

VILLAGE OF CENTRAL LAKE, MICHIGAN

FEBRUARY 28, 2019



CERTIFIED PUBLIC ACCOUNTANTS
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VILLAGE OF CENTRAL LAKE, MICHIGAN

FEBRUARY 28, 2019

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April 5, 2019

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Central Lake, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Central Lake, Michigan, as of and for the year ended February 28, 2019, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents on pages iv through xii, and 34-37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Central Lake, Michigan's basic financial statements. The Individual Fund Financial Statements section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Individual Fund Financial Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Individual Fund Financial Statements are 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 April 5, 2019, on our consideration of Village of Central Lake, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village of Central Lake, Michigan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village of Central Lake, Michigan's internal control over financial reporting and compliance.

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, 2019

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, 2019, 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.

Financial Highlights

Government-Wide

- ❖ The assets and deferred outflows of the Village exceeded its liabilities at the close of the most recent fiscal year by \$4,159,422 (*net position*). Of this amount, \$620,318 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 \$655,725, an increase of \$96,729 in comparison with the prior year. Approximately 42% of this amount (\$273,051) 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 \$320,478.

Overview of the Financial Statements

This discussion and analysis provided here are intended to serve as an introduction to the Village'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.

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.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

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, health and welfare, community and economic development, culture and recreation, and other functions. Business-type activities of the Village include water and sewer utility services.

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

The government-wide financial statements can be found on pages 1-3 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 four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund, and Campground Fund, which are considered to be major funds.

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

The basic governmental fund financial statements can be found on pages 4-7 of this report.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

Proprietary Funds The Village maintains two types of proprietary funds. *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. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village’s various functions. The Village uses internal service funds to account for the management of their equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

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 8-14 of this report.

Component Unit The Village’s financial report includes reporting on separate legal entities for which the Village has some level of financial responsibility. These funds are shown in a separate column. The Village’s component unit includes the Downtown Development Authority.

The basic component unit financial statements can be found on pages 15-16 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 17-33 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 \$4,159,422 at the close of the most recent fiscal year.

Village of Central Lake
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Assets</u>						
Current and Other Assets	\$ 828,483	\$ 733,676	\$ 228,000	\$ 213,087	\$ 1,056,483	\$ 946,763
Capital Assets	1,371,090	1,356,921	1,785,340	1,829,634	3,156,430	3,186,555
Total Assets	2,199,573	2,090,597	2,013,340	2,042,721	4,212,913	4,133,318
<u>Deferred Outflows of Resources</u>	22,839	9,994	6,545	2,959	29,384	12,953

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

Village of Central Lake
Net Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Liabilities</u>						
Current Liabilities	48,513	36,705	1,108	1,165	49,621	37,870
Long-Term Liabilities	25,847	3,188	7,407	944	33,254	4,132
Total Liabilities	<u>74,360</u>	<u>39,893</u>	<u>8,515</u>	<u>2,109</u>	<u>82,875</u>	<u>42,002</u>
<u>Deferred Inflows of Resources</u>	<u>0</u>	<u>4,566</u>	<u>0</u>	<u>1,351</u>	<u>0</u>	<u>5,917</u>
<u>Net Position</u>						
Net Investment in						
Capital Assets	1,371,090	1,356,921	1,785,340	1,829,634	3,156,430	3,186,555
Restricted	382,674	301,206	0	0	382,674	301,206
Unrestricted	394,288	398,005	226,030	212,586	620,318	610,591
Total Net Position	<u>\$ 2,148,052</u>	<u>\$ 2,056,132</u>	<u>\$2,011,370</u>	<u>\$ 2,042,220</u>	<u>\$ 4,159,422</u>	<u>\$ 4,098,352</u>

By far, the largest portion of the Village’s net position (76%) 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 \$620,318 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

The Village of Central Lake's overall net position increased by \$61,070 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 Position

	Governmental Activities		Business-Type Activities		Total Primary Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$ 80,282	\$ 86,571	\$ 157,088	\$ 144,697	\$ 237,370	\$ 231,268
Operating Grants and Contributions	182,299	136,015	0	0	182,299	136,015
Capital Grants and Contributions	75,828	141,559	0	484,838	75,828	626,397
General Revenues						
Property Taxes	268,087	262,691	27,068	25,294	295,155	287,985
State Sources	91,704	88,741	0	0	91,704	88,741
Investment Earnings	1,098	1,518	401	336	1,499	1,854
Other	14,187	6,278	992	928	15,179	7,206
Total Revenues	713,485	723,373	185,549	656,093	899,034	\$ 1,379,466
<u>Expenses</u>						
General Government	118,205	110,823	0	0	118,205	110,823
Public Safety	102,174	92,830	0	0	102,174	92,830
Public Works	297,162	258,905	0	0	297,162	258,905
Health and Welfare	0	0	0	0	0	0
Community and Economic Development	7,238	7,200	0	0	7,238	7,200
Culture and Recreation	87,447	47,202	0	0	87,447	47,202
Other Functions	9,339	7,870	0	0	9,339	7,870
Water and Sewer Systems	0	0	216,399	202,381	216,399	202,381
Total Expenses	621,565	524,830	216,399	202,381	837,964	727,211
Change in Net Position	91,920	198,543	(30,850)	453,712	61,070	652,255
Beginning Net Position	2,056,132	1,857,589	2,042,220	1,588,508	4,098,352	3,446,097
Ending Net Position	\$ 2,148,052	\$ 2,056,132	\$ 2,011,370	\$ 2,042,220	\$ 4,159,422	\$ 4,098,352

Governmental Activities

The most significant portion of the revenue for all governmental activities of the Village comes from property taxes. The Village's operating millage in 2019 was 7.2679 mills. Also affecting the revenue for governmental activities was the Village levy of 3.6202 mills for streets and 1.1119 for water improvements.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

Another significant portion of the revenue for all governmental activities of the Village comes from operating grants and contributions. The operating grants and contributions is money received from the State of Michigan to help improve roadways.

The Village's governmental activities expenses are dominated by the Public Works expenses. The Village spent \$297,162 in FY 2018/2019 on Public Works. General Government represented the next largest expense at \$118,205 of total expenses within the governmental activities.

Business-Type Activities

The Village's business-type activities accounted for a decrease of \$30,850 in the Village's net position for the fiscal year ended February 28, 2019.

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.

