

**VILLAGE OF LAKE ANN, MICHIGAN**

**FEBRUARY 28, 2014**



**Baird, Cotter & Bishop, P.C.**  
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CERTIFIED PUBLIC ACCOUNTANTS

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VILLAGE OF LAKE ANN, MICHIGAN

FEBRUARY 28, 2014

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May 20, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Lake Ann  
Benzie County  
Lake Ann, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Lake Ann, Benzie County, Lake Ann, Michigan, as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Village of Lake Ann, Benzie County, Lake Ann, Michigan as of February 28, 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 and budgetary comparison information on pages iii-viii and 14 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 LAKE ANN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

As management of the Village of Lake Ann (“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 February 28, 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 this fiscal year by \$193,453 (shown as *Net Position*). Of this amount, \$59,491 (*Unrestricted Net Position*) may be used to meet the Village’s ongoing obligations to citizens and creditors.
- ❖ As of February 28, 2014, the governmental funds of the Village of Lake Ann reported combined ending fund balances of \$167,393 of which \$59,491 was unassigned.
- ❖ The unassigned fund balance of the Village’s General Fund increased this year to \$59,491.

**Overview of the Financial Statements**

This discussion and analysis is 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. This report also includes supplementary information intended to furnish additional details to support the basic financial statements themselves.

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

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

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

VILLAGE OF LAKE ANN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

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 governmental activities of the Village include general government, public works, community and economic development, recreation and culture, and other functions.

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

**Fund Financial Statements** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Lake Ann, 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 are governmental 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 five 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, Municipal Street Fund and Metro Act Fund, which are considered to be major funds.

The Village adopts an annual budget for all major funds. A budgetary comparison has been provided for to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 3-6 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 7-13 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 LAKE ANN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

**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 Lake Ann, assets exceeded liabilities by \$193,453, at the close of the most recent fiscal year.

**Village of Lake Ann  
Net Position as of February 28, 2014**

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current Assets	\$ 176,750
Non Current Assets	
Capital Assets	37,421
Less: Accumulated Depreciation	<u>(11,361)</u>
Total Non Current Assets	<u>26,060</u>
<b>Total Assets</b>	<u>202,810</u>
<b>Liabilities</b>	
Current Liabilities	<u>9,357</u>
<b>Net Position</b>	
Net Investment in Capital Assets	26,060
Restricted for Special Purposes	107,902
Unrestricted	<u>59,491</u>
<b>Total Net Position</b>	<u>\$ 193,453</u>

A portion of the Village's net position (13%) reflects its net investment in capital assets (e.g. land, buildings, equipment, 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.

An additional portion of the Village's net position (56%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$59,491 is unrestricted, which may be used to meet the government's ongoing obligations to its citizens and creditors.

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

The Village of Lake Ann's overall net position increased by \$17,335 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for the governmental activities.

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

**Village of Lake Ann  
Change in Net Position  
for the Fiscal Year Ended February 28, 2014**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
<b>Program Revenues</b>	
Charges for Services	\$ 100
Operating Grants and Contributions	52,893
<b>General Revenues</b>	
Taxes	12,341
State Shared Revenue	19,818
Investment Earnings	2,020
Other	1,480
<b>Total Revenues</b>	<b>88,652</b>
<b><u>Expenses</u></b>	
General Government	17,796
Public Works	48,522
Community and Economic Development	1,546
Recreation and Culture	2,682
Other Functions	771
<b>Total Expenses</b>	<b>71,317</b>
Change in Net Position	17,335
<b><u>NET POSITION</u> - Beginning of Year</b>	<b>176,118</b>
<b><u>NET POSITION</u> - End of Year</b>	<b>\$ 193,453</b>

**Governmental Activities**

The most significant part of the revenue for all governmental activities of the Village of Lake Ann comes from operating grants and contributions. The majority of this amount comes from Act 51 revenues from the State of Michigan for Street expenses.

The Village's governmental activities expenses are dominated by the Public Works and General Government expenses. The Village spent \$48,522 in fiscal year 2014 on Public Works. General Government represented the next largest expense at \$17,796. Expenses in the Major Street Fund and Local Street Fund represent a large part of the Public Works expenditures.



