorporated under Public Act (PA) 3 of 1895. The Village is governed by a seven-member council, including a president, elected by the citizens of the Village. The accounting policies of the Village conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 61, "The Financial Reporting Entity," these financial statements present the Village (the primary government). The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

There are no other units that should be included in the financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary 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 taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

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

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

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

The Major Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Street Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on local streets.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village reports the following major proprietary funds:

Sewer Fund accounts for the sewer operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the policy of the Village to use restricted resources first, then unrestricted resources as needed.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, demand deposits and short-term investments with a maturity of three months or less, when acquired, are considered to be cash equivalents. The statement of cash flows includes both restricted and unrestricted cash. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value. Earnings from investments are allocated to numerous funds as required by Federal regulations, State statutes, and local ordinances.

Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements, outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant and equipment, and 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 \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's lives are not capitalized.

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

Land Improvements	30 to 40 years
Building and Building Improvements	15 to 40 years
Equipment	3 to 10 years
Infrastructure	20 years

Compensated Absences (Vacation and Sick Leave)

It is the Village's policy to permit all employees to accumulate earned sick and vacation pay benefits. The liability for unpaid accumulated sick leave is 100% of the time available according to the Village's personnel agreement. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds and business-type activities for employee terminations as of year-end.

Long-Term Obligations

In the government-wide financial statements and proprietary fund type statements, the 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. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Other Financing Sources (Uses)

Transfers of cash between the various Village funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Fund Balance Classifications

In the fund financial statements, governmental funds report the following components of fund balance which comprise a hierarchy based on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- Non-spendable - includes fund balance amounts in governmental funds to designate amounts which are not available for spending, or are legally or contractually required to be maintained.
- Assigned - includes fund balance amounts that are intended to be used for a specific purpose.
- Committed - includes fund balance amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority.
- Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Village of Caledonia reports the following restricted fund balances:

- Major Street Fund - The Major Street Fund is used in the Village to account for the maintenance and construction of the Village's major street system. The fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for Major Street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Local Street Fund - The Local Street Fund is used in the Village to account for the maintenance and construction of the Village's local street system. The fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for Local Street and highway purposes, Federal aid for local street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.

Assigned Fund Balance

Assigned fund balance is an amount that is intended to be used for specific purposes that are neither considered restricted or committed. The \$151,440 assigned fund balance in the General Fund has been assigned by the Council for future street improvements.

Unassigned Fund Balance

Unassigned fund balance is the residual classification for the Village's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Village Council. The Village Council has not established a policy for its use of unrestricted fund balance amounts. However, if the Village had committed and/or assigned fund balances, the committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The Village of Caledonia does not have a formal minimum fund balance policy.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to the commencement of the fiscal year, the budget is legally enacted through adoption by the Village Council, as pursuant to statute. Budgets are adopted for the General Fund and Special Revenue Funds as required by statute. Budgets are adopted on a basis consistent with the accounting principles followed in recording transactions. The Village's annual budget is adopted on a departmental basis at the activity level. The Village Council monitors and amends the budgets as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriation in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

During the fiscal year, the Village incurred expenditures in the General Fund and the special revenue funds, which were in excess of the amounts appropriated, as follows:

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Computer	\$ 4,973	\$ 5,007	\$ (34)
Transfers (Out)	-	45,553	(45,553)
Major Street Fund			
Routine and Preventive Maintenance	15,635	16,487	(852)
Winter Routine and Preventive Maintenance	24,637	33,584	(8,947)
Local Street Fund			
Winter Routine and Preventive Maintenance	38,147	52,345	(14,198)

In order to prevent actual expenditures from exceeding amounts appropriated in the budget in the future, the Village will review available funds and amend the budgets with greater frequency.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit 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.