Financial Analysis of the Government's Funds

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

Governmental Funds The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a 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, 2019, the Village's governmental funds reported combined fund balances of \$655,725 an increase of \$96,729 in comparison with the prior year. Approximately 42% of this amount (\$273,051) 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, 2) legally required to be maintained intact, 3) restricted for particular purposes (\$382,674), 4) committed for particular purposes, or 5) assigned for particular purposes.

General Fund – The General Fund is the main operating fund of the Village. The General Fund decreased its fund balance in this fiscal year by \$17,842, bringing the balance to \$320,478, all of which is unassigned. The primary reason for the decrease is due to day park improvements made during the fiscal year. The Village also received grant proceeds to help offset the cost of a few projects that were completed during the year.

Major Street Fund – The fund balance of the Major Street Fund ended the year at \$133,071, all of which is restricted for street improvements. This was an increase of \$33,229 from the previous year. The primary reason for this increase is due to the Public Act 51 funds increasing during the fiscal year.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

Local Street Fund – The Local Street Fund increased its fund balance in this fiscal year by \$48,239, bringing the fund balance to \$249,603, all of which is restricted for street improvements. The primary reason for the increase is due to the Public Act 51 funds increasing during the fiscal year.

Campground Fund – The Campground Fund increased its fund balance in this fiscal year by \$33,103, bringing the fund balance to a *deficit* balance of \$47,427. The primary reason for the increase is due to a reduction in spending this fiscal year.

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 \$1,293,584 in net position. The net position of this fund decreased by \$6,309 in 2018/2019. The decrease is due to the depreciation expense of \$40,966. This fund remains in sound fiscal condition moving forward.

Sewer Fund – The Sewer Fund ended this fiscal year with \$750,141 in net position. The net position of this fund decreased by \$23,855 in 2018/2019. The decrease is due to the deprecation expense of \$23,558. This fund remains in sound fiscal condition moving forward.

General Fund Budgetary Highlights

During the year, the Village amended its budget at various times.

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	\$ 266,300	\$ 378,300	\$ 368,008
Total Expenditures	\$ 314,289	\$ 389,954	\$ 385,850

The final budget compared to actual results for revenues was different due to receiving less than anticipated other revenues. The actual expenditures were comparable to the final budgeted.

The main difference between the original and final budgeted revenues is for the receipt of grants. The budgeted expenditures were also increased primarily due to an increase in spending in the day park.

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

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, 2019, amounted to \$3,156,430 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$3,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

Village of Central Lake
Capital Assets
For the Years Ended February 28,

	Governmental		Business-Type		Total Primary	
	Activities		Activities		Government	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land and Land Improvements	\$ 16,400	\$ 16,400	\$ 51,070	\$ 51,070	\$ 67,470	\$ 67,470
Buildings and Improvements	6,340	6,340	0	0	6,340	6,340
Park and Recreation	175,308	74,088	0	0	175,308	74,088
Campground	378,708	374,538	0	0	378,708	374,538
Machinery and Equipment	626,603	583,688	253,139	232,909	879,742	816,597
Streetscape Improvements	1,307,780	1,307,780	0	0	1,307,780	1,307,780
Water and Sewer Systems	0	0	2,771,223	2,771,223	2,771,223	2,771,223
Subtotal	2,511,139	2,362,834	3,075,432	3,055,202	5,586,571	5,418,036
Accumulated Depreciation	(1,140,049)	(1,005,913)	(1,290,092)	(1,225,568)	(2,430,141)	(2,231,481)
Net Capital Assets	<u>\$ 1,371,090</u>	<u>\$ 1,356,921</u>	<u>\$ 1,785,340</u>	<u>\$ 1,829,634</u>	<u>\$ 3,156,430</u>	<u>\$ 3,186,555</u>

Major capital asset events during FY2018/2019 included the following:

- Campground improvements at a cost of \$4,170.
- Purchase of a Potable Water Mixer in the amount of \$20,230.
- Purchase of a 2005 Sterling Dump Truck in the amount of \$42,915.
- Purchase of fencing around the basketball court in the amount of \$8,325.
- Basketball and tennis court restoration in the amount of \$33,653.
- Purchase and installation of new docks in the amount of \$59,242.

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED FEBRUARY 28, 2019

Economic Condition & Future Outlook

State-shared revenues appear to have stabilized. The Village will continue to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

These factors were considered in preparing the Village's budgets for the 2019/2020 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 49622, or call us at (231) 544-6483.

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF NET POSITION
FEBRUARY 28, 2019

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 743,404	\$ 205,751	\$ 949,155	\$ 7,229
Accounts Receivable	0	45,604	45,604	0
Internal Balance	32,355	(32,355)	0	0
Due from Other Governments	52,724	0	52,724	0
Inventory	0	9,000	9,000	0
Total Current Assets	828,483	228,000	1,056,483	7,229
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	16,400	51,070	67,470	10,500
Buildings and Improvements	6,340	0	6,340	0
Park and Recreation	175,308	0	175,308	0
Campground	378,708	0	378,708	0
Machinery and Equipment	626,603	253,139	879,742	0
Streetscape Improvements	1,307,780	0	1,307,780	0
Water and Sewer System	0	2,771,223	2,771,223	0
Total Capital Asset	2,511,139	3,075,432	5,586,571	10,500
Less Accumulated Depreciation	1,140,049	1,290,092	2,430,141	2,800
Net Capital Assets	1,371,090	1,785,340	3,156,430	7,700
TOTAL ASSETS	2,199,573	2,013,340	4,212,913	14,929
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Subsequent Pension Contributions	2,438	699	3,137	0
Differences Between Expected and Actual Pension Experience	3,936	1,128	5,064	0
Net Difference Between the Projected and Actual Pension Investment Earnings	13,654	3,912	17,566	0
Changes in Assumptions in Pension Plan	2,811	806	3,617	0
TOTAL DEFERRED OUTFLOWS OF RESOURCES	22,839	6,545	29,384	0

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF NET POSITION
FEBRUARY 28, 2019

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	7,564	25	7,589	0
Accrued Payroll	2,843	589	3,432	0
Payroll Liabilities	2,544	494	3,038	0
Unearned Revenue	35,562	0	35,562	0
Total Current Liabilities	48,513	1,108	49,621	0
 <u>NONCURRENT LIABILITIES</u>				
Net Pension Liability	25,847	7,407	33,254	0
TOTAL LIABILITIES	74,360	8,515	82,875	0
 <u>NET POSITION</u>				
Net Investment in Capital Assets	1,371,090	1,785,340	3,156,430	7,700
Restricted for Street Improvements	382,674	0	382,674	0
Unrestricted	394,288	226,030	620,318	7,229
TOTAL NET POSITION	\$ 2,148,052	\$ 2,011,370	\$ 4,159,422	\$ 14,929

