

VILLAGE OF CENTRAL LAKE, MICHIGAN

FEBRUARY 28, 2014



CERTIFIED PUBLIC ACCOUNTANTS
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VILLAGE OF CENTRAL LAKE, MICHIGAN

FEBRUARY 28, 2014

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July 15, 2014

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Central Lake, Michigan, as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Central Lake, Michigan, as of and for the year ended February 28, 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, budgetary comparison information, and schedule of funding progress on pages iii-ix, 25, and 26 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

Management's Discussion and Analysis

The management of the Village of Central Lake, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2014, for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management Discussion and Analysis (MD&A) – for State and Local Governments issued in June of 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because the audit of the Village is only required every other year, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, the Village has elected to exclude the comparative information. We expect this situation to continue due to the every other year audit requirement.

Financial Highlights

Government-Wide

- ❖ The assets of the Village of Central Lake exceeded its liabilities at the close of the most recent fiscal year by \$3,118,021 (*net position*). Of this amount, \$735,471 represents unrestricted net position, which may be used to meet the Village's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$577,212, an increase of \$16,829 in comparison with the prior year. Approximately 39% of this amount (\$225,133) is available for spending at the Village's discretion (*unassigned fund balance*).
- ❖ At the end of the current fiscal year, unrestricted fund balance (the total of *committed, assigned, and unassigned* components of fund balance) for the general fund was \$277,744.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the Village of Central Lake's basic financial statements. The Village's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Financial Statements The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The *Statement of Net Position* presents financial information on all of the Village's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

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

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

The government-wide financial statements can be found on pages 1-2 of this report.

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

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

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

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Local Street Fund, which are considered to be major funds.

The Village of Central Lake adopts an annual appropriated budget for the General Fund, Major Street Fund, and Local Street Fund. A budgetary comparison has been provided to demonstrate compliance with this budget.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The basic governmental fund financial statements can be found on pages 3-6 of this report.

Proprietary Funds The Village maintains two type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water and sewer activity.

Proprietary funds provide the same type of information as the governmental-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 7-9 of this report.

Notes to Financial Statements The notes provide additional information that is necessary to acquire a full understanding of the data provided in the governmental-wide and fund financial statements. The notes can be found on pages 12-24 of this report.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information (RSI)* that explains and supports the information presented in the financial statements.

Government-Wide Overall Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. In the case of the Village of Central Lake, assets exceeded liabilities by \$3,118,021 at the close of the most recent fiscal year.

Village of Central Lake
Net Position
As of February 28, 2014

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 824,943	\$ 264,857	\$ 1,089,800
Capital Assets	727,691	1,359,391	2,087,082
Total Assets	1,552,634	1,624,248	3,176,882
Current Liabilities	31,764	4,085	35,849
Noncurrent Liabilities	23,012	0	23,012
Total Liabilities	54,776	4,085	58,861
Net Position			
Net Investment in Capital Assets	727,691	1,359,391	2,087,082
Restricted	295,468	0	295,468
Unrestricted	474,699	260,772	735,471
Total Net Position	\$ 1,497,858	\$ 1,620,163	\$ 3,118,021

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

By far, the largest portion of the Village's net position (67%) represents its investment in capital assets (e.g. land, buildings, machinery, equipment, vehicles, infrastructure, and others), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Another portion of the Village's net position (9%) represents resources that are subject to external restrictions. The remaining balance of \$735,471 reflects unrestricted resources that may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The Village of Central Lake's overall net position increased by \$36,039 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities and business-type activities.

Village of Central Lake
Change in Net Assets
for the Fiscal Year Ended February 28, 2014

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>Revenues</u>			
Program Revenues			
Charges for Services	\$ 58,052	\$ 160,071	\$ 218,123
Operating Grants and Contributions	92,666	0	92,666
General Revenues			
Property Taxes	247,719	23,852	271,571
State Shared Revenue	79,662	0	79,662
Investment Earnings	1,787	462	2,249
Other	14,839	1,813	16,652
Total Revenues	<u>494,725</u>	<u>186,198</u>	<u>680,923</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

Village of Central Lake
Change in Net Assets
for the Fiscal Year Ended February 28, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Expenses</u>			
General Government	85,013	0	85,013
Public Safety	75,976	0	75,976
Public Works	195,488	0	195,488
Community and Economic Development	2,144	0	2,144
Culture and Recreation	78,971	0	78,971
Other Functions	20,408	0	20,408
Water and Sewer Systems	0	186,884	186,884
Total Expenses	<u>458,000</u>	<u>186,884</u>	<u>644,884</u>
Increase/(Decrease) in Net Position	36,725	(686)	36,039
<u>Beginning Net Position</u>	<u>1,461,133</u>	<u>1,620,849</u>	<u>3,081,982</u>
<u>Ending Net Position</u>	<u>\$ 1,497,858</u>	<u>\$ 1,620,163</u>	<u>\$ 3,118,021</u>

Governmental Activities

The most significant portion of the revenue for all governmental activities of the Village of Central Lake comes from property taxes. The Village's operating millage in 2013 was 7.2993 mills. Also affecting the revenue for governmental activities was the Village levy of 3.6359 mills for streets.