Deposits are carried at cost. The Village Council has designated two banks and one credit union for the deposit of Village funds. The investment policy adopted by the council in accordance with PA 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

At fiscal year-end June 30, 2014, 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>Total</u>
Cash and Cash Equivalents	\$ 1,091,148	\$ 354,942	\$ 1,446,090
Restricted Cash and Investments	-	170,042	170,042
Total	<u>\$ 1,091,148</u>	<u>\$ 524,984</u>	<u>\$ 1,616,132</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,616,082
Petty Cash and Cash on Hand	50
Total	<u>\$ 1,616,132</u>

Non-negotiable certificates of deposit that are placed by the depositors directly with financial institutions and that are subject to a penalty if redeemed before maturity are treated as bank deposits. Because non-negotiable certificates of deposits are deposits, no interest rate risk or credit risk disclosures are required, which are limited to investments.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Village's deposits may not be recovered. The Village does not have a deposit policy for custodial credit risk. The bank balance of the Village's deposits is \$1,619,306, of which \$619,042 is covered by Federal depository insurance or NCUA insured. The remaining \$1,000,264 is uncollateralized.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Village manages its exposure to interest rate risk is by participating in money markets which hold diverse investments that are authorized by law for direct investment.

Restricted Assets

In accordance with the Village of Caledonia ordinances, separate bank accounts have been established to create reserved cash balances for the funding of sewer bond payments and sewer repair, replacement, and improvement to the individual systems. As of June 30, 2014, the reserve cash balance is \$170,042 in the Sewer Fund.

NOTE D--PROPERTY TAXES

The Village of Caledonia's 2013 ad valorem tax was levied and collectible on July 1, 2013. It is the policy of the Village to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing operations. Property taxes are recognized when received.

The 2013 State taxable valuation amounted to \$50,834,211, on which ad valorem taxes levied for all Village purposes were \$323,844. There were 6.444 mills for general operations recognized in the General Fund.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE E--RECEIVABLES

Accounts Receivable

The General Fund has an account receivable amount of \$3,027 for a franchise fee receivable due from the local cable company and \$4,094 related zoning and other fees to be collected residents and businesses.

The Sewer Fund accounts receivable is based on the sewer services provided by the Village. The receivables do not have an allowance for doubtful accounts because any receivables not collected are placed on the customer's tax bill. The receivable for the Sewer Fund is \$5,860.

NOTE F--INTERFUND TRANSFERS

The 2014 operating transfers from Exhibit D can be summarized as follows:

<u>Transfers In</u>	<u>Transfers Out</u>
	<u>General</u>
Major Street	\$ 19,605
Local Street	25,948
Total Government	<u>\$ 45,553</u>

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

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE G--CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance 07/01/13</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/14</u>
Capital Assets Not Being Depreciated				
Land	<u>\$ 3,487,649</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,487,649</u>
Subtotal	<u>3,487,649</u>	<u>-</u>	<u>-</u>	<u>3,487,649</u>
Capital Assets Being Depreciated				
Buildings	314,080	-	-	314,080
Equipment	59,260	-	-	59,260
Vehicles	146,180	25,400	29,452	142,128
Infrastructure	<u>2,104,004</u>	<u>55,123</u>	<u>-</u>	<u>2,159,127</u>
Total	<u>2,623,524</u>	<u>80,523</u>	<u>29,452</u>	<u>2,674,595</u>
Less Accumulated Depreciation				
Buildings	95,746	7,852	-	103,598
Equipment	40,985	1,075	-	42,060
Vehicles	136,776	8,924	29,452	116,248
Infrastructure	<u>499,799</u>	<u>105,200</u>	<u>-</u>	<u>604,999</u>
Total	<u>773,306</u>	<u>123,051</u>	<u>29,452</u>	<u>866,905</u>
Net Capital Assets Being Depreciated	<u>1,850,218</u>	<u>(42,528)</u>	<u>-</u>	<u>1,807,690</u>
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	<u>\$ 5,337,867</u>	<u>\$ (42,528)</u>	<u>\$ -</u>	<u>\$ 5,295,339</u>

The depreciation expense for the year was \$123,051.