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2019

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION			
		CHARGES FOR SERVICES	OPERATING	CAPITAL	PRIMARY GOVERNMENT			COMPONENT UNIT
			GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
<u>PRIMARY GOVERNMENT</u>								
<u>GOVERNMENTAL ACTIVITIES</u>								
General Government	\$ 118,205	\$ 126	\$ 0	\$ 0	\$ (118,079)	\$ 0	\$ (118,079)	\$ 0
Public Safety	102,174	5,351	1,960	0	(94,863)	0	(94,863)	0
Public Works	297,162	0	180,339	0	(116,823)	0	(116,823)	0
Community and Economic Development	7,238	820	0	0	(6,418)	0	(6,418)	0
Culture and Recreation	87,447	73,985	0	75,828	62,366	0	62,366	0
Other Functions	9,339	0	0	0	(9,339)	0	(9,339)	0
Total Governmental Activities	621,565	80,282	182,299	75,828	(283,156)	0	(283,156)	0
<u>BUSINESS-TYPE ACTIVITIES</u>								
Water and Sewer Systems	216,399	157,088	0	0	0	(59,311)	(59,311)	0
TOTAL PRIMARY GOVERNMENT	\$ 837,964	\$ 237,370	\$ 182,299	\$ 75,828	(283,156)	(59,311)	(342,467)	0
<u>COMPONENT UNIT</u>								
Downtown Development Authority	\$ 1,457	\$ 0	\$ 6,000	\$ 0	0	0	0	4,543
<u>GENERAL REVENUES</u>								
Property Taxes					268,087	27,068	295,155	0
State Sources					91,704	0	91,704	0
Investment Earnings					1,098	401	1,499	0
Other					14,187	992	15,179	0
Total General Revenues					375,076	28,461	403,537	0
Change in Net Position					91,920	(30,850)	61,070	4,543
<u>NET POSITION</u> - Beginning of Year					2,056,132	2,042,220	4,098,352	10,386
<u>NET POSITION</u> - End of Year					\$ 2,148,052	\$ 2,011,370	\$ 4,159,422	\$ 14,929

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
GOVERNMENTAL FUNDS

BALANCE SHEET
FEBRUARY 28, 2019

	MAJOR FUNDS				TOTALS
	GENERAL	MAJOR STREET	LOCAL STREET	CAMPGROUND	
<u>ASSETS</u>					
Cash	\$ 311,954	\$ 111,973	\$ 239,140	\$ (11,863)	\$ 651,204
Due from Other Governments	14,634	24,485	13,605	0	52,724
TOTAL ASSETS	\$ 326,588	\$ 136,458	\$ 252,745	\$ (11,863)	\$ 703,928
 <u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 3,704	\$ 1,925	\$ 1,919	\$ 1	\$ 7,549
Accrued Wages	1,264	774	653	0	2,691
Payroll Liabilities	1,142	688	570	1	2,401
Unearned Revenue	0	0	0	35,562	35,562
Total Liabilities	6,110	3,387	3,142	35,564	48,203
 <u>FUND BALANCES</u>					
Restricted for:					
Street Improvements	0	133,071	249,603	0	382,674
Unassigned	320,478	0	0	(47,427)	273,051
Total Fund Balance (Deficit)	320,478	133,071	249,603	(47,427)	655,725
TOTAL LIABILITIES AND FUND BALANCES	\$ 326,588	\$ 136,458	\$ 252,745	\$ (11,863)	\$ 703,928

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, 2019

Total Fund Balances for Governmental Funds \$ 655,725

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 and Improvements	6,340	
Park and Recreation	175,308	
Campground	378,708	
Machinery and Equipment	55,887	
Streetscape Improvements	1,307,780	
Accumulated Depreciation	<u>(734,494)</u>	1,205,929

Some liabilities, including net pension obligations, are not due and payable
in the current period and, therefore, are not reported in the funds.

Net Pension Liability (24,246)

Deferred outflows and inflows of resources related to pensions are
applicable to future periods and, therefore, are not reported in the funds.

Subsequent Pension Contributions	2,287
Differences Between Expected and Actual Pension Experience	3,692
Changes in Assumptions in Pension Plan	2,637
Net Difference Between the Projected and Actual Pension Investment Earnings	12,808

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. 256,865

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. 32,355

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,148,052

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, 2019

	MAJOR FUNDS				TOTALS
	GENERAL	MAJOR STREET	LOCAL STREET	CAMPGROUND	
<u>REVENUES</u>					
Taxes	\$ 179,957	\$ 0	\$ 88,130	\$ 0	\$ 268,087
Licenses and Permits	820	0	0	0	820
State Grants	153,034	123,158	42,927	0	319,119
Contribution from Local Units	0	14,254	0	0	14,254
Fines and Forfeitures	5,351	0	0	0	5,351
Interest and Rents	1,766	196	352	72,895	75,209
Other Revenue	27,080	1,502	2,063	0	30,645
Total Revenues	368,008	139,110	133,472	72,895	713,485
<u>EXPENDITURES</u>					
General Government	114,675	0	0	0	114,675
Public Safety	90,997	0	0	0	90,997
Public Works	35,732	105,881	85,233	0	226,846
Community and Economic Development	7,238	0	0	0	7,238
Culture and Recreation	127,869	0	0	39,792	167,661
Other Functions	9,339	0	0	0	9,339
Total Expenditures	385,850	105,881	85,233	39,792	616,756
Excess (Deficiency) of Revenues Over Expenditures	(17,842)	33,229	48,239	33,103	96,729
<u>FUND BALANCES</u> - Beginning of Year (Deficit)	338,320	99,842	201,364	(80,530)	558,996
<u>FUND BALANCES</u> - End of Year (Deficit)	\$ 320,478	\$ 133,071	\$ 249,603	\$ (47,427)	\$ 655,725

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, 2019

Net Change in Fund Balance - Total Governmental Funds \$ 96,729

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	(101,489)
Capital Outlay	105,390

Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

Changes in Net Pension Liability	(21,273)
Changes in Subsequent Pension Contributions	(392)
Differences Between Expected and Actual Pension Experience	175
Changes in Assumptions in Pension Plan	(486)
Changes in Net Difference Between the Projected and Actual Pension Investment Earnings	17,066