Another significant portion of the revenue for all governmental activities of the Village of Central Lake comes from state-shared revenues. State-shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax.

The Village's governmental activities expenses are dominated by the Public Works expenses. The Village spent \$195,488 in FY2013/2014 on Public Works. General Government represented the next largest expense at \$85,013 of total expenses within the governmental activities.

Business-Type Activities

The Village's business-type activities accounted for a decrease of \$686 in the Village's net position for the fiscal year ended February 28, 2014.

The business-type activities of the Village include the Water Fund and Sewer Fund, which provide water and sewer utility services to Village residents as well as commercial customers.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

Financial Analysis of the Government's Funds

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

Governmental Funds The focus of the Village of Central Lake's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the Village itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village Council.

At February 28, 2014, the Village of Central Lake's governmental funds reported combined fund balances of \$577,212, an increase of \$16,829 in comparison with the prior year. Approximately 39% of this amount (\$225,133) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is either *nonspendable*, *restricted*, *committed*, or *assigned* to indicate that it is 1) not in spendable form (\$4,000), 2) legally required to be maintained intact, 3) restricted for particular purposes (\$295,468), 4) committed for particular purposes, or 5) assigned for particular purposes (\$52,611).

General Fund – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$24,126, bringing the balance to \$281,744, of which \$225,133 is unassigned, \$52,611 is assigned for the subsequent year's budget shortfall, and \$4,000 is nonspendable related to prepaid expenditures.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$31,718, all of which is restricted for street improvements. This was a decrease of \$17,292 from the previous year.

Local Street Fund – The Local Street Fund increased its fund balance in this fiscal year by \$9,995, bringing the fund balance to \$263,750, all of which is restricted for street improvements.

Proprietary Funds The Village's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

Water Fund – The Water Fund ended this fiscal year with \$826,467 in net position. The net position of this fund decreased by \$3,270 in 2013/2014. This fund remains in sound fiscal condition moving forward.

Sewer Fund – The Sewer Fund ended this fiscal year with \$827,747 in net position. The net position of this fund decreased by \$2,506 in 2013/2014. This fund remains in sound fiscal condition moving forward.

General Fund Budgetary Highlights

During the year there was no change between the original and final budget.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 295,500	\$ 295,500	\$ 320,000
Total Expenditures	\$ 291,220	\$ 291,220	\$ 324,789

The final budget compared to actual results for revenues was difference due to greater than anticipated state-shared revenue and campground revenue. Actual expenditures were \$33,569 more than budgeted expenditures.

Capital Asset and Debt Administration

Capital Assets. The Village’s investment in capital assets for the governmental and business-type activities as of February 28, 2014, amounted to \$2,087,082 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$500 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

Major capital asset events during FY2013/2014 included the following:

- Softball field fence \$14,852
- Thurston Park Slide \$5,933
- Streetlights \$28,915
- Bike Lane \$23,150
- 2014 F250 \$24,754
- 2014 F150 \$23,024
- F250 Plow Assembly \$1,875

Additional information regarding the Village’s capital assets can be found in the Notes to Financial Statements.

Economic Condition & Future Outlook

State-shared revenue has appeared to have stabilized in 2013/2014. The Village will continue to try to limit expenditures in areas that are feasible to do so.

These factors were considered in preparing the Village’s budgets for the 2014/2015 fiscal year.

Contacting the Village’s Finance Department

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village’s finances and demonstrate the Village’s accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Central Lake, P.O. Box 368, Central Lake, Michigan 49649, or call us at (231) 544-6483.

