

**VILLAGE OF CENTRAL LAKE, MICHIGAN**

**FEBRUARY 29, 2020**



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VILLAGE OF CENTRAL LAKE, MICHIGAN

FEBRUARY 29, 2020

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditor’s Report</b>	i-iii
<b>Management’s Discussion and Analysis</b>	iv-xii
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	1-2
Statement of Activities	3
Fund Financial Statements	
Governmental Funds	
Balance Sheet	4
Reconciliation of the Balance Sheet to the Statement of Net Position	5
Statement of Revenues, Expenditures and Changes in Fund Balances	6
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	7
Proprietary Funds	
Statement of Net Position	8-9
Reconciliation of the Statement of Net Position of Proprietary Funds to the Statement of Net Position	10
Statement of Revenues, Expenses, and Changes in Fund Net Position	11
Reconciliation of the Statement of Revenues, Expenses and Changes in Fund Net Position to the Statement of Activities	12
Statement of Cash Flows	13-14
Component Unit	
Statement of Net Position	15
Statement of Activities	16
Notes to Financial Statements	17-34
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - Major Governmental Funds	35-36
Schedule of Changes in Employer’s Net Pension Liability and Related Ratios – MERS	37
Schedule of Employer’s Contributions – MERS	38
<b>Individual Fund Financial Statements</b>	
Component Unit – Downtown Development Authority Fund	
Balance Sheet	39
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual	40



# Baird, Cotter & Bishop, P.C.

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July 7, 2020

## 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 29, 2020, 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 29, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents on pages iv through xii, and 35-38 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 July 7, 2020, 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 29, 2020

**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 29, 2020, 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 \$4,274,135 (*net position*). Of this amount, \$594,175 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 \$729,919, an increase of \$74,194 in comparison with the prior year. Approximately 36% of this amount (\$260,852) 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 \$280,444.

**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.

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

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

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

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

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.

**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 17-34 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

**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 \$4,274,135 at the close of the most recent fiscal year.

*Village of Central Lake*  
*Net Position*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b><u>Assets</u></b>						
Current and Other Assets	\$ 1,048,936	\$ 828,483	\$ 211,882	\$ 228,000	\$ 1,260,818	\$ 1,056,483
Capital Assets	1,490,664	1,371,090	1,720,229	1,785,340	3,210,893	3,156,430
<b>Total Assets</b>	<b>2,539,600</b>	<b>2,199,573</b>	<b>1,932,111</b>	<b>2,013,340</b>	<b>4,471,711</b>	<b>4,212,913</b>
<b><u>Deferred Outflows of Resources</u></b>						
	18,785	22,839	4,834	6,545	23,619	29,384
<b><u>Liabilities</u></b>						
Current Liabilities	182,639	48,513	1,427	1,108	184,066	49,621
Long-Term Liabilities	29,532	25,847	7,597	7,407	37,129	33,254
<b>Total Liabilities</b>	<b>212,171</b>	<b>74,360</b>	<b>9,024</b>	<b>8,515</b>	<b>221,195</b>	<b>82,875</b>
<b><u>Net Position</u></b>						
Net Investment in						
Capital Assets	1,490,664	1,371,090	1,720,229	1,785,340	3,210,893	3,156,430
Restricted	469,067	382,674	0	0	469,067	382,674
Unrestricted	386,483	394,288	207,692	226,030	594,175	620,318
<b>Total Net Position</b>	<b>\$ 2,346,214</b>	<b>\$ 2,148,052</b>	<b>\$ 1,927,921</b>	<b>\$ 2,011,370</b>	<b>\$ 4,274,135</b>	<b>\$ 4,159,422</b>

By far, the largest portion of the Village’s net position (75%) 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 (11%) represents resources that are subject to external restrictions. The remaining balance of \$594,175 reflects unrestricted resources that may be used to meet the government’s ongoing obligations to its citizens and creditors.

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

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

The Village of Central Lake's overall net position increased by \$114,713 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*

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b><u>Revenues</u></b>						
<b>Program Revenues</b>						
Charges for Services	\$ 102,006	\$ 80,282	\$ 132,536	\$ 157,088	\$ 234,542	\$ 237,370
Operating Grants and Contributions	165,251	182,299	7,950	0	173,201	182,299
Capital Grants and Contributions	176,992	75,828	0	0	176,992	75,828
<b>General Revenues</b>						
Property Taxes	282,368	268,087	29,017	27,068	311,385	295,155
State Sources	94,037	91,704	0	0	94,037	91,704
Investment Earnings	1,385	1,098	290	401	1,675	1,499
Other	20,178	14,187	809	992	20,987	15,179
<b>Total Revenues</b>	<b>842,217</b>	<b>713,485</b>	<b>170,602</b>	<b>185,549</b>	<b>1,012,819</b>	<b>\$ 899,034</b>
<b><u>Expenses</u></b>						
General Government	145,960	118,205	0	0	145,960	118,205
Public Safety	108,205	102,174	0	0	108,205	102,174
Public Works	248,215	297,162	0	0	248,215	297,162
Health and Welfare	0	0	0	0	0	0
Community and Economic Development	16,200	7,238	0	0	16,200	7,238
Culture and Recreation	117,491	87,447	0	0	117,491	87,447
Other Functions	7,984	9,339	0	0	7,984	9,339
Water and Sewer Systems	0	0	254,051	216,399	254,051	216,399
<b>Total Expenses</b>	<b>644,055</b>	<b>621,565</b>	<b>254,051</b>	<b>216,399</b>	<b>898,106</b>	<b>837,964</b>
Change in Net Position	198,162	91,920	(83,449)	(30,850)	114,713	61,070
<b><u>Beginning Net Position</u></b>	<b>2,148,052</b>	<b>2,056,132</b>	<b>2,011,370</b>	<b>2,042,220</b>	<b>4,159,422</b>	<b>4,098,352</b>
<b><u>Ending Net Position</u></b>	<b>\$ 2,346,214</b>	<b>\$ 2,148,052</b>	<b>\$ 1,927,921</b>	<b>\$ 2,011,370</b>	<b>\$ 4,274,135</b>	<b>\$ 4,159,422</b>

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

**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 3.6020 mills for streets and 1.1301 for water improvements.

Another significant portion of the revenue for all governmental activities of the Village comes from operating grants and contributions and capital grants and contributions. The operating grants and contributions is money received from the State of Michigan to help improve roadways. The capital grants and contributions are attributed to the state grant revenue received during the year for the construction of the pavilion.