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. (3,800)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 91,920

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF NET POSITION
FEBRUARY 28, 2019

	<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>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 71,117	\$ 134,634	\$ 205,751	\$ 92,200
Accounts Receivable	31,089	14,515	45,604	0
Inventory	9,000	0	9,000	0
Total Current Assets	111,206	149,149	260,355	92,200
<u>CAPITAL ASSETS</u>				
Land	12,220	38,850	51,070	0
Machinery and Equipment	248,306	4,833	253,139	570,716
Water and Sewer Systems	1,629,238	1,141,985	2,771,223	0
Total Capital Assets	1,889,764	1,185,668	3,075,432	570,716
Less Accumulated Depreciation	706,034	584,058	1,290,092	405,555
Net Capital Assets	1,183,730	601,610	1,785,340	165,161
TOTAL ASSETS	1,294,936	750,759	2,045,695	257,361
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Subsequent Pension Contributions	510	189	699	151
Differences Between Expected and Actual Pension Experience	823	305	1,128	244
Net Difference Between the Projected and Actual Pension Investment Earnings	2,855	1,057	3,912	846
Changes in Assumptions in Pension Plan	588	218	806	174
TOTAL DEFERRED OUTFLOWS OF RESOURCES	4,776	1,769	6,545	1,415

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF NET POSITION
FEBRUARY 28, 2019

	<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>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	17	8	25	15
Accrued Payroll	390	199	589	143
Payroll Liabilities	316	178	494	152
Total Current Liabilities	723	385	1,108	310
<u>NONCURRENT LIABILITIES</u>				
Net Pension Liability	5,405	2,002	7,407	1,601
TOTAL LIABILITIES	6,128	2,387	8,515	1,911
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,183,730	601,610	1,785,340	165,161
Unrestricted	109,854	148,531	258,385	91,704
TOTAL NET POSITION	\$ 1,293,584	\$ 750,141	\$ 2,043,725	\$ 256,865

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, 2019

Total Net Position - Total Proprietary Funds	\$ 2,043,725
 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>(32,355)</u>
NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ 2,011,370</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, 2019

	<u>BUSINESS-TYPE ACTIVITIES -</u>			INTERNAL SERVICE EQUIPMENT FUND
	<u>MAJOR FUNDS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	
<u>OPERATING REVENUES</u>				
Property Taxes	\$ 27,068	\$ 0	\$ 27,068	\$ 0
Charges for Services	104,836	52,252	157,088	52,053
Total Operating Revenues	131,904	52,252	184,156	52,053
<u>OPERATING EXPENSES</u>				
Wages and Fringe Benefits	47,262	23,644	70,906	15,379
Office Supplies	770	115	885	0
Contracted Services	8,017	11,020	19,037	0
Operating Supplies	1,003	221	1,224	7,739
Gasoline and Oil	1,834	2,355	4,189	891
Utilities	15,332	5,252	20,584	0
Repairs and Maintenance	13,659	6,032	19,691	0
Equipment Rental	4,665	3,294	7,959	0
Printing and Publishing	376	0	376	0
Insurance	3,498	1,598	5,096	1,298
Education and Training	1,242	0	1,242	0
Depreciation	40,966	23,558	64,524	32,647
Total Operating Expenses	138,624	77,089	215,713	57,954
Operating Income (Loss)	(6,720)	(24,837)	(31,557)	(5,901)
<u>NONOPERATING REVENUES (EXPENSES)</u>				
Interest Income	159	242	401	193
Other Income	252	740	992	1,222
Total Nonoperating Revenues (Expenses)	411	982	1,393	1,415
Change in Net Position	(6,309)	(23,855)	(30,164)	(4,486)
<u>TOTAL NET POSITION</u> - Beginning of Year	1,299,893	773,996	2,073,889	261,351
<u>TOTAL NET POSITION</u> - End of Year	\$ 1,293,584	\$ 750,141	\$ 2,043,725	\$ 256,865

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, 2019

Net Change in Fund Net Position - Total Proprietary Funds	\$ (30,164)
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>(686)</u>
CHANGE IN NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ (30,850)</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, 2019

	<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>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>				
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 129,637	\$ 51,363	\$ 181,000	\$ 0
Cash Received from Interfund Services Provided	0	0	0	52,053
Cash Payments to Employees	(46,009)	(23,126)	(69,135)	(15,181)
Cash Payments to Suppliers for Goods and Services	(50,706)	(29,879)	(80,585)	(9,913)
Net Cash Provided by (Used for) Operating Activities	32,922	(1,642)	31,280	26,959
Cash Flows from Capital and Related Financing Activities:				
Acquisition and Construction of Capital Assets	(20,230)	0	(20,230)	(42,915)
Due From Community Development Block Grant	13,563	0	13,563	0
Other Income	252	740	992	1,222
Net Cash Provided by (Used for) Capital and Related Financing Activities	(6,415)	740	(5,675)	(41,693)
Cash Flows from Investing Activities				
Interest Income	159	242	401	193
Net Increase (Decrease) in Cash and Cash Equivalents	26,666	(660)	26,006	(14,541)
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	44,451	135,294	179,745	106,741
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 71,117	\$ 134,634	\$ 205,751	\$ 92,200

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

VILLAGE OF CENTRAL LAKE, MICHIGAN
PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS
FEBRUARY 28, 2019

	<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>RECONCILIATION OF OPERATING INCOME</u>				
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>				
Operating Income (Loss)	\$ (6,720)	\$ (24,837)	\$ (31,557)	\$ (5,901)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization	40,966	23,558	64,524	32,647
(Increase) Decrease in Current Assets				
Accounts Receivable	(2,267)	(889)	(3,156)	0
(Increase) Decrease in Deferred Outflows of Resources				
Subsequent Pension Contribution	111	41	152	43
Differences Between Expected and Actual Pension Experience	(8)	(3)	(11)	11
Net Difference Between Projected and Actual Pension Investment Earnings	(3,841)	(1,422)	(5,263)	(1,154)
Changes in Assumptions in Pension Plan	135	50	185	52
Increase (Decrease) in Current Liabilities				
Accounts Payable	(310)	8	(302)	15
Accrued Payroll	176	151	327	27
Payroll Liabilities	(36)	(46)	(82)	(167)
Net Pension Liability	4,716	1,747	6,463	1,386
Total Adjustments	39,642	23,195	62,837	32,860
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 32,922	\$ (1,642)	\$ 31,280	\$ 26,959

