

**VILLAGE OF HARRIETTA, MICHIGAN**

**DECEMBER 31, 2014**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

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VILLAGE OF HARRIETTA, MICHIGAN

DECEMBER 31, 2014

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May 22, 2015

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Harrietta  
Harrietta, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Harrietta, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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 principles 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 and each major fund of the Village of Harrietta, Michigan as of December 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iii through viii and budgetary comparison information on pages 16-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BAIRD, COTTER AND BISHOP, P.C.

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

VILLAGE OF HARRIETTA, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

As management of the Village of Harrietta ("the Village"), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

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

**Financial Highlights**

- ❖ The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$621,182 (*net position*). Of this amount, \$25,105 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ At the close of the current fiscal year, the Village of Harrietta's governmental funds reported combined fund balances of \$87,879, an increase of \$18,468 in comparison with the prior year. Approximately 23% of this amount (\$18,152) is available for spending at the government'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 \$20,556.
- ❖ The Village of Harrietta remains debt free as of December 31, 2014.

**Overview of the Financial Statements**

This discussion and analysis provided here is intended to serve as an introduction to the Village of Harrietta's basic financial statements. The Village of Harrietta's 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 HARRIETTA, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

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 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 most of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, recreation and culture, and other functions. The Village does not have any business-type activities.

**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 of Harrietta, 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 fit the criteria of one type of fund, governmental funds.

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

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

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

**Notes to Financial Statements.** The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

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

VILLAGE OF HARRIETTA, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

**Government-Wide 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 Harrietta, assets exceeded liabilities by \$621,182, at the close of the most recent fiscal year.

**Village of Harrietta**  
**Net Position as of December 31, 2014**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 91,043
Non Current Assets	
Capital Assets	750,289
Less: Accumulated Depreciation	(219,828)
Total Non Current Assets	530,461
<b>Total Assets</b>	<b>621,504</b>
<b>Liabilities</b>	
Current Liabilities	322
<b>Net Position</b>	
Net Investment in Capital Assets	530,461
Restricted for Specific Purposes	65,616
Unrestricted	25,105
<b>Total Net Position</b>	<b>\$ 621,182</b>

The largest portion of the Village's net position (85%) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Village used to acquire or construct 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.

An additional portion of the Village's net position represents resources, \$65,616, that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position, \$25,105, and it may be used to meet the Village's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Village is able to report positive balances in all categories of net position. The same situation held true for the prior fiscal year.

VILLAGE OF HARRIETTA, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

The Village of Harrietta's overall net position decreased by \$6,284 from the prior fiscal year. The reasons for this overall decrease are discussed in the following sections for governmental activities.

**Village of Harrietta**  
**Change in Net Position**  
**for the Fiscal Year Ended December 31, 2014**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 3,020
Operating Grants and Contributions	32,167
<b>General Revenues</b>	
Taxes	12,566
State Shared Revenues	10,926
Investment Earnings	29
<b>Total Revenues</b>	58,708
<b><u>Expenses</u></b>	
General Government	15,727
Public Safety	6,323
Public Works	33,890
Recreation and Culture	4,084
Other Functions	4,968
<b>Total Expenses</b>	64,992
Changes in Net Position	(6,284)
<b><u>NET POSITION</u> - Beginning of Year</b>	627,466
<b><u>NET POSITION</u> - End of Year</b>	\$ 621,182

**Governmental Activities**

During the current fiscal year, net position for the governmental activities decreased \$6,284 from the prior fiscal year for an ending balance of \$621,182. The most significant portion of the revenue for all governmental activities of the Village of Harrietta comes from operating grants and contributions.

The Village's governmental activities expenses are dominated by the Public Works and General Government expenses. The Village spent \$33,890 on Public Works during the fiscal year. Expenses in the Major Street Fund and Local Street Fund represent a large part of the Public Works expenses. General Government represented the next largest expense at \$15,727.



VILLAGE OF HARRIETTA, MICHIGAN  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

**Financial Analysis of the Government’s Funds**

**Governmental Funds** The focus of the Village of Harrietta’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 of Harrietta’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 been limited to use for a particular purpose by either an external party, the Village of Harrietta itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the Village of Harrietta’s council.

At December 31, 2014, the Village of Harrietta’s governmental funds reported combined fund balances of \$87,879, an increase of \$18,468 in comparison with the prior year. Approximately \$18,152 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 is 1) not in spendable form (\$1,707), 2) legally required to be maintained intact, 3) restricted for particular purposes (\$65,616), 4) committed for particular purposes, or 5) assigned for particular purposes (\$2,404).