The Village's governmental activities expenses are dominated by the Public Works expenses. The Village spent \$248,215 in FY 2019/2020 on Public Works. General Government represented the next largest expense at \$145,960 of total expenses within the governmental activities.

**Business-Type Activities**

The Village's business-type activities accounted for a decrease of \$83,449 in the Village's net position for the fiscal year ended February 29, 2020.

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 29, 2020, the Village's governmental funds reported combined fund balances of \$729,919 an increase of \$74,194 in comparison with the prior year. Approximately 36% of this amount (\$260,852) 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 (\$469,067), 4) committed for particular purposes, or 5) assigned for particular purposes.

VILLAGE OF CENTRAL LAKE, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

**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 \$40,034, bringing the balance to \$280,444, all of which is unassigned. The primary reason for the decrease is the construction of the pavilion and purchase of a police vehicle. Both of these items were partially recovered by a state grant and an insurance reimbursement.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$165,776, all of which is restricted for street improvements. This was an increase of \$32,705 from the previous year. The primary reason for this increase is due to the Public Act 51 funds increasing during the fiscal year.

**Local Street Fund** – The Local Street Fund increased its fund balance in this fiscal year by \$53,688, bringing the fund balance to \$303,291, 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 \$27,835, bringing the fund balance to a *deficit* balance of \$19,592. 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 \$1,239,924 in net position. The net position of this fund decreased by \$53,660 in 2019/20. The decrease is due to the depreciation expense of \$41,553 and decreased water usage.

**Sewer Fund** – The Sewer Fund ended this fiscal year with \$715,188 in net position. The net position of this fund decreased by \$34,953 in 2019/20. The decrease is due to the depreciation expense of \$23,558 and a sewer feasibility study done during the fiscal year.

**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:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 266,300	\$ 266,300	\$ 493,364
Total Expenditures	\$ 369,013	\$ 371,541	\$ 533,398

There was not a difference between the original and final budgeted revenues. The difference between the original and final budgeted expenditures was minimal.

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

The final budget compared to actual results for revenues was different due to the Village receiving a state grant that was not budgeted for, receiving more than anticipated property tax and police revenues, and getting an insurance reimbursement during the fiscal year. The final budget compared to actual for expenditures was different due to the pavilion related expenditures, the purchase of a new police vehicles, and various expenditures in the clerk function that were not budgeted for.

**Capital Asset and Debt Administration**

**Capital Assets.** The Village’s investment in capital assets for the governmental and business-type activities as of February 29, 2020, amounted to \$3,210,893 (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 29/28,*

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total Primary</b>	
	<b>Activities</b>		<b>Activities</b>		<b>Government</b>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land and Land Improvements	\$ 16,400	\$ 16,400	\$ 51,070	\$ 51,070	\$ 67,470	\$ 67,470
Construction in Progress	194,325	0	0	0	194,325	0
Buildings and Improvements	6,340	6,340	0	0	6,340	6,340
Park and Recreation	175,308	175,308	0	0	175,308	175,308
Campground	378,708	378,708	0	0	378,708	378,708
Machinery and Equipment	587,412	626,603	253,139	253,139	840,551	879,742
Streetscape Improvements	1,320,055	1,307,780	0	0	1,320,055	1,307,780
Water and Sewer Systems	0	0	2,771,223	2,771,223	2,771,223	2,771,223
Subtotal	2,678,548	2,511,139	3,075,432	3,075,432	5,753,980	5,586,571
Accumulated Depreciation	(1,187,884)	(1,140,049)	(1,355,203)	(1,290,092)	(2,543,087)	(2,430,141)
Net Capital Assets	<u>\$ 1,490,664</u>	<u>\$ 1,371,090</u>	<u>\$ 1,720,229</u>	<u>\$ 1,785,340</u>	<u>\$ 3,210,893</u>	<u>\$ 3,156,430</u>

Major capital asset events during FY2019/2020 included the following:

- Construction of a pavilion in the amount of \$194,325. This project is set to be complete in the fiscal year 2020-21.
- Purchase of a new police vehicle in the amount of \$18,550.
- Installation of new culverts in the amount of \$12,275.
- Purchase of a new truck and plow in the amount of \$37,752.
- Sold a 2014 truck for \$14,000.

VILLAGE OF CENTRAL LAKE, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 29, 2020

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

**Economic Condition & Future Outlook**

There is uncertainty surrounding future state funding for local governments as a result of COVID-19. The Village's budget was prepared in February and did not factor any adverse impact for the 2020-2021 year. As more guidance becomes available and the situation becomes clearer, the Village will act accordingly.

**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 29, 2020

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 869,981	\$ 159,324	\$ 1,029,305	\$ 20,746
Accounts Receivable	0	62,799	62,799	0
Internal Balance	27,191	(27,191)	0	0
Due from Other Governments	151,764	7,950	159,714	0
Inventory	0	9,000	9,000	0
Total Current Assets	1,048,936	211,882	1,260,818	20,746
<u>CAPITAL ASSETS</u>				
Land and Land Improvements	16,400	51,070	67,470	10,500
Construction in Progress	194,325	0	194,325	0
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	587,412	253,139	840,551	0
Streetscape Improvements	1,320,055	0	1,320,055	0
Water and Sewer System	0	2,771,223	2,771,223	0
Total Capital Asset	2,678,548	3,075,432	5,753,980	10,500
Less Accumulated Depreciation	1,187,884	1,355,203	2,543,087	3,500
Net Capital Assets	1,490,664	1,720,229	3,210,893	7,000
TOTAL ASSETS	2,539,600	1,932,111	4,471,711	27,746
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Subsequent Pension Contributions	3,356	864	4,220	0
Differences Between Expected and Actual Pension Experience	12,389	3,188	15,577	0
Net Difference Between the Projected and Actual Pension Investment Earnings	2,302	190	2,492	0
Changes in Assumptions in Pension Plan	738	592	1,330	0
TOTAL DEFERRED OUTFLOWS OF RESOURCES	18,785	4,834	23,619	0