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

FEBRUARY 28, 2019

ASSETS

CURRENT ASSETS

Cash \$ 7,229

CAPITAL ASSETS

Land Improvements 10,500

Less Accumulated Depreciation (2,800)

Net Capital Assets 7,700

TOTAL ASSETS 14,929

LIABILITIES

0

NET POSITION

Net Investment in Capital Assets 7,700

Unrestricted 7,229

TOTAL NET POSITION \$ 14,929

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES
YEAR ENDED FEBRUARY 28, 2019

	<u>PROGRAM REVENUES</u>			<u>GOVERNMENTAL</u>
			<u>OPERATING</u>	<u>ACTIVITIES</u>
	<u>EXPENSES</u>	<u>CHARGES FOR</u>	<u>GRANTS AND</u>	<u>NET (EXPENSE)</u>
		<u>SERVICES</u>	<u>CONTRIBUTIONS</u>	<u>REVENUE AND</u>
				<u>CHANGES IN</u>
				<u>NET POSITION</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Economic Development	\$ 1,457	\$ 0	\$ 6,000	\$ 4,543
<u>GENERAL REVENUES</u>				<u>0</u>
Change in Net Position				4,543
<u>NET POSITION</u> – Beginning of Year				<u>10,386</u>
<u>NET POSITION</u> – End of Year				<u>\$ 14,929</u>

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2019

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 governmental 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 one component unit.

DISCRETELY PRESENTED COMPONENT UNITS

Downtown Development Authority (DDA) – The DDA was established through a Village Ordinance under Act No. 197 of the Public Acts of Michigan of 1975. The Village Council determined that it was necessary and in the best interest of the Village to halt property value deterioration and increase property tax valuation where possible in the DDA District, to eliminate the causes of that deterioration, and to promote economic growth. The members of the governing board of DDA are appointed by the Village Council. The Authority’s operational and capital budgets and bonded debt must be approved by the Village Council.

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 discussed earlier, the government has a discretely presented component unit. While the DDA is considered to be a major component unit, it is nevertheless shown in separate columns in the government-wide financial statements.

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 and sewer 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2019

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds. Separate statements for each fund category – governmental and enterprise – 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.

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 *Campground Fund* receives all money paid to the Village by individual patrons. The funds in this accounts for any improvements to the campgrounds.

The Village of Central Lake reports the following major enterprise 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 type:

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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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.

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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

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- 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.
- 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 amended the budget various times during the current fiscal year.
- Encumbrance accounting is not employed in governmental funds.

2. *Excess of Expenditures Over Appropriations*

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Police Protection	\$ 87,900	\$ 90,997
DPW	9,587	11,278
Legal Fees	6,500	6,908

These overages were funded by beginning fund balance.

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

1. *Cash*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments.

2. *Investments*

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.

3. *Inventories and Prepaid Items*

Inventories are valued at cost, on a first-in, first-out basis. Inventories consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

VILLAGE OF CENTRAL LAKE, MICHIGAN

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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.

4. 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 \$3,000 (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 acquisition 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 and Improvements	30
Water and Sewer System	10-50
Parks and Recreation	10
Machinery and Equipment	5-15
Vehicles	5-20
Campground	10
Streetscape Improvements	20

5. 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 Village has four items that qualify for reporting in this category, which are related to the pension plan for its employees. Details can be found in footnote IV.A.

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 Village does not have any items that qualify for reporting in this category.

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6. *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.

7. *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.

8. *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, 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 additional action is essential to either remove or revise a commitment.

VILLAGE OF CENTRAL LAKE, MICHIGAN

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9. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Municipal Employees' Retirement System (MERS) and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Unearned Revenue

Unearned revenue arises when resources are received by the Village before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has legal claim to the resources, revenue is recognized. The Village has unearned revenue related to the rental of their campground sites.

11. 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 2018 taxable valuation of the Village of Central Lake totaled \$24,491,163, on which ad valorem taxes levied consisted of 7.2679 mills for operating purposes, 3.6202 for streets, and 1.1119 for water improvements.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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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 and sewer funds are charges to customers for services. The Water Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the Water and Sewer fund and internal service 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.

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, 2019.

B. Deficit Fund Equity

The Campground Fund had a deficit fund balance of \$47,427 as of February 28, 2019. State law does not allow a deficit. A deficit elimination plan must be filed with the Michigan Department of Treasury.

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, 2019, \$707,817 of the government's bank balance of \$957,817 was exposed to custodial credit risk because it was uninsured and uncollateralized. The uninsured funds are spread between governmental funds, proprietary funds, and component units. 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.

Interest rate risk. The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

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Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

Concentration of credit risk. The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the Village's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Fair Market Value Disclosure - The Village is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices

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and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

The Village does not have any investments subject to the fair value measurement.

The carrying amount of deposits for the primary government is as follows:

	<u>Total</u>
Cash - Primary Government	<u>\$ 949,155</u>

The carrying amount of deposits for the discretely presented component unit is as follows:

	<u>Total</u>
Cash - Component Unit	<u>\$ 7,229</u>

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>Campground</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Receivables							
Accounts	\$ 0	\$ 0	\$ 0	\$ 0	\$31,089	\$14,515	\$ 45,604
Due from Other Governments	14,634	24,485	13,605	0	0	0	52,724
Total Receivables	<u>\$14,634</u>	<u>\$24,485</u>	<u>\$13,605</u>	<u>\$ 0</u>	<u>\$31,089</u>	<u>\$14,515</u>	<u>\$ 98,328</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. Amounts due from other governments are state-shared revenues, Act 51 revenues and a State block grant.

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. At the end of the current fiscal year, the Village reported deferred revenue in connection with resources that have been received, but not yet earned. The Village had unearned revenue of \$35,562 related to the campground.