**General Fund** – The fund balance of the Village of Harrietta’s General Fund decreased its fund balance in this fiscal year by \$1,271, bringing the balance to \$22,263.

**Major Street Fund** – The Major Street Fund increased its fund balance in this fiscal year by \$4,933, bringing the balance to \$21,996. The increase occurred because the Major Street Fund did not have any major expenses during the year.

**Local Street Fund** – The Local Street Fund increased its fund balance in this fiscal year by \$14,806, bringing the balance to \$43,620. The increase occurred because the Local Street Fund did not have any major expenses during the year.

**General Fund Budgetary Highlights**

During the year, there were no changes in appropriations between the original budget and final amended. 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</u>	<u>FINAL</u>	<u>ACTUAL</u>
	<u>BUDGET</u>	<u>BUDGET</u>	<u>BUDGET</u>
Total Revenues	<u>\$ 26,950</u>	<u>\$ 26,950</u>	<u>\$ 27,731</u>
Total Expenditures	<u>\$ 28,441</u>	<u>\$ 28,441</u>	<u>\$ 29,002</u>

The variance between actual revenues and actual expenditures and budgeted revenues and budgeted expenditures were minimal.

VILLAGE OF HARRIETTA, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED DECEMBER 31, 2014

**Capital Asset and Debt Administration**

**Capital Assets.** The Village of Harrietta's investment in capital assets for the governmental activities as of December 31, 2014, amounted to \$530,461 (net of accumulated depreciation). This investment in capital assets includes land, building and improvements, furniture and equipment, and roads and streets. Detail of these capital assets is shown below.

**Village of Harrietta**  
**Capital Assets as of December 31, 2014**

	<b>Governmental Activities</b>
Land	\$ 5,425
Buildings and Improvements	112,315
Furniture and Equipment	49,915
Roads and Streets	582,634
	<hr/> 750,289
Less Accumulated Depreciation	(219,828)
	<hr/>
<b>Net Capital Assets</b>	<b>\$ 530,461</b>

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

**Long-Term Debt.** As noted earlier, the Village of Harrietta remains debt free as of December 31, 2014.

**Economic Factors Affecting the Village's Future**

It appears that state-shared revenues and property tax revenues have stabilized. The village continues to look for ways to improve the services it provides to its residents in a manner that is financially responsible.

Factors such as this were considered in preparing the Village's budgets for the 2015 fiscal year.

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Harrietta, P.O. Box 40, Harrietta, Michigan 49638.

VILLAGE OF HARRIETTA, MICHIGAN

STATEMENT OF NET POSITION

DECEMBER 31, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 77,987
Due from Other Governments	9,699
Prepaid Expenses	1,707
Taxes Receivable	1,650
	<hr/>
Total Current Assets	91,043
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	5,425
Building and Improvements	112,315
Furniture and Equipment	49,915
Roads and Streets	582,634
	<hr/>
	750,289
Less Accumulated Depreciation	219,828
Net Capital Assets	530,461
	<hr/>
TOTAL ASSETS	621,504
	<hr/>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Payroll Withholdings Payable	322
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	530,461
Restricted for Street Improvements	65,616
Unrestricted	25,105
	<hr/>
TOTAL NET POSITION	\$ 621,182
	<hr/> <hr/>

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

VILLAGE OF HARRIETTA, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION TOTALS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
<u>GOVERNMENTAL ACTIVITIES</u>					
General Government	\$ 15,727	\$ 0	\$ 130	\$ 0	\$ (15,597)
Public Safety	6,323	0	0	0	(6,323)
Public Works	33,890	3,020	32,037	0	1,167
Recreation and Culture	4,084	0	0	0	(4,084)
Other Functions	4,968	0	0	0	(4,968)
Total Governmental Activities	\$ 64,992	\$ 3,020	\$ 32,167	\$ 0	(29,805)
<u>GENERAL REVENUES</u>					
					12,566
Taxes					10,926
State Shared Revenue					29
Investment Earnings					23,521
Total General Revenues					23,521
Change in Net Position					(6,284)
<u>NET POSITION</u> - Beginning of Year					627,466
<u>NET POSITION</u> - End of Year					\$ 621,182

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

VILLAGE OF HARRIETTA, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
DECEMBER 31, 2014