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 28, 2014

	<u>GOVERNMENTAL</u>	<u>BUSINESS-TYPE</u>	<u>TOTALS</u>
	<u>ACTIVITIES</u>	<u>ACTIVITIES</u>	
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash	\$ 751,069	\$ 239,433	\$ 990,502
Accounts Receivable	0	50,475	50,475
Internal Balance	34,051	(34,051)	0
Due from Other Governments	35,823	0	35,823
Inventory	0	9,000	9,000
Prepaid Expenses	4,000	0	4,000
	<hr/>		
Total Current Assets	824,943	264,857	1,089,800
<hr/>			
<u>CAPITAL ASSETS</u>			
Land	16,400	51,070	67,470
Buildings	6,340	0	6,340
Park and Recreation	60,518	0	60,518
Campground	5,079	0	5,079
Machinery and Equipment	538,922	205,304	744,226
Streetscape Improvements	956,379	0	956,379
Water and Sewer System	0	2,150,188	2,150,188
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Total Capital Asset	1,583,638	2,406,562	3,990,200
Less Accumulated Depreciation	855,947	1,047,171	1,903,118
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Net Capital Assets	727,691	1,359,391	2,087,082
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Total Assets	1,552,634	1,624,248	3,176,882
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<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	12,517	732	13,249
Payroll Liabilities	5,840	3,353	9,193
Unearned Revenue	13,407	0	13,407
	<hr/>		
Total Current Liabilities	31,764	4,085	35,849
<hr/>			
<u>NONCURRENT LIABILITIES</u>			
Capital Lease Payable	23,012	0	23,012
	<hr/>		
Total Liabilities	54,776	4,085	58,861
<hr/>			
<u>NET POSITION</u>			
Net Investment in Capital Assets	727,691	1,359,391	2,087,082
Restricted for Street Improvements	295,468	0	295,468
Unrestricted	474,699	260,772	735,471
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TOTAL NET POSITION	\$ 1,497,858	\$ 1,620,163	\$ 3,118,021
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS
<u>GOVERNMENTAL ACTIVITIES</u>							
General Government	\$ 85,013	\$ 1,458	\$ 1,600	\$ 0	\$ (81,955)	\$ 0	\$ (81,955)
Public Safety	75,976	2,933	1,686	0	(71,357)	0	(71,357)
Public Works	195,488	0	89,380	0	(106,108)	0	(106,108)
Community and Economic Development	2,144	780	0	0	(1,364)	0	(1,364)
Culture and Recreation	78,971	52,881	0	0	(26,090)	0	(26,090)
Other Functions	20,408	0	0	0	(20,408)	0	(20,408)
Total Governmental Activities	458,000	58,052	92,666	0	(307,282)	0	(307,282)
<u>BUSINESS-TYPE ACTIVITIES</u>							
Water and Sewer Systems	186,884	160,071	0	0	0	(26,813)	(26,813)
TOTAL PRIMARY GOVERNMENT	\$ 644,884	\$ 218,123	\$ 92,666	\$ 0	(307,282)	(26,813)	(334,095)
<u>GENERAL REVENUES</u>							
Property Taxes					247,719	23,852	271,571
State Shared Revenue					79,662	0	79,662
Investment Earnings					1,787	462	2,249
Other					14,839	1,813	16,652
Total General Revenues					344,007	26,127	370,134
Change in Net Position					36,725	(686)	36,039
<u>NET POSITION</u> - Beginning of Year					1,461,133	1,620,849	3,081,982
<u>NET POSITION</u> - End of Year					\$ 1,497,858	\$ 1,620,163	\$ 3,118,021

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
FEBRUARY 28, 2014

	MAJOR FUNDS			TOTALS
	GENERAL	MAJOR STREET	LOCAL STREET	
<u>ASSETS</u>				
Cash	\$ 284,910	\$ 20,447	\$ 262,099	\$ 567,456
Due from Other Funds	0	2,676	479	3,155
Due from Other Governments	14,840	13,888	7,095	35,823
Prepaid Expenditures	4,000	0	0	4,000
TOTAL ASSETS	\$ 303,750	\$ 37,011	\$ 269,673	\$ 610,434
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 5,123	\$ 4,529	\$ 1,801	\$ 11,453
Payroll Liabilities	2,997	764	1,446	5,207
Due to Other Funds	479	0	2,676	3,155
Unearned Revenue	13,407	0	0	13,407
Total Liabilities	22,006	5,293	5,923	33,222
 <u>FUND BALANCES</u>				
Nonspendable for:				
Prepaid Expenditures	4,000	0	0	4,000
Restricted for:				
Street Improvements	0	31,718	263,750	295,468
Assigned for Subsequent Year's				
Budget Shortfall	52,611	0	0	52,611
Unassigned	225,133	0	0	225,133
Total Fund Balance	281,744	31,718	263,750	577,212
 TOTAL LIABILITIES AND FUND BALANCES	\$ 303,750	\$ 37,011	\$ 269,673	\$ 610,434

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
FEBRUARY 28, 2014

Total Fund Balances for Governmental Funds \$ 577,212

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

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

Land	\$ 16,400	
Buildings	6,340	
Park and Recreation	60,518	
Campground	5,079	
Streetscape Improvements	956,379	
Accumulated Depreciation	<u>(384,140)</u>	660,576

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

Capital Lease Payable	(23,012)
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Internal service funds are used by management to charge costs of Village
maintenance equipment to individual funds. The assets and liabilities of
the internal service funds are included in governmental activities in the
Statement of Net Position.

249,031

Internal service funds are used by management to charge costs of
certain activities, such as equipment rental, to individual funds. The net
result of the look-back adjustment as it relates to enterprise fund customers
are treated as interfund payables and receivables between governmental
activities and business-type activities.