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE G--CAPITAL ASSETS (Continued)

<u>Business-Type Activities</u>	<u>Balance 7/1/2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2014</u>
Capital Assets Not Being Depreciated				
Land	\$ 108,268	\$ -	\$ -	\$ 108,268
Subtotal	108,268	-	-	108,268
Capital Assets Being Depreciated				
Equipment	137,660	-	-	137,660
Sewer System	3,326,528	-	-	3,326,528
Subtotal	3,464,188	-	-	3,464,188
Less: Accumulated Depreciation for				
Equipment	46,558	29,412	-	75,970
Sewer System	1,584,620	81,954	-	1,666,574
Subtotal	1,631,178	111,366	-	1,742,544
Net Capital Assets Being Depreciated	1,833,010	(111,366)	-	1,721,644
Total Capital Assets--Net of Depreciation	<u>\$ 1,941,278</u>	<u>(111,366)</u>	<u>\$ -</u>	<u>\$ 1,829,912</u>

The depreciation expense was \$111,366 during the year.

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

Governmental Activities	
General Government	\$ 2,824
Public Safety	1,075
Public Works	119,152
Total Governmental Activities	<u>\$ 123,051</u>
Business-Type Activities	
Sewer	\$ 111,366
Total Business-Type Activities	<u>\$ 111,366</u>

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE H--LONG-TERM DEBT

The Village issues bonds to provide for the acquisition and construction of major capital improvements. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Sanitary Sewage System Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The long-term debt of the Village and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>07/01/13</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>06/30/14</u>	<u>Due Within</u> <u>One Year</u>
<u>Governmental Activities</u>					
General Obligation Limited Tax Refunding Bonds, Series 2013 dated May 29, 2013, at an interest rate of 1.9%.	\$ 510,000	\$ -	\$ (30,000)	\$ 480,000	\$ 30,000
Vested Employee Benefits Payable	<u>3,097</u>	<u>10,400</u>	<u>-</u>	<u>13,497</u>	<u>-</u>
Total Governmental Activities	<u>\$ 513,097</u>	<u>\$ 10,400</u>	<u>\$ (30,000)</u>	<u>\$ 493,497</u>	<u>\$ 30,000</u>
<u>Business-Type Activities</u>					
Sanitary Sewage System Revenue Bonds, Series 2001 at a variable interest rate ranging from 0% to 5.5%.	\$ 50,000	\$ -	\$ (50,000)	\$ -	\$ -
Sewer Revenue Refunding Bonds, Series 2013 at an interest rate of 2.9%.	510,000	-	-	510,000	45,000
Net Discount	(15,938)	1,063	-	(14,875)	-
Vested Employee Benefits Payable	<u>13,002</u>	<u>-</u>	<u>(5,237)</u>	<u>7,765</u>	<u>-</u>
Total Business-Type Activities	<u>\$ 557,064</u>	<u>\$ 1,063</u>	<u>\$ (55,237)</u>	<u>\$ 502,890</u>	<u>\$ 45,000</u>

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2014

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements

The annual requirements to pay the principal and interest on the Village's long-term debt obligations excluding vested employee benefits outstanding at June 30, 2014, are as follows:

Year	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 30,000	\$ 9,120	\$ 39,120	\$ 45,000	\$ 14,137	\$ 59,137
2016	30,000	8,550	38,550	65,000	12,543	77,543
2017	35,000	7,980	42,980	75,000	10,513	85,513
2018	35,000	7,316	42,316	65,000	8,482	73,482
2019	40,000	6,650	46,650	65,000	6,598	71,598
2020-2024	190,000	22,514	212,514	195,000	8,484	203,484
2025-2027	120,000	4,560	124,560	-	-	-
Total	<u>\$ 480,000</u>	<u>\$ 66,690</u>	<u>\$ 546,690</u>	<u>\$ 510,000</u>	<u>\$ 60,757</u>	<u>\$ 570,757</u>

Annual Debt Service Requirements--Governmental Activities

General Obligation Limited Tax Refunding Bonds, Series 2013

On May 29, 2013, the Village issued \$510,000 in General Obligation Limited Tax Refunding Bonds, Series 2013, with an interest rate of 1.9% to advance refund \$510,000 of outstanding 2007 Series bonds with interest rate of 4.45%. The Village refunded the 2007 Series bonds to reduce its total debt service payments over the next fourteen years by \$93,545.