	MAJOR FUNDS			TOTALS
	GENERAL FUND	MAJOR STREET	LOCAL STREET	
<u>ASSETS</u>				
Cash	\$ 17,052	\$ 19,098	\$ 41,837	\$ 77,987
Due from Other Governments	3,826	2,898	2,975	9,699
Prepaid Expenditures	1,707	0	0	1,707
Taxes Receivable	1,650	0	0	1,650
TOTAL ASSETS	\$ 24,235	\$ 21,996	\$ 44,812	\$ 91,043
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Payroll Withholdings Payable	\$ 322	\$ 0	\$ 0	\$ 322
 <u>DEFERRED INFLOWS OF RESOURCES</u>				
Unavailable Revenue - State Grant	0	0	1,192	1,192
Unavailable Revenue - Property Taxes	1,650	0	0	1,650
Total Deferred Inflows of Resources	1,650	0	1,192	2,842
 <u>FUND BALANCE</u>				
Nonspendable for Prepaid Expenditures	1,707	0	0	1,707
Restricted for Street Improvements	0	21,996	43,620	65,616
Assigned for 2015 Budget Shortfall	2,404	0	0	2,404
Unassigned	18,152	0	0	18,152
Total Fund Balance	22,263	21,996	43,620	87,879
 <u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>				
	\$ 24,235	\$ 21,996	\$ 44,812	\$ 91,043

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

VILLAGE OF HARRIETTA, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2014

Total Fund Balances for Governmental Funds \$ 87,879

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

Other long-term assets are not available to pay for current period expenditures  
and therefore are recorded as deferred inflows of resources in the funds.

Unavailable Revenue - State Grant	\$ 1,192	
Unavailable Revenue - Property Taxes	<u>1,650</u>	2,842

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

Land	5,425	
Building and Improvements	112,315	
Furniture and Equipment	49,915	
Roads and Streets	582,634	
Accumulated Depreciation	<u>(219,828)</u>	530,461

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 621,182

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

VILLAGE OF HARRIETTA, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED DECEMBER 31, 2014

	<u>MAJOR FUNDS</u>			<u>TOTALS</u>
	<u>GENERAL FUND</u>	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	
<u>REVENUES</u>				
Taxes	\$ 12,463	\$ 0	\$ 0	\$ 12,463
State Grants	12,114	19,852	9,805	41,771
Interest and Rents	3,024	13	12	3,049
Other Revenue	130	0	0	130
<b>Total Revenues</b>	<b>27,731</b>	<b>19,865</b>	<b>9,817</b>	<b>57,413</b>
<u>EXPENDITURES</u>				
General Government	12,707	0	0	12,707
Public Safety	6,323	0	0	6,323
Public Works	4,749	5,418	4,525	14,692
Recreation and Culture	255	0	0	255
Other Functions	4,968	0	0	4,968
<b>Total Expenditures</b>	<b>29,002</b>	<b>5,418</b>	<b>4,525</b>	<b>38,945</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,271)	14,447	5,292	18,468
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	0	0	9,514	9,514
Operating Transfers Out	0	(9,514)	0	(9,514)
<b>Total Other Financing Sources (Uses)</b>	<b>0</b>	<b>(9,514)</b>	<b>9,514</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>(1,271)</b>	<b>4,933</b>	<b>14,806</b>	<b>18,468</b>
<u>FUND BALANCE</u> - Beginning of Year	23,534	17,063	28,814	69,411
<u>FUND BALANCE</u> - End of Year	\$ 22,263	\$ 21,996	\$ 43,620	\$ 87,879

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

VILLAGE OF HARRIETTA, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED DECEMBER 31, 2014

Net Change in Fund Balance - Total Governmental Funds \$ 18,468

Amounts reported for governmental activities are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Change in property tax revenue unavailable using the modified accrual method.	103
Change in state grant revenue unavailable using the modified accrual method.	1,192

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

Depreciation Expense	\$ (26,047)	
Capital Outlay	0	(26,047)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (6,284)

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



VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governmental is financially accountable. The Village of Harrietta does not have any fiduciary activities, business-type activities, or component units.

**B. Reporting Entity**

The Village of Harrietta (“the Village”) is located in Wexford County and provides services to its residents in many areas including public safety, highways and streets, public improvements, general administrative services, and recreation and culture. The Village was incorporated in 1891 and is a municipal entity governed by an elected 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. Separate financial statements are provided for governmental funds.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government’s funds. The emphasis of fund financial statements is on major governmental, each displayed in a separate column.

The Village of Harrietta 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.

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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.

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.

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.

**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

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

- Prior to January 1, the Village Clerk 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.
- 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.
- Encumbrance accounting is not employed in governmental funds.