34,051

NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 1,497,858

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED FEBRUARY 28, 2014

	<u>MAJOR FUNDS</u>			<u>TOTALS</u>
	<u>GENERAL</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	
<u>REVENUES</u>				
Taxes	\$ 166,266	\$ 0	\$ 81,453	\$ 247,719
Licenses and Permits	780	0	0	780
State Grants	81,348	64,477	24,903	170,728
Contributions from Local Units	1,600	0	0	1,600
Fines and Forfeitures	2,933	0	0	2,933
Interest and Rents	55,473	86	567	56,126
Other Revenue	11,600	2,892	347	14,839
Total Revenues	320,000	67,455	107,270	494,725
<u>EXPENDITURES</u>				
General Government	85,072	0	0	85,072
Public Safety	75,976	0	0	75,976
Public Works	35,952	84,747	97,275	217,974
Community and Economic Development	2,144	0	0	2,144
Culture and Recreation	105,237	0	0	105,237
Other Functions	20,408	0	0	20,408
Total Expenditures	324,789	84,747	97,275	506,811
Excess (Deficiency) of Revenues Over Expenditures	(4,789)	(17,292)	9,995	(12,086)
<u>OTHER FINANCING SOURCES (USES)</u>				
Capital Lease Proceeds	28,915	0	0	28,915
Net Change in Fund Balance	24,126	(17,292)	9,995	16,829
<u>FUND BALANCES</u> - Beginning of Year	257,618	49,010	253,755	560,383
<u>FUND BALANCES</u> - End of Year	\$ 281,744	\$ 31,718	\$ 263,750	\$ 577,212

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2014

Net Change in Fund Balance - Total Governmental Funds \$ 16,829

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. These costs are allocated over their estimated useful lives as depreciation in the Statement of Activities.

Depreciation Expense	(49,369)
Capital Outlay	72,850

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable, available financial resources. In the Statement of Activities, expenses and liabilities are reported regardless of when financial resources are available.

Capital Lease Payable	(28,915)
Payments on Capital Lease	5,903

Internal service funds are used by management to charge costs of the motor pool to individual funds. The net revenue (expense) of the internal service fund is reported within the governmental activities.

19,427

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 36,725

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF NET POSITION
FEBRUARY 28, 2014

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE</u>			<u>INTERNAL SERVICE EQUIPMENT FUND</u>
	<u>MAJOR FUNDS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 132,893	\$ 106,540	\$ 239,433	\$ 183,613
Receivables				
Accounts	32,379	18,096	50,475	0
Inventory	9,000	0	9,000	0
Total Current Assets	174,272	124,636	298,908	183,613
<u>CAPITAL ASSETS</u>				
Land	12,220	38,850	51,070	0
Machinery and Equipment	198,259	7,045	205,304	538,922
Water and Sewer Systems	1,017,233	1,132,955	2,150,188	0
Total Capital Assets	1,227,712	1,178,850	2,406,562	538,922
Less Accumulated Depreciation	572,475	474,696	1,047,171	471,807
Net Capital Assets	655,237	704,154	1,359,391	67,115
Total Assets	829,509	828,790	1,658,299	250,728
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	732	0	732	1,064
Payroll Liabilities	2,310	1,043	3,353	633
Total Liabilities	3,042	1,043	4,085	1,697
<u>NET POSITION</u>				
Net Investment in Capital Assets	655,237	704,154	1,359,391	67,115
Unrestricted	171,230	123,593	294,823	181,916
TOTAL NET POSITION	\$ 826,467	\$ 827,747	\$ 1,654,214	\$ 249,031

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF NET POSITION OF PROPRIETARY FUNDS
TO THE STATEMENT OF NET POSITION
FEBRUARY 28, 2014

Total Net Position - Total Proprietary Funds	\$ 1,654,214
Amounts reported for proprietary activities in the Statement of Net Position are different because:	
Internal service funds are used by management to charge costs of equipment rental to individual funds. The assets and liabilities of the internal service funds are allocated to governmental type activities. This creates an internal balance referred to as the crossover amount which needs to be adjusted for.	<u>(34,051)</u>
NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ 1,620,163</u></u>

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FEBRUARY 28, 2014

	<u>BUSINESS TYPE ACTIVITIES - ENTERPRISE</u>			<u>INTERNAL</u>
	<u>MAJOR FUNDS</u>			<u>SERVICE</u>
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	<u>EQUIPMENT</u>
				<u>FUND</u>
<u>OPERATING REVENUES</u>				
Property Taxes	\$ 23,852	\$ 0	\$ 23,852	\$ 0
Charges for Services	93,041	67,030	160,071	59,254
Total Operating Revenues	116,893	67,030	183,923	59,254
<u>OPERATING EXPENSES</u>				
Wages and Fringe Benefits	41,748	20,004	61,752	15,160
Office Supplies	393	0	393	0
Contracted Services	13,734	11,441	25,175	0
Operating Supplies	400	300	700	10,437
Gasoline and Oil	4,524	2,375	6,899	1,072
Utilities	13,108	3,826	16,934	0
Repairs and Maintenance	16,025	3,869	19,894	2,146
Equipment Rental	6,711	5,582	12,293	0
Printing and Publishing	230	0	230	0
Insurance	895	332	1,227	265
Education and Training	1,835	0	1,835	0
Depreciation	21,657	22,688	44,345	10,933
Miscellaneous	0	297	297	0
Total Operating Expenses	121,260	70,714	191,974	40,013
Operating Income (Loss)	(4,367)	(3,684)	(8,051)	19,241
<u>NONOPERATING REVENUES (EXPENSES)</u>				
Interest Income	257	205	462	405
Other Income	840	973	1,813	4,871
Total Nonoperating Revenues (Expenses)	1,097	1,178	2,275	5,276
Change in Net Position	(3,270)	(2,506)	(5,776)	24,517
<u>TOTAL NET POSITION - Beginning of Year</u>	829,737	830,253	1,659,990	224,514
<u>TOTAL NET POSITION - End of Year</u>	\$ 826,467	\$ 827,747	\$ 1,654,214	\$ 249,031