Date of Issue: May 29, 2013

Amount: \$510,000

Interest Rate: 1.9%

Fiscal Year	Interest		Principal 1-July	Annual Total
	1-Jan	1-July		
2015	\$ 4,560	\$ 4,560	\$ 30,000	\$ 39,120
2016	4,275	4,275	30,000	38,550
2017	3,990	3,990	35,000	42,980
2018	3,658	3,658	35,000	42,316
2019	3,325	3,325	40,000	46,650
2020-2024	11,257	11,257	190,000	212,514
2025-2027	2,280	2,280	120,000	124,560
Total	<u>\$ 33,345</u>	<u>\$ 33,345</u>	<u>\$ 480,000</u>	<u>\$ 546,690</u>

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE H--LONG-TERM DEBT (Continued)

Annual Principal and Interest Requirements--Business-Type Funds

Sewer Revenue Refunding Bonds, Series 2013

On June 5, 2013, the Village issued \$510,000 in Sewer Revenue Refunding Bonds, Series 2013, with an interest rate of 2.9% to advance refund \$510,000 of outstanding 2001 Series bonds with interest rates ranging from 4.8 to 5.5%. The Village refunded the 2001 Series bonds to reduce its total debt service payments over the next eight years by \$57,563.

Date of Issue: June 5, 2013

Amount: \$510,000

Unamortized Bond Discount at June 30, 2013: \$15,938

Fiscal Year	Interest		Principal 1-Sep	Annual Total
	1-Sep	1-Mar		
2015	\$ 7,395	\$ 6,742	\$ 45,000	\$ 59,137
2016	6,743	5,800	65,000	77,543
2017	5,800	4,713	75,000	85,513
2018	4,712	3,770	65,000	73,482
2019	3,770	2,828	65,000	71,598
2020-2021	5,656	2,828	195,000	203,484
	<u>\$ 34,076</u>	<u>\$ 26,681</u>	<u>\$ 510,000</u>	<u>\$ 570,757</u>

NOTE I--COMPENSATED ABSENCES

Vested Employee Benefits Payable

The Village has an accrued liability for accumulated vested vacation, compensatory time and sick leave benefits payable for its employees. As of June 30, 2014, the accumulated vested vacation, compensatory time and sick leave benefits of the employees of various Village departments were as follows:

VILLAGE OF CALEDONIA--KENT COUNTY

NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2014

NOTE I--COMPENSATED ABSENCES (Continued)

Vested Employee Benefits Payable--Primary Government

	<u>Sick</u> <u>06/30/14</u>	<u>Compensatory</u> <u>06/30/14</u>	<u>Total</u>
Vested Employee Benefits Payable			
Township General Employees	\$ 5,476	\$ 8,021	\$ 13,497
Sewer Employee	-	7,765	7,765
Total Vested Employee Benefits Payable	<u>\$ 5,476</u>	<u>\$ 15,786</u>	<u>\$ 21,262</u>

All Village employees are entitled to certain vacation and sick pay benefits that accrue and vest under various parameters. The amounts depend upon the Council's determination of wages and benefits approved prior to the start of each fiscal year.

Accrued benefits for all governmental fund types are reported as long-term debt. These amounts are reported in the Statement of Net Position as a noncurrent liability in the governmental activities (General Government and Public Works).

NOTE J--RETIREMENT PLAN

The Village sponsors a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). In a defined contribution pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is available to all regular employees who have completed one year of service. The plan is administered by third-party trustees. Plan provisions and contribution requirements are established and may be amended by the Village Council. The contribution by the Village is determined annually by the Village Council and may be any amount up to 5% of individuals' compensation.