VILLAGE OF LAKE ANN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

**Financial Analysis of the Governmental Funds**

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

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

At February 28, 2014, the Village of Lake Ann's governmental fund reported a fund balance of \$167,393, an increase of \$18,314 in comparison with the prior year. Approximately 36% of this amount (\$59,491) 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 (\$107,902), 4) committed for particular purposes, or 5) assigned for particular purposes.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund increased its fund balance in this fiscal year by \$8,442, bringing the balance to \$59,491.

**Major Street Fund** – The Major Street Fund decreased its fund balance in this fiscal year by \$964, bringing the balance to \$77,252. The balance in this fund is restricted for Street Improvements.

**Local Street Fund** – The Local Street Fund increased its fund balance in this fiscal year by \$249, bringing the balance to \$19,419. The balance in this fund is restricted for Street Improvements.

**Municipal Street Fund** – The Municipal Street Fund was a new fund for a county-wide millage. The balance is restricted for street improvements.

**Metro Act Fund** – The Metro Act Fund decreased its fund balance in this fiscal year by \$644, bringing the balance to \$0. The balance in this fund is restricted for Right of Way Maintenance.

**General Fund Budgetary Highlights**

During the year, there were no changes in appropriations between the original budget and final amended budget.

VILLAGE OF LAKE ANN, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2014

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

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 32,000	\$ 32,000	\$ 34,679
Total Expenditures	\$ 32,000	\$ 32,000	\$ 26,237

Actual revenues were higher than budgeted mainly due to interest and higher than expected state revenues. Expenditures were below budget due to a decrease in professional fees and conservative spending.

**Capital Assets**

**Capital Assets** The Village's investment in capital assets for the governmental activities as of February 28, 2014, amounted to \$26,060 (net of accumulated depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 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 Lake Ann  
Capital Assets as of February 28, 2014**

Land	\$ 2,000
Buildings	5,200
Infrastructure	30,221
Total Assets	<u>37,421</u>
Less Accumulated Depreciation	<u>11,361</u>
Capital Assets, Net of Depreciation	<u>\$ 26,060</u>

**Economic Condition and Outlook**

It appears that state-shared revenues have stabilized and are expected to remain near the level recorded in 13/14.

This factor was considered in preparing the Village's budgets for the 2014-15 fiscal year.

**Request for Information**

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 financial resources entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Lake Ann, P.O. Box 61, Lake Ann, MI, 49650.

VILLAGE OF LAKE ANN, MICHIGAN

STATEMENT OF NET POSITION

FEBRUARY 28, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 146,542
Due from Other Governments	30,208
	<hr/>
Total Current Assets	176,750
	<hr/>
<u>CAPITAL ASSETS</u>	
Land	2,000
Buildings	5,200
Infrastructure	30,221
	<hr/>
	37,421
Less Accumulated Depreciation	11,361
Net Capital Assets	26,060
	<hr/>
Total Assets	202,810
	<hr/>
<u>LIABILITIES AND NET POSITION</u>	
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts Payable	7,630
Payroll Taxes Payable	1,727
	<hr/>
Total Current Liabilities	9,357
	<hr/>
<u>NET POSITION</u>	
Net Investment in Capital Assets	26,060
Restricted for Special Purposes	107,902
Unrestricted	59,491
	<hr/>
TOTAL NET POSITION	\$ 193,453
	<hr/> <hr/>

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

VILLAGE OF LAKE ANN, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 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	\$ 17,796	\$ 100	\$ 0	\$ 0	\$ (17,696)
Public Works	48,522	0	52,893	0	4,371
Community and Economic Development	1,546	0	0	0	(1,546)
Recreation and Culture	2,682	0	0	0	(2,682)
Other Functions	771	0	0	0	(771)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 71,317</b>	<b>\$ 100</b>	<b>\$ 52,893</b>	<b>\$ 0</b>	<b>(18,324)</b>
<u>GENERAL REVENUES</u>					
Taxes					12,341
State Shared Revenue					19,818
Investment Earnings					2,020
Other					1,480
Total General Revenues					35,659
Change in Net Position					17,335
<u>NET POSITION</u> - Beginning of Year					176,118
<u>NET POSITION</u> - End of Year					\$ 193,453