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET POSITION TO THE STATEMENT OF ACTIVITIES
FEBRUARY 28, 2014

Net Change in Fund Net Position - Total Proprietary Funds	\$ (5,776)
Amounts reported for proprietary activities in the Statement of Activities are different because:	
Internal service funds are used by management to charge costs of the motor pool to individual funds. The net revenue (expense) of internal service fund is reported with governmental type activities. This creates an internal balance referred to as the crossover amount that needs to be adjusted for.	<u>5,090</u>
CHANGE IN NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ (686)</u></u>

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
FEBRUARY 28, 2014

	<u>BUSINESS TYPE ACTIVITIES -</u>			INTERNAL SERVICE EQUIPMENT FUND
	<u>MAJOR FUNDS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 106,804	\$ 59,523	\$ 166,327	\$ 0
Cash Received from Interfund Services Provided	0	0	0	59,254
Cash Payments to Employees	(40,097)	(19,367)	(59,464)	(16,422)
Cash Payments to Suppliers for Goods and Services	(58,108)	(28,867)	(86,975)	(15,822)
Net Cash Provided by (Used for) Operating Activities	8,599	11,289	19,888	27,010
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	0	0	0	(49,653)
Other Income	840	973	1,813	4,871
Net Cash Provided by (Used for) Capital and Related Financing Activities	840	973	1,813	(44,782)
Cash Flows from Investing Activities				
Interest Income	257	205	462	405
Net Increase (Decrease) in Cash and Cash Equivalents	9,696	12,467	22,163	(17,367)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	123,197	94,073	217,270	200,980
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 132,893	\$ 106,540	\$ 239,433	\$ 183,613
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>				
Operating Income (Loss)	\$ (4,367)	\$ (3,684)	\$ (8,051)	\$ 19,241
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization	21,657	22,688	44,345	10,933
(Increase) Decrease in Current Assets				
Accounts Receivable	(10,089)	(7,507)	(17,596)	0
Increase (Decrease) in Current Liabilities				
Accounts Payable	(253)	(845)	(1,098)	(1,902)
Payroll Liabilities	1,651	637	2,288	(1,262)
Total Adjustments	12,966	14,973	27,939	7,769
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 8,599	\$ 11,289	\$ 19,888	\$ 27,010

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., *The Statement of Net Position* and *The Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

B. Reporting Entity

The Village of Central Lake, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between government's water functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The Village of Central Lake reports the following major governmental funds:

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The Village of Central Lake reports the following major proprietary funds:

The *Water Fund and Sewer Fund* record financial activity of the water system which provides water to customers and the operations of the Village's sanitary sewer system.

Additionally the Village of Central Lake reports the following fund types:

Internal Service Funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

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

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

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the *economic resources focus* and the *accrual basis of accounting*.

F. Budgetary Information

1. Budgetary Basis of Accounting

- Prior to March 1, the Village treasurer submits to the Village Council a proposed operating budget for all governmental funds for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- The Village Council holds a public hearing and adopts a resolution approving the budgets.
- All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.
- Formal budgetary integration is employed as a management control device during the year for all governmental fund types.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

- Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year-end. Budgeted amounts are as originally adopted, or as amended by the Village Council from time to time throughout the year. The Village did not amend the budget during the current fiscal year.

- Encumbrance accounting is not employed in governmental funds.

2. Major Funds with Expenditures in Excess of Appropriations were as Follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
General Government		
Village President	\$ 2,575	\$ 3,677
Clerk/Treasurer	44,920	46,804
Building and Grounds	14,700	18,320
Public Works		
Sidewalks	0	27
Culture and Recreation		
Day Park	15,950	68,173
Campground	32,300	37,064
Other Functions		
Liability Insurance	13,000	13,047
Unemployment Insurance	1,100	1,904
Major Street Fund	61,240	84,747
Local Street Fund	71,685	97,275

Expenditures over appropriations were funded by greater than anticipated revenues and available fund balance.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments - The Village's investment policy is in compliance with state law and authorizes the Village to invest in passbook savings accounts, certificates of deposit, and money market funds. The Village does not have any investments other than interest bearing bank accounts.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

2. *Inventories and Prepaid Items*

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

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

3. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment of the primary government, as well as the component unit are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	30
Water and Sewer System	10-50
Parks and Recreation	10
Machinery and Equipment	5-15
Vehicles	5-20
Campground	10
Streetscape Improvement	20

4. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government does not have any items that qualify for reporting in this category.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has no items that qualify for reporting in this category.

5. *Net Position Flow Assumption*

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

6. *Fund Balance Flow Assumptions*

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

7. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments,

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an addition action is essential to either remove or revise a commitment.