***2. Excess of Expenditures over Appropriations***

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Public Safety		
Fire Department	\$ 6,128	\$ 6,323
Recreation and Culture		
Parks and Recreation	0	255
Public Works		
Street Lights	3,300	4,749
Major Street Fund		
Public Works		
Street Department	5,044	5,418

These overages were funded by greater than anticipated revenues and available fund balance.

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

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

**1. Cash and Cash Equivalents**

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

Investments - The Village's investment policy is in compliance with state law and authorizes the Village to invest in passbook savings accounts, negotiable and nonnegotiable certificates of deposit, repurchase agreements backed by the United States government or federal agency obligations, United States Treasury bills and bonds, bankers acceptances, federal agency instruments, money market funds and commercial paper.

**2. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures when consumed rather than when purchased.

**3. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, 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 \$1,000 (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 estimated fair market value at date of donation.

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

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

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings and Improvements	40
Furniture and Equipment	5-10
Roads and Streets	10-40

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**4. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial 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 does not have any deferred outflows of resources.

In addition to liabilities, the statement of financial 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 has two items that fit this criteria and those are state grants related to Public Act 252 in the Local Street Fund, and property taxes in the General Fund. These deferred inflows of resources are only recognized on the modified accrual basis of accounting and therefore are only reported in the fund financial statements.

**5. *Net Position Flow Assumption***

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

**6. *Fund Balance Flow Assumption***

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

**7. *Fund Balance Policies***

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

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

making authority. The governing council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an addition action is essential to either remove or revise a commitment.

**8. *Use of Estimates***

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

**H. Revenues and Expenditures/Expenses**

**1. *Program Revenues***

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. *Property Taxes***

Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1, and become delinquent after August 9. 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 2014 taxable valuation of the Village of Harrietta totaled \$2,526,848, on which ad valorem taxes levied consisted of 5.00 mills for the Village of Harrietta operating purposes.

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note I.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended December 31, 2014.

**III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Cash Deposits with Financial Institutions**

The Village's deposits are owned by several of the Village's funds. Bank deposits are in Chemical 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 December 31, 2014, none of the Village's bank balance of \$78,931 was exposed to custodial credit risk because it was insured and collateralized. Although the Village's investment policy does not directly address custodial credit risk, it typically limits its exposure by controlling who holds the Village's deposits.

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

**B. Receivables**

Receivables as of year end for the government's individual major funds are as follows:

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Receivables				
Taxes Receivable	\$ 1,650	\$ 0	\$ 0	\$ 1,650
Due from Other Governments	3,826	2,898	2,975	9,699
	<u>\$ 5,476</u>	<u>\$ 2,898</u>	<u>\$ 2,975</u>	<u>\$ 11,349</u>

Amounts due from other governments include amounts due from state sources for various projects and programs.

VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

**C. Capital Assets**

<u>Governmental Activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 5,425	\$ 0	\$ 0	\$ 5,425
Capital Assets, Being Depreciated				
Buildings and Improvements	112,315	0	0	112,315
Furniture and Equipment	49,915	0	0	49,915
Roads and Streets	582,634	0	0	582,634
Total Capital Assets, Being Depreciated	744,864	0	0	744,864
Less Accumulated Depreciation for:				
Buildings and Improvements	71,623	2,875	0	74,498
Furniture and Equipment	15,459	3,974	0	19,433
Roads and Streets	106,699	19,198	0	125,897
Total Accumulated Depreciation	193,781	26,047	0	219,828
Total Capital Assets, Being Depreciated, Net	551,083	(26,047)	0	525,036
Governmental Activities Capital Assets, Net	\$ 556,508	\$ (26,047)	\$ 0	\$ 530,461

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

Governmental Activities	
General Government	\$ 3,020
Public Works	19,198
Recreation and Culture	3,829
Total Depreciation Expense - Governmental Activities	<u>\$ 26,047</u>

**D. Interfund Receivables, Payables and Transfers**

Remaining balances generally result 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. There were no interfund balances as of December 31, 2014.



VILLAGE OF HARRIETTA, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

Interfund Transfers as of December 31, 2014, were:

	TRANSFERS	
	IN	OUT
Primary Government		
Major Street Fund	\$ 0	\$ 9,514
Local Street Fund	9,514	0
	<u>\$ 9,514</u>	<u>\$ 9,514</u>

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. Risk Management**

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

The Village participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and worker's disability compensation. The pools are considered public entity risk pools. The Village pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The Village has not been informed to any special assessments being required for the current year or the three prior years.