Contributions actually made by plan members were \$0 and the Village amounted to \$8,121 during fiscal year ended June 30, 2014.

NOTE K--RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, and errors and omissions and employees injuries (workers' compensation). The Village has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**VILLAGE OF CALEDONIA--KENT COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Fiscal Year Ended June 30, 2014**

EXHIBIT H

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original Budget	Final Amended Budget	Actual	
Revenues				
Taxes	\$ 327,576	\$ 327,576	\$ 323,844	\$ (3,732)
Licenses and Permits	7,000	7,000	12,584	5,584
State Grants	113,404	113,404	113,348	(56)
Charges for Services	-	-	2,351	2,351
Interest and Rentals	21,500	21,500	48,137	26,637
Other Revenue	1,560	1,560	7,710	6,150
Total Revenue	<u>471,040</u>	<u>471,040</u>	<u>507,974</u>	<u>36,934</u>
Expenditures				
General Government	139,654	144,322	119,577	24,745
Public Works	133,452	145,125	108,986	36,139
Community and Economic Development	12,298	12,298	9,369	2,929
Recreational and Cultural	7,500	7,793	5,743	2,050
Other	5,000	5,000	4,316	684
Capital Outlay	33,598	33,598	33,598	-
Debt Service	40,551	55,000	44,539	10,461
Total Expenditures	<u>372,053</u>	<u>403,136</u>	<u>326,128</u>	<u>77,008</u>
Excess of Revenues Over (Under) Expenditures	<u>98,987</u>	<u>67,904</u>	<u>181,846</u>	<u>113,942</u>
Other Financing Sources (Uses)				
Operating Transfers (Out)	-	-	(45,553)	(45,553)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(45,553)</u>	<u>(45,553)</u>
Net Change in Fund Balance	98,987	67,904	136,293	68,389
Fund Balance--July 1, 2013	<u>582,411</u>	<u>582,411</u>	<u>590,299</u>	<u>7,888</u>
Fund Balance--June 30, 2014	<u>\$ 681,398</u>	<u>\$ 650,315</u>	<u>\$ 726,592</u>	<u>\$ 76,277</u>

**VILLAGE OF CALEDONIA--KENT COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2014**

EXHIBIT I

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants				
FEMA	\$ -	\$ -	\$ 3,679	\$ 3,679
State Grants				
Michigan Transportation Funds	66,077	66,077	68,915	2,838
Snow Funds	-	-	275	275
Other State Grants	-	-	2,017	2,017
Interest and Rentals	1,300	1,300	803	(497)
Other Revenue	250	250	-	(250)
Total Revenues	<u>67,627</u>	<u>67,627</u>	<u>75,689</u>	<u>8,062</u>
Expenditures				
Public Works				
Routine and Preventive Maintenance	15,666	15,635	16,487	(852)
Winter Routine and Preventive Maintenance	20,694	24,637	33,584	(8,947)
Traffic	300	300	67	233
Preservation	17,600	17,600	17,600	-
Total Expenditures	<u>54,260</u>	<u>58,172</u>	<u>67,738</u>	<u>(9,566)</u>
Excess of Revenues Over (Under) Expenditures	<u>13,367</u>	<u>9,455</u>	<u>7,951</u>	<u>(1,504)</u>
Other Financing Sources (Uses)				
Interfund Transfers In	<u>9,660</u>	<u>-</u>	<u>19,605</u>	<u>19,605</u>
Total Other Financing Sources (Uses)	<u>9,660</u>	<u>-</u>	<u>19,605</u>	<u>19,605</u>
Net Change in Fund Balance	<u>23,027</u>	<u>9,455</u>	<u>27,556</u>	<u>18,101</u>
Fund Balance--July 1, 2013	<u>272,797</u>	<u>272,797</u>	<u>272,797</u>	<u>-</u>
Fund Balance--June 30, 2014	<u>\$ 295,824</u>	<u>\$ 282,252</u>	<u>\$ 300,353</u>	<u>\$ 18,101</u>