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

VILLAGE OF LAKE ANN, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 28, 2014

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	MUNICIPAL STREET FUND	METRO ACT FUND	TOTALS
<u>ASSETS</u>						
Cash	\$ 55,503	\$ 74,114	\$ 16,925	\$ 0	\$ 0	\$ 146,542
Due from Other Governments	6,256	8,455	4,266	11,231	0	30,208
<b>TOTAL ASSETS</b>	<b>\$ 61,759</b>	<b>\$ 82,569</b>	<b>\$ 21,191</b>	<b>\$ 11,231</b>	<b>\$ 0</b>	<b>\$ 176,750</b>
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Accounts Payable	\$ 541	\$ 5,317	\$ 1,772	\$ 0	\$ 0	\$ 7,630
Payroll Taxes Payable	1,727	0	0	0	0	1,727
<b>Total Liabilities</b>	<b>2,268</b>	<b>5,317</b>	<b>1,772</b>	<b>0</b>	<b>0</b>	<b>9,357</b>
<u>FUND BALANCE</u>						
Restricted for:						
Street Improvements	0	77,252	19,419	11,231	0	107,902
Unassigned	59,491	0	0	0	0	59,491
<b>Total Fund Balance</b>	<b>59,491</b>	<b>77,252</b>	<b>19,419</b>	<b>11,231</b>	<b>0</b>	<b>167,393</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 61,759</b>	<b>\$ 82,569</b>	<b>\$ 21,191</b>	<b>\$ 11,231</b>	<b>\$ 0</b>	<b>\$ 176,750</b>

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

VILLAGE OF LAKE ANN, MICHIGAN  
GOVERNMENTAL FUNDS

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

Total Fund Balances for Governmental Funds \$ 167,393

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	\$ 2,000	
Buildings	5,200	
Infrastructure	30,221	
Accumulated Depreciation	<u>(11,361)</u>	26,060

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 193,453

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

VILLAGE OF LAKE ANN, MICHIGAN  
GOVERNMENTAL FUNDS

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

	GENERAL FUND	MAJOR STREET FUND	LOCAL STREET FUND	MUNICIPAL STREET FUND	METRO ACT FUND	TOTALS
<u>REVENUES</u>						
Taxes	\$ 12,341	\$ 0	\$ 0	\$ 0	\$ 0	\$ 12,341
Licenses and Permits	765	0	0	0	0	765
State Grants	19,818	29,776	10,285	0	1,601	61,480
Contribution from Local Unit	0	0	0	11,231	0	11,231
Charges for Services	100	0	0	0	0	100
Interest and Rents	940	921	159	0	0	2,020
Other Revenues	715	0	0	0	0	715
Total Revenues	34,679	30,697	10,444	11,231	1,601	88,652
<u>EXPENDITURES</u>						
General Government	17,623	0	0	0	0	17,623
Public Works	3,615	31,661	10,195	0	2,245	47,716
Community and Economic Development	1,546	0	0	0	0	1,546
Recreation and Culture	2,682	0	0	0	0	2,682
Other Functions	771	0	0	0	0	771
Total Expenditures	26,237	31,661	10,195	0	2,245	70,338
Net Change in Fund Balance	8,442	(964)	249	11,231	(644)	18,314
<u>FUND BALANCES</u> - Beginning of Year	51,049	78,216	19,170	0	644	149,079
<u>FUND BALANCES</u> - End of Year	\$ 59,491	\$ 77,252	\$ 19,419	\$ 11,231	\$ 0	\$ 167,393

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

VILLAGE OF LAKE ANN, MICHIGAN  
GOVERNMENTAL FUNDS

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

Net Change in Fund Balance - Total Governmental Funds \$ 18,314

Amounts reported for governmental activities are different because:

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 (979)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 17,335

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



**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. *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 Lake Ann does not have any *business-type activities* or *component units*.