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 29, 2020

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTALS	COMPONENT UNIT
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts Payable	93,059	0	93,059	0
Retainage Payable	19,432	0	19,432	0
Accrued Payroll	2,818	1,276	4,094	0
Payroll Liabilities	3,710	151	3,861	0
Unearned Revenue	63,620	0	63,620	0
Total Current Liabilities	182,639	1,427	184,066	0
 <u>NONCURRENT LIABILITIES</u>				
Net Pension Liability	29,532	7,597	37,129	0
TOTAL LIABILITIES	212,171	9,024	221,195	0
 <u>NET POSITION</u>				
Net Investment in Capital Assets	1,490,664	1,720,229	3,210,893	7,000
Restricted for Street Improvements	469,067	0	469,067	0
Unrestricted	386,483	207,692	594,175	20,746
TOTAL NET POSITION	\$ 2,346,214	\$ 1,927,921	\$ 4,274,135	\$ 27,746

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 29, 2020

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION				
		CHARGES FOR SERVICES	GRANTS AND CONTRIBUTIONS	GRANTS AND CONTRIBUTIONS	PRIMARY GOVERNMENT			COMPONENT UNIT	
					GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS		
<u>PRIMARY GOVERNMENT</u>									
<u>GOVERNMENTAL ACTIVITIES</u>									
General Government	\$ 145,960	\$ 0	\$ 0	\$ 0	\$ (145,960)	\$ 0	\$ (145,960)	\$ 0	
Public Safety	108,205	9,137	1,937	0	(97,131)	0	(97,131)	0	
Public Works	248,215	0	163,314	0	(84,901)	0	(84,901)	0	
Community and Economic Development	16,200	645	0	0	(15,555)	0	(15,555)	0	
Culture and Recreation	117,491	92,224	0	176,992	151,725	0	151,725	0	
Other Functions	7,984	0	0	0	(7,984)	0	(7,984)	0	
Total Governmental Activities	644,055	102,006	165,251	176,992	(199,806)	0	(199,806)	0	
<u>BUSINESS-TYPE ACTIVITIES</u>									
Water System	163,731	84,027	0	0	0	(79,704)	(79,704)	0	
Sewer System	90,320	48,509	7,950	0	0	(33,861)	(33,861)	0	
Total Business-Type Activities	254,051	132,536	7,950	0	0	(113,565)	(113,565)	0	
TOTAL PRIMARY GOVERNMENT	\$ 898,106	\$ 234,542	\$ 173,201	\$ 176,992	(199,806)	(113,565)	(313,371)	0	
<u>COMPONENT UNIT</u>									
Downtown Development Authority	\$ 2,371	\$ 0	\$ 15,000	\$ 0	0	0	0	12,629	
<u>GENERAL REVENUES</u>									
Property Taxes					282,368	29,017	311,385	0	
State Sources					94,037	0	94,037	0	
Investment Earnings					1,385	290	1,675	0	
Other					20,178	809	20,987	188	
Total General Revenues					397,968	30,116	428,084	188	
Change in Net Position					198,162	(83,449)	114,713	12,817	
<u>NET POSITION</u> - Beginning of Year					2,148,052	2,011,370	4,159,422	14,929	
<u>NET POSITION</u> - End of Year					\$ 2,346,214	\$ 1,927,921	\$ 4,274,135	\$ 27,746	

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

VILLAGE OF CENTRAL LAKE, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 29, 2020

	MAJOR FUNDS				TOTALS
	GENERAL	MAJOR STREET	LOCAL STREET	CAMPGROUND	
<u>ASSETS</u>					
Cash	\$ 290,504	\$ 135,888	\$ 290,125	\$ 44,028	\$ 760,545
Due from Other Governments	107,850	30,400	13,514	0	151,764
TOTAL ASSETS	\$ 398,354	\$ 166,288	\$ 303,639	\$ 44,028	\$ 912,309
 <u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 93,010	\$ 32	\$ 7	\$ 0	\$ 93,049
Retainage Payable	19,432	0	0	0	19,432
Accrued Wages	1,960	395	283	0	2,638
Payroll Liabilities	3,508	85	58	0	3,651
Unearned Revenue	0	0	0	63,620	63,620
Total Liabilities	117,910	512	348	63,620	182,390
 <u>FUND BALANCES</u>					
Restricted for:					
Street Improvements	0	165,776	303,291	0	469,067
Unassigned	280,444	0	0	(19,592)	260,852
Total Fund Balance (Deficit)	280,444	165,776	303,291	(19,592)	729,919
TOTAL LIABILITIES AND FUND BALANCES	\$ 398,354	\$ 166,288	\$ 303,639	\$ 44,028	\$ 912,309

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 29, 2020

Total Fund Balances for Governmental Funds \$ 729,919

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	
Construction in Progress	194,325	
Buildings and Improvements	6,340	
Park and Recreation	175,308	
Campground	378,708	
Machinery and Equipment	74,437	
Streetscape Improvements	1,320,055	
Accumulated Depreciation	<u>(843,692)</u>	1,321,881

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	(27,889)
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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	3,169
Differences Between Expected and Actual Pension Experience	11,700
Changes in Assumptions in Pension Plan	2,174
Net Difference Between the Projected and Actual Pension Investment Earnings	697

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.	277,372
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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.	<u>27,191</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 2,346,214</u></u>
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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 29, 2020