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

VILLAGE OF HARRIETTA, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b><u>REVENUES</u></b>									
Taxes	\$ 13,000	\$ 13,000	\$ 12,463	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
State Grants	11,300	11,300	12,114	17,000	17,000	19,852	6,900	6,900	9,805
Interest and Rents	2,650	2,650	3,024	0	0	13	15	15	12
Other Revenue	0	0	130	0	0	0	0	0	0
<b>Total Revenues</b>	<b>26,950</b>	<b>26,950</b>	<b>27,731</b>	<b>17,000</b>	<b>17,000</b>	<b>19,865</b>	<b>6,915</b>	<b>6,915</b>	<b>9,817</b>
<b><u>EXPENDITURES</u></b>									
General Government									
Village Council	1,940	1,940	1,480	0	0	0	0	0	0
President	2,150	2,150	2,126	0	0	0	0	0	0
Clerk	2,250	2,250	2,166	0	0	0	0	0	0
Treasurer	2,250	2,250	2,232	0	0	0	0	0	0
Building and Grounds	4,725	4,725	4,703	0	0	0	0	0	0
Public Safety									
Fire Department	6,128	6,128	6,323	0	0	0	0	0	0
Public Works									
Street Lights	3,300	3,300	4,749	0	0	0	0	0	0
Street Department	0	0	0	5,044	5,044	5,418	13,108	13,108	4,525
Recreation and Culture									
Parks and Recreation	0	0	255	0	0	0	0	0	0
Other Functions									
Payroll Taxes, Insurance, and Miscellaneous	5,698	5,698	4,968	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>28,441</b>	<b>28,441</b>	<b>29,002</b>	<b>5,044</b>	<b>5,044</b>	<b>5,418</b>	<b>13,108</b>	<b>13,108</b>	<b>4,525</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,491)	(1,491)	(1,271)	11,956	11,956	14,447	(6,193)	(6,193)	5,292

VILLAGE OF HARRIETTA, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED DECEMBER 31, 2014

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	0	0	0	0	0	0	8,500	8,500	9,514
Transfers Out	0	0	0	(8,500)	(8,500)	(9,514)	0	0	0
Total Other Financing Sources (Uses)	0	0	0	(8,500)	(8,500)	(9,514)	8,500	8,500	9,514
Net Change in Fund Balance	(1,491)	(1,491)	(1,271)	3,456	3,456	4,933	2,307	2,307	14,806
<u>FUND BALANCE</u> - Beginning of Year	0	0	23,534	0	0	17,063	0	0	28,814
<u>FUND BALANCE</u> - End of Year	\$ (1,491)	\$ (1,491)	\$ 22,263	\$ 3,456	\$ 3,456	\$ 21,996	\$ 2,307	\$ 2,307	\$ 43,620



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

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May 22, 2015

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

To the Village Council  
Village of Harrietta  
Harrietta, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of Harrietta for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 17, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Harrietta 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 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimates of the useful lives of capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. 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 difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which 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 May 22, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about audit and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village'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*

During the course of our audit of the basic financial statements of the Village of Harrietta for the year ended December 31, 2014, we noted the following item which we feel deserves comment:

#### Budgeting

The Public Act 621 states that the budget document that the Village adopts include the following financial information:

- The actual results from the prior year;
- An estimate of the current year results;
- The proposed budget for the upcoming year;
- Amounts and contingencies, if appropriate; and

- The amount of fund balance accumulated through the end of the current year, and the amount expected at the end of the upcoming year, after applying the budgeted receipts and disbursements.

The Village's budget document does not contain all of the required information. Additionally, the Village is required to amend its budget before incurring expenditures that would otherwise exceed appropriations. For the year ended December 31, 2014, Village expenditures exceeded appropriations in certain activities.

#### Policies

The Village could not produce a copy of their Investment or Capitalization policies; the Village should officially adopt and record in the minutes. We have provided appropriate sample policies for the Council to consider for adoption.

#### Other Matters

We applied certain limited procedures to the Management Discussion and Analysis and the Budgetary Comparison Schedule, 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.

#### Restriction on Use

This information is intended solely for the use of the Council and others within the organization, 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.*



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May 22, 2015

### COMMUNICATION OF MATERIAL WEAKNESSES

To the Village Council  
Village of Harrietta  
Harrietta, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Village of Harrietta as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Harrietta's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Harrietta's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Harrietta's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

*1) 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 size and minimal activity, we recommend that the government continue to outsource financial statement preparation.

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 notes prior to approving them and accepting responsibility for their content and presentation.

## 2) *Segregation of Incompatible Duties and Documented Independent Review*

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

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

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

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

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

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



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

This communication is intended solely for the information and use of the Council and others within the organization, 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.*