**VILLAGE OF CALEDONIA--KENT COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET--MAJOR SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2014**

EXHIBIT J

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants				
FEMA	\$ -	\$ -	\$ 954	\$ 954
State Grants				
Michigan Transportation Funds	26,319	26,319	27,608	1,289
Snow Funds	-	-	2,898	2,898
Metro Grant	4,400	4,400	4,305	(95)
Other State Grants	-	-	4,095	4,095
Interest and Rentals	50	50	65	15
Other Revenue	300	300	-	(300)
Total Revenues	<u>31,069</u>	<u>31,069</u>	<u>39,925</u>	<u>8,856</u>
Expenditures				
Public Works				
Routine and Preventive Maintenance	16,640	18,169	16,293	1,876
Winter Routine and Preventive Maintenance	26,160	38,147	52,345	(14,198)
Traffic	300	337	337	-
Preservation	40,000	40,000	29,325	10,675
Total Expenditures	<u>83,100</u>	<u>96,653</u>	<u>98,300</u>	<u>(1,647)</u>
Excess of Revenues Over (Under) Expenditures	<u>(52,031)</u>	<u>(65,584)</u>	<u>(58,375)</u>	<u>7,209</u>
Other Financing Sources (Uses)				
Interfund Transfers In	<u>10,900</u>	<u>-</u>	<u>25,948</u>	<u>25,948</u>
Total Other Financing Sources (Uses)	<u>10,900</u>	<u>-</u>	<u>25,948</u>	<u>25,948</u>
Net Change in Fund Balance	(41,131)	(65,584)	(32,427)	33,157
Fund Balance--July 1, 2013	<u>90,662</u>	<u>90,662</u>	<u>90,662</u>	<u>-</u>
Fund Balance--June 30, 2014	<u>\$ 49,531</u>	<u>\$ 25,078</u>	<u>\$ 58,235</u>	<u>\$ 33,157</u>

**VILLAGE OF CALEDONIA--KENT COUNTY
SCHEDULE OF REVENUES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended June 30, 2014**

EXHIBIT K

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
<u>REVENUES</u>				
Property Taxes				
Current Taxes	\$ 327,576	\$ 327,576	\$ 323,844	\$ (3,732)
Total Property Taxes	<u>327,576</u>	<u>327,576</u>	<u>323,844</u>	<u>(3,732)</u>
Licenses and Permits				
Building Permits	500	500	756	256
Franchise Fees	6,500	6,500	11,828	5,328
Total Licenses and Permits	<u>7,000</u>	<u>7,000</u>	<u>12,584</u>	<u>5,584</u>
State Grants				
Revenue Sharing	113,204	113,204	113,348	144
Arbor Day Grant	200	200	-	(200)
Total State Grants	<u>113,404</u>	<u>113,404</u>	<u>113,348</u>	<u>(56)</u>
Charges for Services				
Application Fees	-	-	2,351	2,351
Total Charges for Services	<u>-</u>	<u>-</u>	<u>2,351</u>	<u>2,351</u>
Interest and Rentals				
Interest	1,500	1,500	2,584	1,084
Equipment Rental	20,000	20,000	45,553	25,553
Total Interest and Rentals	<u>21,500</u>	<u>21,500</u>	<u>48,137</u>	<u>26,637</u>
Other Revenue				
Other Miscellaneous	1,560	1,560	7,710	6,150
Total Other Revenue	<u>1,560</u>	<u>1,560</u>	<u>7,710</u>	<u>6,150</u>
Total Revenue	<u>\$ 471,040</u>	<u>\$ 471,040</u>	<u>\$ 507,974</u>	<u>\$ 36,934</u>

VILLAGE OF CALEDONIA--KENT COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGET AND ACTUAL--GENERAL FUND
For the Fiscal Year Ended June 30, 2014