	MAJOR FUNDS				TOTALS
	GENERAL	MAJOR STREET	LOCAL STREET	CAMPGROUND	
<b><u>REVENUES</u></b>					
Taxes	\$ 189,875	\$ 0	\$ 92,493	\$ 0	\$ 282,368
Licenses and Permits	645	0	0	0	645
State Grants	272,966	111,639	48,675	0	433,280
Contribution from Local Units	0	3,000	0	0	3,000
Fines and Forfeitures	9,137	0	0	0	9,137
Interest and Rents	1,831	196	381	91,201	93,609
Other Revenue	18,910	895	373	0	20,178
<b>Total Revenues</b>	<b>493,364</b>	<b>115,730</b>	<b>141,922</b>	<b>91,201</b>	<b>842,217</b>
<b><u>EXPENDITURES</u></b>					
General Government	140,641	0	0	0	140,641
Public Safety	114,959	0	0	0	114,959
Public Works	34,182	83,025	88,234	0	205,441
Community and Economic Development	16,200	0	0	0	16,200
Culture and Recreation	219,432	0	0	63,366	282,798
Other Functions	7,984	0	0	0	7,984
<b>Total Expenditures</b>	<b>533,398</b>	<b>83,025</b>	<b>88,234</b>	<b>63,366</b>	<b>768,023</b>
Excess (Deficiency) of Revenues Over Expenditures	(40,034)	32,705	53,688	27,835	74,194
<b><u>FUND BALANCES - Beginning of Year (Deficit)</u></b>	<b>320,478</b>	<b>133,071</b>	<b>249,603</b>	<b>(47,427)</b>	<b>655,725</b>
<b><u>FUND BALANCES - End of Year (Deficit)</u></b>	<b>\$ 280,444</b>	<b>\$ 165,776</b>	<b>\$ 303,291</b>	<b>\$ (19,592)</b>	<b>\$ 729,919</b>

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 29, 2020

Net Change in Fund Balance - Total Governmental Funds \$ 74,194

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	(109,198)
Capital Outlay	225,150

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	(3,643)
Changes in Subsequent Pension Contributions	882
Differences Between Expected and Actual Pension Experience	8,008
Changes in Assumptions in Pension Plan	(463)
Changes in Net Difference Between the Projected and Actual Pension Investment Earnings	(12,111)

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.

15,343

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 198,162

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

VILLAGE OF CENTRAL LAKE, MICHIGAN  
PROPRIETARY FUNDS

STATEMENT OF NET POSITION  
FEBRUARY 29, 2020

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE</u>			<u>INTERNAL SERVICE EQUIPMENT FUND</u>
	<u>MAJOR FUNDS</u>			
	<u>WATER</u>	<u>SEWER</u>	<u>TOTAL</u>	
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 56,552	\$ 102,772	\$ 159,324	\$ 109,436
Accounts Receivable	35,336	27,463	62,799	0
Due from Other Governments	0	7,950	7,950	0
Inventory	9,000	0	9,000	0
Total Current Assets	100,888	138,185	239,073	109,436
<u>CAPITAL ASSETS</u>				
Land	12,220	38,850	51,070	0
Machinery and Equipment	248,306	4,833	253,139	512,975
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	512,975
Less Accumulated Depreciation	747,587	607,616	1,355,203	344,192
Net Capital Assets	1,142,177	578,052	1,720,229	168,783
TOTAL ASSETS	1,243,065	716,237	1,959,302	278,219
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Subsequent Pension Contributions	652	212	864	187
Differences Between Expected and Actual Pension Experience	2,406	782	3,188	689
Net Difference Between the Projected and Actual Pension Investment Earnings	143	47	190	41
Changes in Assumptions in Pension Plan	447	145	592	128
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,648	1,186	4,834	1,045

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

VILLAGE OF CENTRAL LAKE, MICHIGAN  
PROPRIETARY FUNDS

STATEMENT OF NET POSITION  
FEBRUARY 29, 2020

	<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	0	0	0	10
Accrued Payroll	1,051	225	1,276	180
Payroll Liabilities	4	147	151	59
Total Current Liabilities	1,055	372	1,427	249
<u>NONCURRENT LIABILITIES</u>				
Net Pension Liability	5,734	1,863	7,597	1,643
TOTAL LIABILITIES	6,789	2,235	9,024	1,892
<u>NET POSITION</u>				
Net Investment in Capital Assets	1,142,177	578,052	1,720,229	168,783
Unrestricted	97,747	137,136	234,883	108,589
TOTAL NET POSITION	\$ 1,239,924	\$ 715,188	\$ 1,955,112	\$ 277,372

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 29, 2020

Total Net Position - Total Proprietary Funds	\$ 1,955,112
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>(27,191)</u>
NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ 1,927,921</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 29, 2020

	<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>				
Charges for Services	\$ 84,027	\$ 48,509	\$ 132,536	\$ 62,401
<u>OPERATING EXPENSES</u>				
Wages and Fringe Benefits	56,132	25,062	81,194	12,897
Office Supplies	270	130	400	0
Contracted Services	7,813	24,158	31,971	0
Operating Supplies	2,847	1,445	4,292	6,511
Water Testing	4,844	0	4,844	0
Gasoline and Oil	4,750	1,510	6,260	737
Utilities	15,973	5,044	21,017	0
Repairs and Maintenance	14,213	3,963	18,176	0
Equipment Rental	10,877	4,830	15,707	0
Printing and Publishing	657	0	657	0
Insurance	5,159	2,209	7,368	1,759
Education and Training	2,218	0	2,218	0
Depreciation	41,553	23,558	65,111	34,130
Total Operating Expenses	167,306	91,909	259,215	56,034
Operating Income (Loss)	(83,279)	(43,400)	(126,679)	6,367
<u>NONOPERATING REVENUES (EXPENSES)</u>				
Property Taxes	29,017	0	29,017	0
State Grants	0	7,950	7,950	0
Interest Income	102	188	290	140
Gain on Disposal of Capital Assets	0	0	0	14,000
Other Income	500	309	809	0
Total Nonoperating Revenues (Expenses)	29,619	8,447	38,066	14,140
Change in Net Position	(53,660)	(34,953)	(88,613)	20,507
<u>TOTAL NET POSITION</u> - Beginning of Year	1,293,584	750,141	2,043,725	256,865
<u>TOTAL NET POSITION</u> - End of Year	\$ 1,239,924	\$ 715,188	\$ 1,955,112	\$ 277,372

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 29, 2020

Net Change in Fund Net Position - Total Proprietary Funds	\$ (88,613)
Amounts reported for proprietary activities in the Statement of Activities are different because:	
Internal service funds are used by management to charge costs of the motor pool to individual funds. The net revenue (expense) of internal service fund is reported with governmental type activities. This creates an internal balance referred to as the crossover amount that needs to be adjusted for.	<u>5,164</u>
CHANGE IN NET POSITION OF PROPRIETARY FUNDS	<u><u>\$ (83,449)</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 29, 2020