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C. Capital Assets

Primary Government

	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 and Improvements	6,340	0	0	6,340
Parks and Recreation	74,088	101,220	0	175,308
Campground	374,538	4,170	0	378,708
Machinery and Equipment	583,688	42,915	0	626,603
Streetscape Improvements	1,307,780	0	0	1,307,780
Total Capital Assets, Being Depreciated	2,346,434	148,305	0	2,494,739
Less Accumulated Depreciation For				
Buildings and Improvements	5,142	188	0	5,330
Parks and Recreation	49,592	6,227	0	55,819
Campground	5,079	18,508	0	23,587
Machinery and Equipment	394,718	43,824	0	438,542
Streetscape Improvements	551,382	65,389	0	616,771
Total Accumulated Depreciation	1,005,913	134,136	0	1,140,049
Total Capital Assets, Being Depreciated, Net	1,340,521	14,169	0	1,354,690
Governmental Activities Capital Assets, Net	\$ 1,356,921	\$ 14,169	\$ 0	\$ 1,371,090
<u>Business-Type Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 51,070	\$ 0	\$ 0	\$ 51,070
Capital Assets, Being Depreciated				
Machinery and Equipment	232,909	20,230	0	253,139
Water and Sewer Systems	2,771,223	0	0	2,771,223
Total Capital Assets, Being Depreciated	3,004,132	20,230	0	3,024,362
Less Accumulated Depreciation For				
Machinery and Equipment	198,367	6,109	0	204,476
Water and Sewer Systems	1,027,201	58,415	0	1,085,616
Total Accumulated Depreciation	1,225,568	64,524	0	1,290,092
Total Capital Assets, Being Depreciated, Net	1,778,564	(44,294)	0	1,734,270
Business-Type Activities Capital Assets, Net	\$ 1,829,634	\$ (44,294)	\$ 0	\$ 1,785,340
Net Capital Assets per Statement of Net Position				<u>\$ 3,156,430</u>

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Depreciation Expense was charged to the following activities:

Governmental activities:

Internal Service Fund	\$ 32,647
General Government	188
Public Safety	11,177
Public Works	65,389
Culture and Recreation	<u>24,735</u>

Total depreciation expense - governmental activities \$ 134,136

Business-type activities:

Water	\$ 40,966
Sewer	<u>23,558</u>

Water and Sewer \$ 64,524

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Downtown Development Authority:</u>				
Capital Assets, Being Depreciated				
Land Improvements	\$ 10,500	\$ 0	\$ 0	\$ 10,500
Less Accumulated Depreciation For Land Improvements	<u>2,100</u>	700	0	<u>2,800</u>
Total Capital Assets, DDA, Being Depreciated, Net	<u><u>\$ 8,400</u></u>	<u><u>\$ (700)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,700</u></u>

Depreciation expense was charged to functions/programs of the discretely presented component units as follows:

Governmental activities:

Economic Development	<u><u>\$ 700</u></u>
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D. Interfund Receivables, Payables and Transfers

There were no interfund receivable or payable balances as of February 28, 2019.

Any 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. Any interfund balances outstanding at February 28, 2019, are expected to be repaid within one year.

As of February 28, 2019, there were no transfers.

VILLAGE OF CENTRAL LAKE, MICHIGAN

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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.

IV. OTHER INFORMATION

A. Employee Retirement System

Plan Description:

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

MERS
Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, MI 48917

Benefits Provided

	<u>2017 Valuation</u>
Benefit Multiplier:	1.70% Multiplier (no max)
Normal Retirement Age:	60
Vesting:	6 years
Early Retirement (Unreduced):	-
Early Retirement (Reduced):	50/25 55/15
Final Average Compensation:	3 years
Employee Contributions:	0%
Act 88:	Yes (Adopted 6/1/2007)

Employees Covered by Benefit Terms

At the December 31, 2017 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	1
Active employees	<u>5</u>
Total employees covered by MERS	<u><u>6</u></u>

VILLAGE OF CENTRAL LAKE, MICHIGAN

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Contributions

MERS members are not required to make any contributions to the plan. The Village is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with additional amounts to finance any unfunded accrued liability. The Village may establish contribution rates to be paid by its covered employees.

Village contributions were 9.41% based on annual payroll for open divisions.

Net Pension Liability

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

Actuarial Assumptions

The total pension liability in the December 31, 2017 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	3.75% In the long-term
Investment rate of return	7.75% Net of administrative and investment expenses

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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

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

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Discount Rate

The discount rate used to measure the total pension liability is 8.00% for 2017. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the regular rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
Changes in Net Pension Liability	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
Balance at December 31, 2017	\$ 233,882	\$ 229,750	\$ 4,132
Service cost	17,403	0	17,403
Interest	19,407	0	19,407
Difference between expected and Actual experience	1,160	0	1,160
Changes in assumptions	0	0	0
Contributions - employer	0	18,855	(18,855)
Net investment income	0	(9,867)	9,867
Benefit payments, including refunds	0	0	0
Administrative expenses	0	(465)	465
Other Changes	(325)	0	(325)
Net changes	37,645	8,523	29,122
Balance at December 31, 2018	\$ 271,527	\$ 238,273	\$ 33,254

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

The following presents the net pension liability of the Village, calculated using the discount rate of 8.00%, as well as what the Village's net pension asset (liability) would be using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

Decrease 7.00%	Discount Rate 8.00%	Increase 9.00%
\$ 72,331	\$ 33,254	\$ 382

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is not of administrative expenses.

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

For the year ended February 28, 2019, the Village recognized pension expense of \$23,776. At February 28, 2019, the Village reported deferred outflows and inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 17,566	\$ 0
Difference between expected and actual experience	5,064	0
Changes in Assumptions	3,617	0
Employer contributions to the plan subsequent to the measurement date	<u>3,137</u>	<u>0</u>
Total	<u>\$ 29,384</u>	<u>\$ 0</u>

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

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

<u>Years Ending December 31,</u>	<u>Amount</u>
2019	\$ 7,206
2020	4,280
2021	5,410
2022	7,505
2023	1,708
Thereafter	<u>138</u>
	<u>\$ 26,247</u>

B. Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The Village participates a distinct pool of Government Entities within the State of Michigan for various risks of loss, including general liability, property and casualty, and self-insuring workers' disability compensation. The pool is considered a 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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2019

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.

C. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required, and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the Village.

D. Subsequent Events

Subsequent to year-end, the Village entered into an agreement with the State of Michigan to receive grant proceeds to be used for day park improvements. The grant will fund 93% of the project up to \$261,350. As of February 28, 2019, the Village received \$59,370, leaving \$201,980 to complete upcoming projects.

The Village has also been awarded a local contribution in the amount of \$15,000 to use towards sidewalk improvements.

In addition, the Village has entered into an agreement with the State of Michigan to receive grant proceeds to be used for a sewer feasibility study. The grant will fund up to \$14,750.

The Village has entered into an agreement to repair State Street Bridge for an approximate cost of \$34,000.