EXHIBIT L

	Original Budget	Final Amended Budget	Actual	Variance With Final Budget Positive (Negative)
General Government				
Village Council	\$ 8,755	\$ 8,755	\$ 6,851	\$ 1,904
President	4,814	4,814	3,889	925
Village Manager	51,150	51,189	48,459	2,730
Elections	200	200	-	200
Clerk	23,945	23,951	23,237	714
Other Professional	5,800	6,725	5,925	800
Computer	3,000	4,973	5,007	(34)
Treasurer	3,515	3,945	3,660	285
Building and Grounds	12,275	13,570	11,586	1,984
Attorney Fees	20,000	20,000	5,847	14,153
General Expenses	6,200	6,200	5,116	1,084
Total General Government	139,654	144,322	119,577	24,745
Public Works				
Department of Public Works	88,852	99,065	86,733	12,332
Tree Program	9,000	9,000	9,000	-
Streets	3,000	3,000	160	2,840
Street Lights	32,000	33,460	13,093	20,367
Garbage	600	600	-	600
Total Public Works	133,452	145,125	108,986	36,139
Community and Economic Development				
Planning	11,265	11,265	9,113	2,152
Zoning Board of Appeals	883	883	256	627
Construction Board of Appeals	150	150	-	150
Total Community and Economic Development	12,298	12,298	9,369	2,929
Recreational and Cultural				
Community Activities	3,000	3,293	3,293	-
Parks and Recreation	4,500	4,500	2,450	2,050
Total Recreational and Cultural	7,500	7,793	5,743	2,050
Other				
Insurance and Fringes	5,000	5,000	4,316	684
Total Other	5,000	5,000	4,316	684
Capital Outlay				
Capital Outlay	33,598	33,598	33,598	-
Total Capital Outlay	33,598	33,598	33,598	-
Debt Service				
Principal	30,000	30,000	30,000	-
Interest	10,551	25,000	14,539	10,461
Total Debt Service	40,551	55,000	44,539	10,461
Total Expenditures	372,053	403,136	326,128	77,008
Other Financing Uses				
Operating Transfers (Out)	-	-	45,553	(45,553)
Total Other Financing Uses	-	-	45,553	(45,553)
Total Expenditures and Other Financing Uses	\$ 372,053	\$ 403,136	\$ 371,681	\$ 31,455



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

December 19, 2014

Village Council
Village of Caledonia
250 South Maple Street
Caledonia, Michigan 49316

Independent Auditor's Report

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards

Dear Council Members:

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, and each major fund of the Village of Caledonia as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Village of Caledonia's basic financial statements, and have issued our report thereon dated December 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Caledonia'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 Caledonia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Caledonia'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. However, material weaknesses may exist that have not been identified. We consider the deficiency described in the accompanying Schedule of Findings and Responses listed as Findings 2009-1 and 2009-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Caledonia's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as Finding 2010-6.

Village of Caledonia's Responses to Findings

The Village of Caledonia's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Village of Caledonia's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 of Caledonia'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 of Caledonia's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

R. KEVIN CLINTON
STATE TREASURER

December 19, 2014

Village Council
Village of Caledonia
250 South Maple Street
Caledonia, Michigan 49316

RE: Report to Those Charged With Governance

Dear Council Members:

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Caledonia, Kent County, Michigan, for the fiscal year ended June 30, 2014, and have issued our report thereon dated December 19, 2014. Professional standards require that we provide you with information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in the engagement letter dated January 7, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Caledonia. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Caledonia's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Other information in Documents Containing Audited Financial Statements

Our responsibility for the supplementary information accompanying the financial statements, as described in professional standards, is to evaluate the presentation of supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with the accounting

principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or the financial statements themselves.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters July 28, 2014, with management.