	<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	\$ 79,780	\$ 35,561	\$ 115,341	\$ 0
Cash Received from Interfund Services Provided	0	0	0	62,401
Cash Payments to Employees	(54,326)	(24,623)	(78,949)	(12,541)
Cash Payments to Suppliers for Goods and Services	(69,638)	(43,297)	(112,935)	(9,012)
Net Cash Provided by (Used for) Operating Activities	(44,184)	(32,359)	(76,543)	40,848
Cash Flows from Noncapital Financing Activities				
Property Taxes Received	29,017	0	29,017	0
Cash Flows from Capital and Related Financing Activities:				
Purchases of Capital Assets	0	0	0	(37,752)
Proceeds from Sale of Capital Assets	0	0	0	14,000
Other Income	500	309	809	0
Net Cash Provided by (Used for) Capital and Related Financing Activities	500	309	809	(23,752)
Cash Flows from Investing Activities				
Interest Income	102	188	290	140
Net Increase (Decrease) in Cash and Cash Equivalents	(14,565)	(31,862)	(46,427)	17,236
<u>CASH AND CASH EQUIVALENTS - Beginning of Year</u>	71,117	134,634	205,751	92,200
<u>CASH AND CASH EQUIVALENTS - End of Year</u>	\$ 56,552	\$ 102,772	\$ 159,324	\$ 109,436

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

VILLAGE OF CENTRAL LAKE, MICHIGAN  
PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS  
FEBRUARY 29, 2020

	<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)	\$ (83,279)	\$ (43,400)	\$ (126,679)	\$ 6,367
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization	41,553	23,558	65,111	34,130
(Increase) Decrease in Current Assets				
Accounts Receivable	(4,247)	(12,948)	(17,195)	0
(Increase) Decrease in Deferred Outflows of Resources				
Subsequent Pension Contribution	(142)	(23)	(165)	(36)
Differences Between Expected and Actual				
Pension Experience	(1,583)	(477)	(2,060)	(445)
Net Difference Between Projected and Actual				
Pension Investment Earnings	2,712	1,010	3,722	805
Changes in Assumptions in Pension Plan	141	73	214	46
Increase (Decrease) in Current Liabilities				
Accounts Payable	(17)	(8)	(25)	(5)
Accrued Payroll	665	26	691	37
Payroll Liabilities	(316)	(31)	(347)	(93)
Increase (Decrease) in Long-Term Liabilities				
Net Pension Liability	329	(139)	190	42
Total Adjustments	39,095	11,041	50,136	34,481
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (44,184)	\$ (32,359)	\$ (76,543)	\$ 40,848

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 29, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 20,746
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CAPITAL ASSETS

Land Improvements	10,500
Less Accumulated Depreciation	<u>(3,500)</u>

Net Capital Assets	<u>7,000</u>
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TOTAL ASSETS	<u>27,746</u>
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LIABILITIES

	<u>0</u>
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NET POSITION

Net Investment in Capital Assets	7,000
Unrestricted	<u>20,746</u>

TOTAL NET POSITION	<u>\$ 27,746</u>
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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 29, 2020

	<u>PROGRAM REVENUES</u>			<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>
	<u>EXPENSES</u>	<u>CHARGES FOR</u> <u>SERVICES</u>	<u>OPERATING</u> <u>GRANTS AND</u> <u>CONTRIBUTIONS</u>	<u>NET (EXPENSE)</u> <u>REVENUE AND</u> <u>CHANGES IN</u> <u>NET POSITION</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Economic Development	\$ 2,371	\$ 0	\$ 15,000	\$ 12,629
<u>GENERAL REVENUES</u>				
Other				\$ 188
Change in Net Position				12,817
<u>NET POSITION</u> – Beginning of Year				14,929
<u>NET POSITION</u> – End of Year				\$ 27,746

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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**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 29, 2020

**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

FEBRUARY 29, 2020

**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.
- 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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		
General Government		
Clerk/Treasurer	\$ 77,751	\$ 91,780
Independent Audit	15,250	18,855
Public Safety		
Police Protection	89,998	114,959
Public Works		
DPW	9,171	16,462
Street Lighting	13,000	17,720
Culture and Recreation		
Day Park	88,491	219,432
Other Functions		
Legal Fees	3,500	5,472
Major Street Fund		
Public Works		
Street Department	68,154	83,025
Campground Fund		
Culture and Recreation		
Campground	53,116	63,366

These overages were funded by excess revenues and available 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**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. The Water Fund has a small inventory balance for water meters they keep on hand for emergencies.

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 the 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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**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.

**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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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.

**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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**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 2019 taxable valuation of the Village of Central Lake totaled \$25,694,693, on which ad valorem taxes levied consisted of 7.2679 mills for operating purposes, 3.6020 for streets, and 1.1301 for water improvements.

**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 29, 2020.

Additionally, an employee was being advanced payroll checks during the year, this is a violation of state law.

**B. Deficit Fund Balance**

The Campground Fund had a deficit fund balance of \$19,592 as of February 29, 2020. 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 29, 2020, \$815,029 of the government's bank balance of \$1,065,029 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

*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.

*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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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 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>\$ 1,029,305</u>

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

	<u>Total</u>
Cash - Component Unit	<u>\$ 20,746</u>

The above amounts are reported in the financial statements as follows:

	<u>Total</u>
Cash - Governmental Funds	\$ 760,545
Cash - Enterprise Funds	159,324
Cash - Internal Service Funds	<u>109,436</u>
	<u>\$ 1,029,305</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>Water</u>	<u>Sewer</u>	<u>Total</u>
Receivables						
Accounts	\$ 0	\$ 0	\$ 0	\$ 35,336	\$ 27,463	\$ 62,799
Due from Other Governments	<u>107,850</u>	<u>30,400</u>	<u>13,514</u>	<u>0</u>	<u>7,950</u>	<u>159,714</u>
Total Receivables	<u>\$ 107,850</u>	<u>\$ 30,400</u>	<u>\$ 13,514</u>	<u>\$ 35,336</u>	<u>\$ 35,413</u>	<u>\$ 222,513</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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 \$63,620 related to the campground.