8. *Use of Estimates*

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

H. Revenues and Expenditures/Expenses

1. *Program Revenues*

Amounts reported as program revenue 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 (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. *Property Taxes*

Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1, and become delinquent after September 15. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2013 taxable valuation of the Village of Central Lake totaled \$22,491,882, on which ad valorem taxes levied consisted of 7.2993 mills for operating purposes and 3.6359 for streets.

3. *Proprietary Funds Operating and Nonoperating Revenues and Expenses*

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note I.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended February 28, 2014.

III. DETAILED NOTES ON ALL FUNDS

A. Cash Deposits with Financial Institutions

The Village's deposits are all on deposit with Alden State Bank.

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2014, \$748,016 of the government's bank balance of \$998,016 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the Village's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Village's deposits.

Foreign Currency Risk. The Village is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

B. Receivables

Receivables as of year-end for the government's individual major funds in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receivables						
Accounts	\$ 0	\$ 0	\$ 0	\$ 32,379	\$ 18,096	\$ 50,475
Due from Other Governments	14,840	13,888	7,095	0	0	35,823
Total Receivables	<u>\$ 14,840</u>	<u>\$ 13,888</u>	<u>\$ 7,095</u>	<u>\$ 32,379</u>	<u>\$ 18,096</u>	<u>\$ 86,298</u>

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. The Village had unearned revenue of \$13,407 related to the campground.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2014

C. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 16,400	\$ 0	\$ 0	\$ 16,400
Capital Assets, Being Depreciated				
Buildings	6,340	0	0	6,340
Parks and Recreation	39,733	20,785	0	60,518
Campground	5,079	0	0	5,079
Machinery and Equipment	517,635	49,653	(28,366)	538,922
Streetscape Improvements	904,314	52,065	0	956,379
Total Capital Assets, Being Depreciated	1,473,101	122,503	(28,366)	1,567,238
Less Accumulated Depreciation For				
Buildings	4,203	188	0	4,391
Parks and Recreation	34,975	2,857	0	37,832
Campground	5,079	0	0	5,079
Machinery and Equipment	489,240	10,933	(28,366)	471,807
Streetscape Improvements	290,514	46,324	0	336,838
Total Accumulated Depreciation	824,011	60,302	(28,366)	855,947
Total Capital Assets, Being Depreciated, Net	649,090	62,201	0	711,291
Governmental Activities Capital Assets, Net	\$ 665,490	\$ 62,201	\$ 0	\$ 727,691
<u>Business-Type Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 51,070	\$ 0	\$ 0	\$ 51,070
Capital Assets, Being Depreciated				
Machinery and Equipment	205,304	0	0	205,304
Water and Sewer Systems	2,150,188	0	0	2,150,188
Total Capital Assets, Being Depreciated	2,355,492	0	0	2,355,492
Less Accumulated Depreciation For				
Machinery and Equipment	190,556	1,409	0	191,965
Water and Sewer Systems	812,270	42,936	0	855,206
Total Accumulated Depreciation	1,002,826	44,345	0	1,047,171
Total Capital Assets, Being Depreciated, Net	1,352,666	(44,345)	0	1,308,321
Business-Type Activities Capital Assets, Net	\$ 1,403,736	\$ (44,345)	\$ 0	\$ 1,359,391
Net Capital Assets per Statement of Net Position				<u>\$ 2,087,082</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

Depreciation Expense was charged to the following activities:

Governmental activities:

Internal Service Fund	\$ 10,933
Public Works	46,324
Culture and Recreation	3,045
Total depreciation expense - governmental activities	<u>\$ 60,302</u>

Business-type activities:

Water	\$ 21,657
Sewer	22,688
Water and Sewer	<u>\$ 44,345</u>

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at February 28, 2014, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 0	\$ 479
Special Revenue Funds		
Major Street Fund	2,676	0
Local Street Fund	479	2,676
TOTAL	<u>\$ 3,155</u>	<u>\$ 3,155</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at February 28, 2014, are expected to be repaid within one year.

As of February 28, 2014, there were no transfers.

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

IV. OTHER INFORMATION

A. Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters.

The Village participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and worker's disability compensation. The pools are considered public entity risk pools. The Village pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required for the current year or the three prior years.

The Village continued to carry commercial insurance for other risks of loss, including employee health and accident insurance.

B. Lease Information

Capital Leases. The Village has entered into a lease agreement as lessee for financing the acquisition of street lights at a cost of \$28,915 that was provided from Graybar Financial Services. This lease agreement qualifies as a capital lease for accounting purposes, and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

	<u>Present Value of Remaining Payments as of February 28, 2014</u>
<u>Capital Lease Obligation</u>	
Street Lights	\$ 23,012

Street Lights and related accumulated amortization under capital lease are as follows:

Street Lights	\$ 28,915
Less accumulated depreciation	<u>(723)</u>
Net Value	<u>\$ 28,192</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

As of February 28, 2014, capital lease annual amortization is as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 5,753
2016	5,753
2017	5,753
2018	5,753
	<hr/>
Present Value of Remaining Payments	<u>\$ 23,012</u>

C. Employee Retirement Systems

The Village participates in an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan for coverage of substantially all of the Village's full-time employees.