Significant Results of the Audit

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Caledonia are described in Note A to the financial statements. We noted no transactions entered into by the Village of Caledonia during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the depreciation is based on the straight-line method for all other capital assets. We evaluated the key factors and assumptions used to develop the depreciation in determining that it is reasonable in relation to the financial statements, taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 19, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

This information is intended solely for the use of the Village of Caledonia Council and management of the Village of Caledonia and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

VILLAGE OF CALEDONIA--KENT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2014

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.

The Village is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material weaknesses listed below. No one individual should control all key aspects of a transaction or event.

MATERIAL WEAKNESSES

Segregation of Duties

Finding 2009-1

Condition: As is the case with many organizations of similar size, the Village lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carry with it a greater risk of fraud and abuse.

Findings: In our review of the Village's operating procedures, we found the following lack of segregation of duties.

- **Receipting** - The Administrative Assistant opens the mail, writes receipts, posts cash receipts, prepares deposits, makes deposits, and reconciles bank statements.
- **Utility Billings** - The Administrative Assistant is responsible for preparing the utility bills, collecting the payments, posting cash receipts to the accounts receivable subledger, reviewing accounts receivable aging trial balance, maintains accounts receivable adjustments, can edit the accounts receivable master file, processes service calls and complaints, investigates discrepancies or issues related to revenues, prepares deposits, and makes deposits.
- **Payroll** - The Administrative Assistant creates and can edit the payroll master file, enters the payroll into the system, resolves payroll inquiries, and prepares all tax forms.

VILLAGE OF CALEDONIA--KENT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2014

MATERIAL WEAKNESSES (Continued)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Village's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the Village's unique circumstances.

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

Effect: As a result of this condition, the Village is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

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

Management's Response-Corrective Action Plan: The Village has segregated duties to the best of its abilities. It is currently not feasible to hire additional staff to provide further segregation. The Village does and will continue to enforce the controls it does have and look for ways to improve them.

Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP)

Finding 2009-2

Condition: As many small and medium-sized governmental entities do, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements 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 auditors, who cannot by definition be considered to be a part of the Village's internal controls.

Criteria: All Michigan governments are required to prepare financial statements in accordance with GAAP. This is the responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both: 1) recording, processing and summarizing accounting data (maintaining internal accounting books and records); and 2) reporting government-wide and fund financial statements, including the related notes to financial statements (external financial reporting).

VILLAGE OF CALEDONIA--KENT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2014

MATERIAL WEAKNESSES (Continued)

Cause: This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for Village personnel to prepare them internally.

Effect: The Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

Recommendation: We recommend that the Village Council evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interest of the Village to outsource this duty to its external auditors. If the Village continues to rely on its external auditors to prepare the financial statements, we recommend that the Village Council designate a responsible Village official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

Management's Response-Corrective Action Plan: It would not be cost effective for the Village to hire staff with GAAP financial qualifications.

NONCOMPLIANCE WITH STATE STATUTES

Expenditures in Excess of Appropriations

Finding 2010-6

Condition: The Village's 2013/2014 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level by the Village. As detailed below, actual 2013/2014 expenditures exceeded the Village Council's approved budget allocations for several General fund and Special Revenue fund activities.

VILLAGE OF CALEDONIA--KENT COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

For the Fiscal Year Ended June 30, 2014

NONCOMPLIANCE WITH STATE STATUTES (Continued)

<u>Fund, Function and Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund			
General Government			
Computer	\$ 4,973	\$ 5,007	\$ (34)
Transfers (Out)	-	45,553	(45,553)
Major Street Fund			
Routine and Preventive Maintenance	15,635	16,487	(852)
Winter Routine and Preventive Maintenance	24,637	33,584	(8,947)
Local Street Fund			
Winter Routine and Preventive Maintenance	38,147	52,345	(14,198)

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Effect: The Village is in noncompliance with State statute. Unavailable funds continued to be spent despite the lack of budgeted funds to support the expenses.

Directive: We direct that the Village develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response-Corrective Action Plan: The Village will more frequently review available funds and amend the budgets.