**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
Construction in Progress	0	194,325	0	194,325
Total Capital Assets, Not Being Depreciated	<u>16,400</u>	<u>194,325</u>	<u>0</u>	<u>210,725</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	6,340	0	0	6,340
Parks and Recreation	175,308	0	0	175,308
Campground	378,708	0	0	378,708
Machinery and Equipment	626,603	56,302	(95,493)	587,412
Streetscape Improvements	1,307,780	12,275	0	1,320,055
Total Capital Assets, Being Depreciated	<u>2,494,739</u>	<u>68,577</u>	<u>(95,493)</u>	<u>2,467,823</u>
Less Accumulated Depreciation For				
Buildings and Improvements	5,330	96	0	5,426
Parks and Recreation	55,819	12,929	0	68,748
Campground	23,587	18,681	0	42,268
Machinery and Equipment	438,542	45,926	(95,493)	388,975
Streetscape Improvements	616,771	65,696	0	682,467
Total Accumulated Depreciation	<u>1,140,049</u>	<u>143,328</u>	<u>(95,493)</u>	<u>1,187,884</u>
Total Capital Assets, Being Depreciated, Net	<u>1,354,690</u>	<u>(74,751)</u>	<u>0</u>	<u>1,279,939</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,371,090</u>	<u>\$ 119,574</u>	<u>\$ 0</u>	<u>\$ 1,490,664</u>

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 51,070	\$ 0	\$ 0	\$ 51,070
Capital Assets, Being Depreciated				
Machinery and Equipment	253,139	0	0	253,139
Water and Sewer Systems	2,771,223	0	0	2,771,223
Total Capital Assets, Being Depreciated	3,024,362	0	0	3,024,362
Less Accumulated Depreciation For				
Machinery and Equipment	204,476	6,695	0	211,171
Water and Sewer Systems	1,085,616	58,416	0	1,144,032
Total Accumulated Depreciation	1,290,092	65,111	0	1,355,203
Total Capital Assets, Being Depreciated, Net	1,734,270	(65,111)	0	1,669,159
Business-Type Activities Capital Assets, Net	\$ 1,785,340	\$ (65,111)	\$ 0	\$ 1,720,229
Net Capital Assets per Statement of Net Position				<u>\$ 3,210,893</u>

Depreciation Expense was charged to the following activities:

Governmental activities:

Internal Service Fund	\$ 34,130
General Government	96
Public Safety	11,796
Public Works	65,696
Culture and Recreation	<u>31,610</u>

Total depreciation expense - governmental activities \$ 143,328

Business-type activities:

Water	\$ 41,553
Sewer	<u>23,558</u>

Water and Sewer \$ 65,111

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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	2,800	700	0	3,500
Total Capital Assets, DDA, Being Depreciated, Net	<u>\$ 7,700</u>	<u>\$ (700)</u>	<u>\$ 0</u>	<u>\$ 7,000</u>

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

Governmental activities:

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

There were no interfund receivable or payable balances as of February 29, 2020.

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 29, 2020, are expected to be repaid within one year.

As of February 29, 2020, there were no transfers.

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

**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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

statements and required supplementary information for the system. This report may be obtained by accessing the MERS website at [www.mersofmich.com](http://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>2018 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, 2018 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>

**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 9.25% based on annual payroll for open divisions.

**Net Pension Liability**

The Village's net pension liability was measured as of December 31, 2019 and the total pension liability used to calculate the net pension asset was determined by an annual actuarial valuation as of that date.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**Actuarial Assumptions**

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

Inflation	2.50%
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%

**Discount Rate**

The discount rate used to measure the total pension liability is 8.00% for 2018. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the 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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

**Changes in Net Pension Liability**

	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability (Asset)
<b>Balance at December 31, 2018</b>	\$ 271,527	\$ 238,273	\$ 33,254
Service cost	18,772	0	18,772
Interest	22,473	0	22,473
Difference between expected and Actual experience	13,142	0	13,142
Changes in assumptions	0	0	0
Contributions - employer	0	17,034	(17,034)
Net investment income	0	33,647	(33,647)
Benefit payments, including refunds	0	0	0
Administrative expenses	0	(581)	581
Other Changes	(412)	0	(412)
Net changes	53,975	50,100	3,875
<b>Balance at December 31, 2019</b>	\$ 325,502	\$ 288,373	\$ 37,129

**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%
\$ 81,906	\$ 37,129	\$ (693)

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.

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

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

For the year ended February 29, 2020, the Village recognized pension expense of \$20,551. At February 29, 2020, 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	\$ 2,492	\$ 0
Difference between expected and actual experience	15,577	0
Changes in Assumptions	1,330	0
Employer contributions to the plan subsequent to the measurement date	<u>4,220</u>	<u>0</u>
Total	<u>\$ 23,619</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 29, 2020.

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>
2020	\$ 3,138
2021	4,267
2022	6,362
2023	566
2024	1,636
Thereafter	<u>3,430</u>
	<u>\$ 19,399</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

VILLAGE OF CENTRAL LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 29, 2020

each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

**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.

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 29, 2020, the Village received \$236,302, leaving \$25,048 to complete upcoming projects.