**B. Reporting Entity**

The Village of Lake Ann, Michigan, was incorporated under the laws of the State of Michigan and operates under a Village Council. Under the criteria established by accounting principles generally accepted in the United States of America, the Village has determined that there are no component units which should be included in its reporting entity.

**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 and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**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 funds, each displayed in a separate column.

The Village of Lake Ann 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 *Municipal Street Fund* is used to account for a county-wide millage. The funds are restricted for road improvements.

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

The *Metro Act Fund* is used to account for the financial activity of the metro act funds designated by the State of Michigan.

**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, franchise taxes, licenses, interest and special assessments 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.

**F. Budgetary Information**

**1. Budgetary Basis of Accounting**

1. Prior to February 28, the Village President submits to the Village Council a proposed operating budget for all governmental funds for the fiscal year commencing the following March 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

3. Prior to February 28, the Village Council holds a public hearing and adopts a resolution approving the budget. Budgets are submitted on a line-item basis but adopted by the Council at the activity level.
4. 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.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
6. 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.
7. Encumbrance accounting is not used by the Village.

**2. *Excess of Expenditures Over Appropriations***

The expenditures in the Metro Act Fund exceeded appropriations by \$95.

**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.

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.

**2. *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**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 \$5,000 (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.

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

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 are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	40-60
Building Improvements	15-30
Roads	10-30
Infrastructure	15-40
Vehicles	3-5
Equipment	3-5

**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 items that qualify for reporting in this category.

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 no items that qualify for reporting in this category.

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

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

**6. *Fund Balance Flow Assumptions***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted fund balance to have been 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.

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**7. *Fund Balance Policies***

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

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

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**2. Property Taxes**

Property taxes attach as an enforceable lien on the property as of the date they are levied. County, Village, and State Education taxes are levied and due July 1, and become delinquent after August 14. The remaining millages are levied and due December 1, and become delinquent after February 14. 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 unavailable revenues.

The 2013 taxable valuation of the local governmental unit totaled \$11,976,751, on which ad valorem taxes levied consisted of 1.0225 mills for the local governmental operating purposes. This amount is recognized in the General Fund as tax revenue.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

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

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

**A. Deposits with Financial Institutions**

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the Village’s deposits may not be returned to it. As of February 28, 2014, none of the Village’s bank balance of \$154,678 was exposed to custodial credit risk because it was insured and collateralized. Although it is not specifically addressed in the Village’s investment policy, the Village typically limits its exposure to this type of risk by controlling who holds its 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:

	General	Major Street	Local Street	Municipal Street Fund	Total
Receivables					
Due from Other Governments	\$ 6,256	\$ 8,455	\$ 4,266	\$ 11,231	\$ 30,208

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 include state-shared revenues and Act 51 revenues.

VILLAGE OF LAKE ANN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2014

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Capital assets, being depreciated				
Buildings	5,200	0	0	5,200
Infrastructure	30,221	0	0	30,221
Total capital assets, being depreciated	35,421	0	0	35,421
Less accumulated depreciation for:				
Buildings	3,945	173	0	4,118
Infrastructure	6,437	806	0	7,243
Total accumulated depreciation	10,382	979	0	11,361
Total capital assets, being depreciated, net	25,039	(979)	0	24,060
Governmental activities capital assets, net	\$ 27,039	\$ (979)	\$ 0	\$ 26,060

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

Governmental Activities:

General Government	\$ 173
Public Works	806
Total Governmental Activities	<u>\$ 979</u>

**D. 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 for which the Village carries commercial insurance.

VILLAGE OF LAKE ANN, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED FEBRUARY 28, 2014