Plan Description. Substantially all full-time employees of the Village are members of the **Municipal Employees Retirement System of Michigan** (MERS) which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan administered by the State of Michigan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the Village. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy. MERS members are not required to make any contributions to the plan. The Village is required to contribute at an actuarially determined rate; the current rate is 7.60%. The contribution requirements of plan members and the Village are established and may be amended by the MERS board of trustees.

Annual Pension Cost. For the year ended February 28, 2014, the annual pension cost of \$12,400 was equal to the Village's required and actual contributions.

Three-Year Trend Information for MERS

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2/28/2014	\$ 12,400	100.0%	\$ 0
2/28/2013	11,067	100.0%	0
2/29/2012	9,162	100.0%	0

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

Actuarial Methods and Assumptions. The required contribution was most recently determined as part of the December 31, 2012 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions include (a) 8.0% investment rate of return (net of administrative expenses), and (b) projected salary increases ranging from 4.50% to 12.90% per year. Both (a) and (b) include an inflation component of 4.50%. The actuarial value of assets was determined on the basis of a method that calculates expected investment income at the valuation rate of return and adds a portion of the difference between the expected investment income and actual investment income earned on a market value basis. The difference in investment income between expected return and market return is recognized over a 10 year period at the rate of 10% per year. Positive unfunded accrued liability (if any) is amortized as a level percentage of payroll over a period of 30 years, while negative unfunded liability (if any) is amortized as a level percentage of payroll on an open basis over a period of 10 years.

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was 128 percent funded. The actuarial accrued liability for benefits was \$83,304 and the actuarial value of assets was \$106,290, resulting in an unfunded actuarial accrued liability (UAAL) of (\$22,986), which means the plan is over funded. The covered payroll (annual payroll of active employees covered by the plan) was \$145,199, and the ratio of the UAAL to the covered payroll was (16) percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

D. Subsequent Event

The Village entered into an agreement with the Michigan Department of Natural Resources to receive a grant in 2014-2015 in an amount not to exceed \$162,500, which is to be used on the development of public outdoor recreation facilities.

VILLAGE OF CENTRAL LAKE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 28, 2014

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Revenues</u>									
Taxes	\$ 172,000	\$ 172,000	\$ 166,266	\$ 0	\$ 0	\$ 0	\$ 84,000	\$ 84,000	\$ 81,453
Licenses and Permits	0	0	780	0	0	0	0	0	0
State Grants	79,500	79,500	81,348	61,000	61,000	64,477	21,000	21,000	24,903
Contributions from Local Units	0	0	1,600	0	0	0	0	0	0
Fines and Forfeitures	1,500	1,500	2,933	0	0	0	0	0	0
Interest and Rents	42,500	42,500	55,473	0	0	86	0	0	567
Other Revenue	0	0	11,600	2,500	2,500	2,892	0	0	347
Total Revenues	295,500	295,500	320,000	63,500	63,500	67,455	105,000	105,000	107,270
<u>Expenditures</u>									
General Government									
Village Council	11,935	11,935	10,821	0	0	0	0	0	0
Village President	2,575	2,575	3,677	0	0	0	0	0	0
Clerk/Treasurer	44,920	44,920	46,804	0	0	0	0	0	0
Independent Audit	8,000	8,000	5,450	0	0	0	0	0	0
Building and Grounds	14,700	14,700	18,320	0	0	0	0	0	0
Public Safety									
Police Protection	85,490	85,490	75,976	0	0	0	0	0	0
Public Works									
DPW	25,250	25,250	15,608	0	0	0	0	0	0
Sidewalks	0	0	27	0	0	0	0	0	0
Street Lights	23,000	23,000	20,317	0	0	0	0	0	0
Highways, Streets and Bridges	0	0	0	61,240	61,240	84,747	71,685	71,685	97,275
Community and Economic Development									
Planning Commission	1,200	1,200	834	0	0	0	0	0	0
Zoning Administration	1,800	1,800	1,310	0	0	0	0	0	0
Culture and Recreation									
Day Park	15,950	15,950	68,173	0	0	0	0	0	0
Campground	32,300	32,300	37,064	0	0	0	0	0	0
Other Functions									
Liability Insurance	13,000	13,000	13,047	0	0	0	0	0	0
Unemployment Insurance	1,100	1,100	1,904	0	0	0	0	0	0
Legal Fees	10,000	10,000	5,457	0	0	0	0	0	0
Total Expenditures	291,220	291,220	324,789	61,240	61,240	84,747	71,685	71,685	97,275
Excess (Deficiency) of Revenues Over Expenditures	4,280	4,280	(4,789)	2,260	2,260	(17,292)	33,315	33,315	9,995
<u>Other Financing Sources (Uses)</u>									
Capital Lease Proceeds	0	0	28,915	0	0	0	0	0	0
Net Change in Fund Balance	4,280	4,280	24,126	2,260	2,260	(17,292)	33,315	33,315	9,995
FUND BALANCE - Beginning of Year	257,618	257,618	257,618	49,010	49,010	49,010	253,755	253,755	253,755
FUND BALANCE - End of Year	\$ 261,898	\$ 261,898	\$ 281,744	\$ 51,270	\$ 51,270	\$ 31,718	\$ 287,070	\$ 287,070	\$ 263,750