**D. 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 29, 2020

	GENERAL FUND			MAJOR STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Revenues</u>						
Taxes	\$ 173,000	\$ 173,000	\$ 189,875	\$ 0	\$ 0	\$ 0
Licenses and Permits	1,500	1,500	645	0	0	0
State Grants	87,500	87,500	272,966	66,000	66,000	111,639
Contribution from Local Units	0	0	0	0	0	3,000
Fines and Forfeitures	2,000	2,000	9,137	0	0	0
Interest and Rents	1,800	1,800	1,831	100	100	196
Other Revenue	500	500	18,910	3,500	3,500	895
<b>Total Revenues</b>	<b>266,300</b>	<b>266,300</b>	<b>493,364</b>	<b>69,600</b>	<b>69,600</b>	<b>115,730</b>
<u>Expenditures</u>						
General Government						
Village Council	17,020	17,020	16,409	0	0	0
Village President	4,690	4,690	4,608	0	0	0
Clerk/Treasurer	77,380	77,751	91,780	0	0	0
Independent Audit	15,000	15,250	18,855	0	0	0
Building and Grounds	10,300	11,300	8,989	0	0	0
Public Safety						
Police Protection	89,508	89,998	114,959	0	0	0
Public Works						
DPW	9,171	9,171	16,462	0	0	0
Sidewalks	22,364	22,364	0	0	0	0
Street Lighting	13,000	13,000	17,720	0	0	0
Street Department	0	0	0	67,797	68,154	83,025
Community and Economic Development						
Economic Development	15,000	15,000	15,000	0	0	0
Zoning Administration	1,430	1,430	1,200	0	0	0
Culture and Recreation						
Day Park	88,250	88,491	219,432	0	0	0
Campground	0	0	0	0	0	0
Other Functions						
Liability and Unemployment Insurance	2,400	2,576	2,512	0	0	0
Legal Fees	3,500	3,500	5,472	0	0	0
<b>Total Expenditures</b>	<b>369,013</b>	<b>371,541</b>	<b>533,398</b>	<b>67,797</b>	<b>68,154</b>	<b>83,025</b>
Excess (Deficiency) of Revenues Over Expenditures	(102,713)	(105,241)	(40,034)	1,803	1,446	32,705
<u>Other Financing Sources (Uses)</u>						
Transfers In	90,000	91,828	0	22,000	22,000	0
Transfers Out	0	0	0	0	0	0
<b>Net Change in Fund Balance</b>	<b>(12,713)</b>	<b>(13,413)</b>	<b>(40,034)</b>	<b>23,803</b>	<b>23,446</b>	<b>32,705</b>
<b>FUND BALANCE - Beginning of Year</b>	<b>310,000</b>	<b>310,000</b>	<b>320,478</b>	<b>110,000</b>	<b>110,000</b>	<b>133,071</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 297,287</b>	<b>\$ 296,587</b>	<b>\$ 280,444</b>	<b>\$ 133,803</b>	<b>\$ 133,446</b>	<b>\$ 165,776</b>

VILLAGE OF CENTRAL LAKE, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED FEBRUARY 29, 2020

	LOCAL STREET FUND			CAMPGROUND FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>Revenues</u>						
Taxes	\$ 81,500	\$ 81,500	\$ 92,493	\$ 0	\$ 0	\$ 0
Licenses and Permits	0	0	0	0	0	0
State Grants	23,500	23,500	48,675	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	381	75,000	75,000	91,201
Other Revenue	1,800	1,800	373	0	0	0
<b>Total Revenues</b>	<b>107,100</b>	<b>107,100</b>	<b>141,922</b>	<b>75,000</b>	<b>75,000</b>	<b>91,201</b>
<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 Lighting	0	0	0	0	0	0
Street Department	106,834	113,034	88,234	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	43,824	53,116	63,366
Other Functions						
Liability and Unemployment Insurance	0	0	0	0	0	0
Legal Fees	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>106,834</b>	<b>113,034</b>	<b>88,234</b>	<b>43,824</b>	<b>53,116</b>	<b>63,366</b>
Excess (Deficiency) of Revenues Over Expenditures	266	(5,934)	53,688	31,176	21,884	27,835
<u>Other Financing Sources (Uses)</u>						
Transfers In	0	6,500	0	0	0	0
Transfers Out	0	0	0	0	0	0
Net Change in Fund Balance	266	566	53,688	31,176	21,884	27,835
FUND BALANCE - Beginning of Year (Deficit)	225,000	225,000	249,603	(10,000)	(10,000)	(47,427)
<b>FUND BALANCE - End of Year (Deficit)</b>	<b>\$ 225,266</b>	<b>\$ 225,566</b>	<b>\$ 303,291</b>	<b>\$ 21,176</b>	<b>\$ 11,884</b>	<b>\$ (19,592)</b>

VILLAGE OF CENTRAL LAKE  
CENTRAL LAKE, MICHIGAN

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION  
LIABILITY AND RELATED RATIOS - MERS  
FOR PLAN YEAR ENDED DECEMBER 31,

	2019	2018	2017	2016	2015
<b>Total Pension Liability</b>					
Service Cost	\$ 18,772	\$ 17,403	\$ 16,913	\$ 16,430	\$ 15,855
Interest	22,473	19,407	16,803	13,280	11,425
Changes of Benefit Terms	0	0	0	0	0
Difference Between Expected and Actual Experience	13,142	1,160	(1,217)	7,937	0
Changes of Assumptions	0	0	0	5,787	0
Benefit Payments Including Employee Refunds	0	0	0	0	0
Other	(412)	(325)	(194)	357	(48)
<b>Net Change in Total Pension Liability</b>	53,975	37,645	32,305	43,791	27,232
<b>Total Pension Liability - Beginning</b>	271,527	233,882	201,577	157,786	130,554
<b>Total Pension Liability - Ending</b>	\$ 325,502	\$ 271,527	\$ 233,882	\$ 201,577	\$ 157,786
<b>Plan Fiduciary Net Position</b>					
Contributions-Employer	\$ 17,034	\$ 18,855	\$ 16,888	\$ 15,186	\$ 15,419
Contributions-Employee	0	0	0	0	0
Net Investment Income	33,647	(9,867)	26,109	18,544	(2,368)
Benefit Payments Including Employee Refunds	0	0	0	0	0
Administrative Expense	(581)	(465)	(411)	(364)	(328)
<b>Net Change in Plan Fiduciary Net Position</b>	50,100	8,523	42,586	33,366	12,723
<b>Plan Fiduciary Net Position - Beginning</b>	238,273	229,750	187,164	153,798	141,075
<b>Plan Fiduciary Net Position - Ending</b>	\$ 288,373	\$ 238,273	\$ 229,750	\$ 187,164	\$ 153,798
<b>Employer Net Pension Liability</b>	\$ 37,129	\$ 33,254	\$ 4,132	\$ 14,413	\$ 3,988
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	89%	88%	98%	93%	97%
<b>Covered Payroll</b>	210,392	194,821	189,337	188,774	184,385
<b>Employer's Net Pension Liability as a Percentage of Covered Payroll</b>	18%	17%	2%	8%	2%

VILLAGE OF CENTRAL LAKE  
CENTRAL LAKE, MICHIGAN  
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - MERS  
FOR THE YEAR ENDED FEBRUARY 29,