	<u>GENERAL FUND</u>			<u>MAJOR STREET FUND</u>			<u>LOCAL STREET FUND</u>			<u>MUNICIPAL STREET FUND</u>			<u>METRO ACT FUND</u>		
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<b><u>REVENUES</u></b>															
Taxes	\$ 12,400	\$ 12,400	\$ 12,341	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Licenses and Permits	200	200	765	0	0	0	0	0	0	0	0	0	0	0	0
State Grants	19,000	19,000	19,818	28,000	28,000	29,776	7,000	7,000	10,285	0	0	0	1,500	1,500	1,601
Contribution from Local Unit	0	0	0	0	0	0	0	0	0	0	0	11,231	0	0	0
Charges for Services	0	0	100	0	0	0	0	0	0	0	0	0	0	0	0
Interest and Rents	400	400	940	0	0	921	0	0	159	0	0	0	0	0	0
Other Revenues	0	0	715	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Revenues</b>	<b>32,000</b>	<b>32,000</b>	<b>34,679</b>	<b>28,000</b>	<b>28,000</b>	<b>30,697</b>	<b>7,000</b>	<b>7,000</b>	<b>10,444</b>	<b>0</b>	<b>0</b>	<b>11,231</b>	<b>1,500</b>	<b>1,500</b>	<b>1,601</b>
<b><u>EXPENDITURES</u></b>															
General Government															
Village Council	8,420	8,420	7,807	0	0	0	0	0	0	0	0	0	0	0	0
Village President	1,540	1,540	1,125	0	0	0	0	0	0	0	0	0	0	0	0
Clerk	4,015	4,015	3,995	0	0	0	0	0	0	0	0	0	0	0	0
Treasurer	3,865	3,865	3,464	0	0	0	0	0	0	0	0	0	0	0	0
Attorney	4,770	4,070	1,232	0	0	0	0	0	0	0	0	0	0	0	0
Public Works															
Streets and Highways	0	0	0	28,000	43,500	31,661	7,000	14,800	10,195	0	0	0	1,500	2,150	2,245
Street Lighting	3,800	3,800	3,615												
Community and Economic Development															
Planning	1,040	1,040	601	0	0	0	0	0	0	0	0	0	0	0	0
Zoning	1,500	1,500	945	0	0	0	0	0	0	0	0	0	0	0	0
Recreation and Culture															
Parks and Recreation	2,050	2,750	2,682	0	0	0	0	0	0	0	0	0	0	0	0
Other Functions	1,000	1,000	771	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Expenditures</b>	<b>32,000</b>	<b>32,000</b>	<b>26,237</b>	<b>28,000</b>	<b>43,500</b>	<b>31,661</b>	<b>7,000</b>	<b>14,800</b>	<b>10,195</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,500</b>	<b>2,150</b>	<b>2,245</b>
Net Change in Fund Balance	0	0	8,442	0	(15,500)	(964)	0	(7,800)	249	0	0	11,231	0	(650)	(644)
<b>FUND BALANCE - Beginning of Year</b>	<b>0</b>	<b>0</b>	<b>51,049</b>	<b>0</b>	<b>15,500</b>	<b>78,216</b>	<b>0</b>	<b>7,800</b>	<b>19,170</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>650</b>	<b>644</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 59,491</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 77,252</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 19,419</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 11,231</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>





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

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

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www.bcbcpa.com

May 20, 2014

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

To the Village Council  
Village of Lake Ann  
Benzie County  
Lake Ann, Michigan

We have audited the financial statements of the governmental activities and each major fund of the Village of Lake Ann for the year ended February 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 28, 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 Lake Ann are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013-2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the useful lives of depreciable 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 significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. These adjustments were for accounts payable and due from other governments.

### *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 May 20, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village of Lake Ann'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 Lake Ann'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 Lake Ann's for the year ended February 28, 2014, we noted the following item which we feel deserves comment:

#### General Recordkeeping

The accounting records for the year ended February 28, 2014, were found to be in good order and in compliance with the State's uniform accounting system. We commend the Village for a job well done.

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 inquires of management regarding the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of the Village Council and management of the Village of Lake Ann 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 20, 2014

## COMMUNICATION OF MATERIAL WEAKNESSES

To the Village Council  
Village of Lake Ann  
Benzie County  
Lake Ann, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Village of Lake Ann as of and for the year ended February 28, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Lake Ann'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 Village of Lake Ann's internal control. Accordingly, we do not express an opinion on the effectiveness of Village of Lake Ann's internal control.

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

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

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

This communication is intended solely for the information and use of management, the Village Council and others within Village of Lake Ann, 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.*