VILLAGE OF CENTRAL LAKE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Municipal Employees Retirement System of Michigan

Actuarial Valuation Date	Year Ended	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (Over Funded) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (Over Funded) ((b-a) / c)
12/31/2010	2/29/2012	\$ 73,384	\$ 55,451	\$ (17,933)	132%	\$ 139,959	-13%
12/31/2011	2/28/2013	89,098	66,905	(22,193)	133%	129,245	-17%
12/31/2012	2/28/2014	106,290	83,304	(22,986)	128%	145,199	-16%



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July 15, 2014

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AT THE CONCLUSION OF THE AUDIT

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Central Lake for the year ended February 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 7, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Central Lake are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Central Lake's financial statements were:

Management's estimate of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 15, 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 Central Lake'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 Central Lake's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

During the course of our audit of the basic financial statements of the Village of Central Lake's for the year ended February 28, 2014, we noted the following items which we feel deserve comment:

Budgeting

The Village's actual expenditures exceeded appropriations in certain areas of the General Fund, Major Street Fund, and Local Street Fund. State Law requires that the Council amend its budget prior to incurring expenditures that would otherwise exceed appropriations.

Bank Reconciliations

It was noted that monthly bank reconciliations of the pooled cash account were not completed correctly during the fiscal year. We recommend the pooled-account bank balance is reconciled to the book balance of each individual fund in the computerized general ledger.

Bank Reconciliation Review

We recommend that a council member review and initial the bank statement each month. This control helps to mitigate the risk associated with the limited number of personnel involved in the accounting process. We also recommend that the Village have the bank include images of the cancelled checks with each month's bank statement and that the bank statement review include a review of the check images.

Reconciliation of Utility Accounts Receivable

Currently the Village is utilizing a separate program to track utility billings. To ensure adequate internal control and reporting the Accounts Receivable should be reconciled with the general ledger accounting software.

Major and Local Street Fund Expenditures

It was noted during the audit that the Major and Local Street Funds paid part of a roof repair. Expenditures in the Major and Local Street Fund are restricted for road improvements and the roof repair should not have been paid out of those funds.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Schedule, and the Schedule of Funding Progress which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

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July 15, 2014

COMMUNICATION OF MATERIAL WEAKNESSES

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

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Central Lake as of and for the year ended February 28, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Central Lake's internal control over financial reporting (internal control) as a basis for designing 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 Central Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Central Lake's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Village of Central Lake's internal control to be material weaknesses:

1. Preparation of Financial Statements in Accordance with GAAP

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

Condition: As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government'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 a part of the government's internal controls.

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

Effect: As a result of this condition, the government's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the government relies, in part, on its external auditors for assistance with this task.

View of Responsible Officials: The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

2. *Segregation of Incompatible Duties and Documented Independent Review*

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the government. A key element of internal control is the segregation of incompatible duties.

Condition: The government has several accounting functions that are performed by the same individual and are not subject to a documented independent review and approval.

Cause: This condition is primarily the result of staffing constraints typical of smaller governmental units. Some of the control activities detailed above may be occurring on a routine basis, but are not being documented.

Effect: As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the government to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: Management recognizes that this limitation is a natural outgrowth of the small number of full-time staff, and applies its judgment in determining how best to allocate the government's resources to provide an appropriate balance between sound internal controls and fiscal prudence.

3. *Utility Receivables*

Criteria: Management is responsible for reconciling the utility billing receivables from the billing software to the related accounts receivable control accounts in the Water and Sewer Fund.

Condition: The government attempts to perform the reconciliations on a regular basis, but the billing software receivables balance does not always agree to the accounts receivable control accounts in the general ledger software.

Cause: The condition is primarily caused by timing differences and various unusual charges that occur infrequently.

Effect: As a result of this condition, the government is exposed to increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis.

Recommendation: We recommend that the account balances in the water and sewer fund general ledger be reconciled to the aged accounts receivable reports generated by the billing software on a regular basis to ensure that all billing and collection transactions are being accounted for properly.

View of Responsible Officials: Management will begin to get the reconcilable differences to an acceptable level and reconcile the utility receivables on a regular basis in the future.

4. *Lack of Adequate Controls to Record, Process and Summarize Accounting Data*

Criteria: Management is responsible for ensuring that a reliable system exists for recording, processing, and summarizing accounting data.

Condition: The government does not properly record transactions.

Cause: This condition was caused by oversights by the government's management.

Effect: As a result of this condition, significant additional time and resources are necessary throughout the year and at year end in an effort to mitigate the effect of unreliable and timely reporting of data.

Recommendation: We recommend that the government implement procedures to ensure that accounting data is recorded, processed and summarized on a timely basis.

View of Responsible Officials: The government is aware of these problems and is in the process of trying to implement procedures to correct or mitigate these problems in the future.

The Village of Central Lake's response to the material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

BAIRD, COTTER AND BISHOP, P.C.

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