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarial Determined Contributions*	\$ 18,116	\$ 18,268	\$ 17,408	\$ 15,833	\$ 15,612	\$ 14,036	\$ 12,270	\$ 10,763	\$ 9,460	\$ 12,168
Contributions in Relation to the Actuarially Determined Contribution	18,116	18,268	17,408	15,833	15,612	14,036	12,270	10,763	9,460	12,168
Contribution Deficiency (Excess)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Covered Payroll	\$ 195,843	\$ 203,205	\$ 194,821	\$ 189,337	\$ 188,774	\$ 184,385	\$ 177,497	\$ 142,792	\$ 126,838	\$ 139,959
Contributions as a Percentage of Covered Payroll	9%	9%	9%	8%	8%	8%	7%	8%	7%	9%

**Notes to Schedule**

Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	25 years
Asset Valuation Method	10 year smoothed
Inflation	2.5%
Salary Increases	3.75%
Investment Rate of Return	7.75%
Retirement Age	Varies Depending on Plan Adoption
Mortality	50% Female/50% Male RP - 2014 Group Annuity Mortality Table

VILLAGE OF CENTRAL LAKE, MICHIGAN

COMPONENT UNIT

DOWNTOWN DEVELOPMENT AUTHORITY FUND

BALANCE SHEET  
FEBRUARY 29, 2020

ASSETS

Cash \$ 20,746

LIABILITIES AND FUND BALANCE

LIABILITIES \$ 0

FUND BALANCE

Unassigned 20,746

TOTAL LIABILITIES AND FUND BALANCE \$ 20,746

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 29, 2020

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Contributions from Local Units	\$ 15,000	\$ 15,000	\$ 15,000
Other Revenue	0	0	188
Total Revenues	<u>15,000</u>	<u>15,000</u>	<u>15,188</u>
<u>EXPENDITURES</u>			
Economic Development			
Contracted Services	6,000	6,000	500
Community Projects	10,600	10,600	1,171
Other	800	800	0
Total Expenditures	<u>17,400</u>	<u>17,400</u>	<u>1,671</u>
Excess (Deficiency) of Revenues Over Expenditures	(2,400)	(2,400)	13,517
<u>FUND BALANCE</u> - Beginning of the Year	<u>7,300</u>	<u>7,300</u>	<u>7,229</u>
<u>FUND BALANCE</u> - End of the Year	<u>\$ 4,900</u>	<u>\$ 4,900</u>	<u>\$ 20,746</u>



**Baird, Cotter & Bishop, P.C.**

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July 7, 2020

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 29, 2020. 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 March 3, 2020. 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 2019-2020. 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. 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 and providing client assistance as the client knew the adjustment was necessary but requested our assistance except for additional entries related to the utilities receivables and unrecorded transactions.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 7, 2020.

### *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 29, 2020, we noted the following items which we feel deserve comment:

#### Bank Reconciliations (Repeat Comment)

It was noted that monthly bank reconciliations of the pooled cash account were completed through November with minimal unreconciled differences. Due to the change in personnel, the bank reconciliations were not completed in the last few months of the fiscal year. We

recommend the pooled-account bank balance is reconciled to the book balance of each individual fund in the computerized general ledger with no unreconciled differences on a monthly basis.

Budget (Repeat Comment)

Various activities in the General, Major Street, and Campground Funds had expenditures that exceeded appropriations. We recommend that the Village monitor expenditures during the year and amend the budget as necessary.

Bank Reconciliation Review (Repeat Comment)

We previously recommended that a council member review and initial the bank statement each month. It appears this process was done most months, but not all. 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 (Repeat Comment)

As of February 29, 2020, the Village's Campground Fund had a deficit fund balance of \$19,592. The Village should approve a plan to correct this deficit.

Disbursements (Repeat Comment)

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 Checks

We noted that during the fiscal year, an employee was being advanced payroll checks. This is a violation of state law. We recommend that the President and/or Council review each payroll before signing the check to verify the accuracy.

Pre-signed checks

During the fiscal year, it was discovered that the previous Clerk had a stack of signed blank checks. Per the accounting procedures manual, this is an unacceptable practice. We recommend to never sign blank checks and to require an additional signature on each check once the expenditure has been approved.

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.

*Baird, Cotter & Bishop, P.C.*



**Baird, Cotter & Bishop, P.C.**

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July 7, 2020

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 29, 2020, 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 July 7, 2020.

**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 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 and Sewer Funds.

Condition: The government has no procedures in place to perform the utility reconciliations to compare the billing software to the general ledger system.

Cause: The condition is primarily caused by the changes in personnel throughout the year.

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

Recommendation: We recommend that the account balances in the water and sewer fund general 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 create a process reconcile the utility receivables on a regular basis in the future and remedy any differences between the billing software and the related accounts receivable control accounts in the general ledger software in a timely manner.

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

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

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

Condition: The Clerk of the Village has the requirements imposed by the State of Michigan to ensure transactions are recorded, processed, and summarized timely in a manner prescribed by the Michigan Department of Treasury. During the year this process was not functioning properly.

Cause: This condition was caused by the personnel changes during the year causing the input of the data into the recordkeeping system to be incorrect and untimely.

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

Recommendation: We recommend that transactions be recorded, processed, and summarized in a timely manner and that bank accounts be reconciled each month.

View of Responsible Officials: The Village is aware of this problem and has hired a new full-time Clerk. They are in the process of trying to implement procedures to correct and mitigate these problems in the future.

5) *Auditor Proposed Material Journal Entries*

Criteria: The Village is responsible for making adjustments other than those that are less than material or are related to client assistance.

Condition: During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the Village's general ledger to the appropriate balances. These entries were necessary to adjust accounts receivable accounts, various cash accounts, and utility billing and campground revenue accounts.

Cause: Balance sheet accounts were not reconciled at the end of the year and several others had never been recorded in the accounting system.

Effect: This resulted in significant efforts to reconcile and correct balances at the end of the year.

Recommendation: We recommend that the Village implement procedures to ensure that all general ledger accounts are reconciled to the subsidiary detail on a monthly basis in order to ensure accurate financial records.

View of Responsible Officials: Management of the Village believes this was a problem involving old staff and that it will be corrected as they transition into having new staff available for assistance throughout the year. The Village does not see this as an issue in the future.

Corrective Action: The Village now has an accounting system that has balances that agree to the audited financial statements and a better understanding of the requirements and responsibility for making material adjustments on their own accord. The Village will also consult outside sources as needed throughout the year which they feel will eliminate auditor proposed material journal entries.

## **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.*