No adjustments were made to the financial statements for the year ended February 28, 2019, related to these subsequent events.

E. GASB Statement No. 77

It has been determined that the Village has granted tax abatements as defined by GASB Statement No. 77. However, the total of these abatements is less than \$500, and it has been determined they are not significant enough to warrant disclosure.

VILLAGE OF CENTRAL LAKE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 28, 2019

	GENERAL FUND			MAJOR STREET FUND		
	ORIGINAL	FINAL	ACTUAL	ORIGINAL	FINAL	ACTUAL
	BUDGET	BUDGET		BUDGET	BUDGET	
<u>Revenues</u>						
Taxes	\$ 173,000	\$ 173,000	\$ 179,957	\$ 0	\$ 0	\$ 0
Licenses and Permits	1,500	1,500	820	0	0	0
State Grants	87,500	146,500	153,034	66,000	66,000	123,158
Contribution from Local Units	0	0	0	0	0	14,254
Fines and Forfeitures	2,000	12,000	5,351	0	0	0
Interest and Rents	1,800	1,800	1,766	100	100	196
Other Revenue	500	43,500	27,080	3,500	3,500	1,502
Total Revenues	266,300	378,300	368,008	69,600	69,600	139,110
<u>Expenditures</u>						
General Government						
Village Council	12,020	11,020	10,568	0	0	0
Village President	3,690	3,690	3,506	0	0	0
Clerk/Treasurer	76,481	76,721	74,067	0	0	0
Independent Audit	13,000	15,500	15,500	0	0	0
Building and Grounds	10,300	13,900	11,034	0	0	0
Public Safety						
Police Protection	87,900	87,900	90,997	0	0	0
Public Works						
DPW	9,087	9,587	11,278	0	0	0
Sidewalks	2,301	801	0	0	0	0
Street Lights	19,200	26,200	24,454	0	0	0
Highways, Streets and Bridges	0	0	0	89,073	116,573	105,881
Community and Economic Development						
Economic Development	0	6,000	6,000	0	0	0
Zoning Administration	1,430	1,430	1,238	0	0	0
Culture and Recreation						
Day Park	72,980	128,205	127,869	0	0	0
Campground	0	0	0	0	0	0
Other Functions						
Liability and Unemployment Insurance	2,400	2,500	2,431	0	0	0
Legal Fees	3,500	6,500	6,908	0	0	0
Total Expenditures	314,289	389,954	385,850	89,073	116,573	105,881
Excess (Deficiency) of Revenues Over Expenditures	(47,989)	(11,654)	(17,842)	(19,473)	(46,973)	33,229
<u>Other Financing Sources (Uses)</u>						
Transfers In	55,000	55,000	0	22,000	22,000	0
Net Change in Fund Balance	7,011	43,346	(17,842)	2,527	(24,973)	33,229
FUND BALANCE - Beginning of Year	360,000	360,000	338,320	90,000	90,000	99,842
FUND BALANCE - End of Year	\$ 367,011	\$ 403,346	\$ 320,478	\$ 92,527	\$ 65,027	\$ 133,071

VILLAGE OF CENTRAL LAKE, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS
YEAR ENDED FEBRUARY 28, 2019

	<u>LOCAL STREET FUND</u>			<u>CAMPGROUND FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>Revenues</u>						
Taxes	\$ 81,500	\$ 81,500	\$ 88,130	\$ 0	\$ 0	\$ 0
Licenses and Permits	0	0	0	0	0	0
State Grants	23,500	23,500	42,927	0	0	0
Contribution from Local Units	0	0	0	0	0	0
Fines and Forfeitures	0	0	0	0	0	0
Interest and Rents	300	300	352	55,000	55,000	72,895
Other Revenue	500	500	2,063	0	0	0
Total Revenues	105,800	105,800	133,472	55,000	55,000	72,895
<u>Expenditures</u>						
General Government						
Village Council	0	0	0	0	0	0
Village President	0	0	0	0	0	0
Clerk/Treasurer	0	0	0	0	0	0
Independent Audit	0	0	0	0	0	0
Building and Grounds	0	0	0	0	0	0
Public Safety						
Police Protection	0	0	0	0	0	0
Public Works						
DPW	0	0	0	0	0	0
Sidewalks	0	0	0	0	0	0
Street Lights	0	0	0	0	0	0
Highways, Streets and Bridges	105,898	107,018	85,233	0	0	0
Community and Economic Development						
Economic Development	0	0	0	0	0	0
Zoning Administration	0	0	0	0	0	0
Culture and Recreation						
Day Park	0	0	0	0	0	0
Campground	0	0	0	41,534	44,134	39,792
Other Functions						
Liability and Unemployment Insurance	0	0	0	0	0	0
Legal Fees	0	0	0	0	0	0
Total Expenditures	105,898	107,018	85,233	41,534	44,134	39,792
Excess (Deficiency) of Revenues Over Expenditures	(98)	(1,218)	48,239	13,466	10,866	33,103
<u>Other Financing Sources (Uses)</u>						
Transfers In	0	0	0	0	0	0
Net Change in Fund Balance	(98)	(1,218)	48,239	13,466	10,866	33,103
FUND BALANCE - Beginning of Year (Deficit)	175,000	175,000	201,364	(52,000)	(52,000)	(80,530)
FUND BALANCE - End of Year (Deficit)	\$ 174,902	\$ 173,782	\$ 249,603	\$ (38,534)	\$ (41,134)	\$ (47,427)

VILLAGE OF CENTRAL LAKE
CENTRAL LAKE, MICHIGAN

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION
LIABILITY AND RELATED RATIOS - MERS
FEBRUARY 28, 2019

	2018
Total Pension Liability	
Service Cost	\$ 17,403
Interest	19,407
Changes of Benefit Terms	0
Difference Between Expected and Actual Experience	1,160
Changes of Assumptions	0
Benefit Payments Including Employee Refunds	0
Other	(325)
	37,645
Net Change in Total Pension Liability	37,645
Total Pension Liability - Beginning	233,882
Total Pension Liability - Ending	\$ 271,527
Plan Fiduciary Net Position	
Contributions-Employer	\$ 18,855
Contributions-Employee	0
Net Investment Income	(9,867)
Benefit Payments Including Employee Refunds	0
Administrative Expense	(465)
	8,523
Net Change in Plan Fiduciary Net Position	8,523
Plan Fiduciary Net Position - Beginning	229,750
Plan Fiduciary Net Position - Ending	\$ 238,273
Employer Net Pension Liability	\$ 33,254
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88%
Covered Payroll	194,821
Employer's Net Pension Liability as a Percentage of Covered Payroll	17%

VILLAGE OF CENTRAL LAKE
CENTRAL LAKE, MICHIGAN
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - MERS
FOR THE YEAR ENDED FEBRUARY 28,

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarial Determined Contributions*	\$ 16,888	\$ 15,186	\$ 15,419	\$ 13,991	\$ 12,270	\$ 10,763	\$ 9,460	\$ 12,168	\$ 12,659	\$ 15,315
Contributions in Relation to the Actuarially Determined Contribution	16,888	15,186	15,419	13,991	12,270	10,763	9,460	12,168	12,659	15,315
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 194,821	\$ 189,337	\$ 188,774	\$ 184,385	\$ 177,497	\$ 142,792	\$ 126,838	\$ 139,959	\$ 136,970	\$ 137,030
Contributions as a Percentage of Covered Payroll	9%	8%	8%	8%	7%	8%	7%	9%	9%	11%

Notes to Schedule

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	26 years
Asset Valuation Method	10 year smoothed
Inflation	3-4%
Salary Increases	4.5%
Investment Rate of Return	8.0%
Retirement Age	Varies Depending on Plan Adoption
Mortality	50% Female/50% Male 1994 Group Annuity Mortality Table

VILLAGE OF CENTRAL LAKE, MICHIGAN

COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY FUND

BALANCE SHEET
FEBRUARY 28, 2019

ASSETS

Cash \$ 7,229

LIABILITIES AND FUND BALANCE

LIABILITIES \$ 0

FUND BALANCE

Unassigned 7,229

TOTAL LIABILITIES AND FUND BALANCE \$ 7,229

VILLAGE OF CENTRAL LAKE, MICHIGAN

COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2019

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Farmers Market Income	\$ 1,200	\$ 1,200	\$ 0
Contributions from Local Units	6,000	6,000	6,000
Other Revenue	850	850	0
	<hr/>		
Total Revenues	8,050	8,050	6,000
	<hr/>		
<u>EXPENDITURES</u>			
Economic Development			
Contracted Services	6,000	6,000	612
Community Projects	2,600	2,600	0
Other	500	500	145
	<hr/>		
Total Expenditures	9,100	9,100	757
	<hr/>		
Excess (Deficiency) of Revenues Over Expenditures	(1,050)	(1,050)	5,243
	<hr/>		
<u>FUND BALANCE</u> - Beginning of the Year	1,980	1,980	1,986
	<hr/>		
<u>FUND BALANCE</u> - End of the Year	\$ 930	\$ 930	\$ 7,229
	<hr/> <hr/>		



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April 5, 2019

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

To the Village Council
Village of Central Lake, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Central Lake for the year ended February 28, 2019. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 15, 2019. 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 2018-2019. 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, discretely presented component unit, and each major fund of the Village of Central Lake's financial statements were:

Management's estimates of the useful lives of capital assets which is based on previous history. We evaluated the key factors and assumptions used to develop the estimates in determining that they are 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. We detected various material misstatements as a result of our audit procedures that were corrected by management. The material adjustments made were a result of converting the entity's financial records from cash basis to modified accrual basis of accounting.

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 April 5, 2019.

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 for the year ended February 28, 2019, we noted the following items which we feel deserve comment:

Bank Reconciliations

It was noted that monthly bank reconciliations of the pooled cash account were completed, but had minimal unreconciled differences. We recommend the pooled-account bank balance is reconciled to the book balance of each individual fund in the computerized general ledger with no unreconciled differences.

Budget

Three activities in the General Fund had expenditures that exceeded appropriations. We recommend that the Village monitor expenditures during the year and amend the budget as necessary.

Bank Reconciliation Review

We previously recommended that a council member review and initial the bank statement each month. It appears this process was done most months but stopped for the last few remaining months. We recommend that this process continue as this control helps to mitigate the risk associated with the limited number of personnel involved in the accounting process.

Deficit Fund Balance – Campground Fund

As of February 28, 2019, the Village's Campground Fund had a deficit fund balance of \$47,427. The Village should approve a plan to correct this deficit.

Disbursements

During the audit we found some instances where supporting documentation was not adequate. All disbursements should have documentation including a receipt, an invoice, or other documentation showing date, amount and items purchased.

Payroll Reporting

We noted that the quarterly 941's did not agree to the annual W-3 reported to the IRS. This will likely result in a notice from the IRS and a correction will be required. We are available to assist on an annual or quarterly basis with 941's and W-2's to avoid this issue in the future.

In addition, the clerk should review the Form 941 to make sure any pre-tax items are correctly accounted for and any adjustments made on Line 7 are reasonable.

State Chart of Account Changes

The State of Michigan Treasury Department has issued an updated Uniform Chart of Accounts, requiring all local units to comply once the State has finalized the changes. More information can be obtained from the state website or by contacting your auditor.

Other Matters

We applied certain limited procedures to the Management Discussion and Analysis, the Budgetary Comparison Schedule, Schedule of Changes in Employer's Net Pension Liability and Related Ratios for MERS, and Schedule of Employer Contributions for MERS, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries 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.

We were engaged to report on the individual fund financial statements section, which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method 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.

Restriction on Use

This information is intended solely for the information and 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.

BAIRD, COTTER AND BISHOP, P.C.

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April 5, 2019

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

To the Village Council
Village of Central Lake, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, 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, 2019, and the related notes to the financial statements, which collectively comprise the Village of Central Lake's basic financial statements and have issued our report thereon dated April 5, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that have not been identified. We consider the deficiencies described below to be material weaknesses:

1) 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 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 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 and corrected 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.

Corrective Action Plan: With the status of state funding, the Village is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The Village and Council will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements

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.

Recommendation: Due to the complexity of GAAP financial statements and the costs required to obtain knowledge to prepare them, it is recommended that the Village continue to outsource this service.

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.

Corrective Action Plan: The government will continue to rely on its outside auditors to assist in preparing the GAAP basis financial statements and will evaluate annually for the need to change.

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 Funds.

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 posting errors.

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 fund general ledgers 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.

Corrective Action Plan: Management will begin reconciling the utility receivable and revenue on a regular basis in the future.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Central Lake'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Village of Central Lake, Michigan's Response to Findings

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

Purpose of this Report

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

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.