

*Village of Lawton*  
*Van Buren County, Michigan*

**FINANCIAL STATEMENTS**

*Year ended February 28, 2013*

---

	<i>Page</i>
<b>INDEPENDENT AUDITOR'S REPORT</b>	3 - 4
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5 - 10
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide financial statements:	
Statement of net position	11
Statement of activities	12
Fund financial statements:	
Balance sheet - governmental funds	13
Statement of revenues, expenditures, and changes in fund balances - governmental funds	14 - 15
Statement of net position - proprietary funds	16
Statement of revenues, expenses, and changes in net position - proprietary funds	17
Statement of cash flows - proprietary funds	18 - 19
Notes to financial statements	20 - 31
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedules:	
General Fund	32 - 33
Major Street Fund	34
Library Fund	35

## INDEPENDENT AUDITOR'S REPORT

To the Village Council  
Village of Lawton, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton, Michigan, as of and for the year ended February 28, 2013, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, as listed in the 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 of material misstatement.

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information the Village of Lawton, Michigan, as of February 28, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Accounting changes*

As described in Note 15 to the financial statements, the Village adopted the provisions of Government Accounting Standards Board (GASB) Statement, No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinions are not modified with respect to these 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, as listed in the contents, 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.

*Siegfried Crandall P.C.*

August 1, 2013

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Village of Lawton's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended February 28, 2013. Please read it in conjunction with the Village's financial statements.

**FINANCIAL HIGHLIGHTS**

- The Village's total net position increased by \$245 thousand (4 percent) as a result of this year's activities. Net position of the governmental activities increased by \$220 thousand, and net position of the business-type activities increased by \$25 thousand.
- Of the \$7.2 million total net position reported, \$1.6 million (22 percent) is unrestricted.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$364 thousand, which represents 38 percent of the actual total General Fund expenditures for the current fiscal year.

**Overview of the financial statements**

The Village's basic financial statements are comprised of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village government, reporting the Village's operations in more detail than the government-wide financial statements.
  - Governmental funds statements explain how general government services, like public safety and public works, were financed in the short-term, as well as what remains for future spending.
  - Proprietary funds statements offer short- and long-term financial information about the activities the government operates like a business and include the Village's sewer and water systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

A comparative analysis of the basic financial statements for 2013 and 2012 is also presented.

**Government-wide financial statements**

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net position and how it has changed. Net position (the difference between the Village's assets and liabilities) is one way to measure the Village's financial health, or position.

- Over time, increases or decreases in the Village's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors, such as changes in the Village's property tax base and the condition of the Village's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as public safety and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's water and sewer system is reported here.
- *Component unit* - The Village includes one other entity in its report - the Downtown Development Authority. Although legally separate, the component unit is important because the Village is financially accountable for it.

### **Fund financial statements**

The fund financial statements provide more detailed information about the Village's most significant funds - not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues (like motor fuel taxes collected for the street funds).

The Village has two types of funds:

- *Governmental funds*. Most of the Village's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.
- *Proprietary funds*. Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds statements, like the government-wide statements, provide both long- and short-term financial information.
  - The Village's enterprise fund (one type of proprietary fund) is the same as its business-type activities but provides more detail and additional information, such as cash flows.
  - The Village uses an internal service fund (the other type of proprietary fund) to report activities that provide services for the Village's other programs and activities. The Village's internal service fund manages the Village's fleet of vehicles and equipment.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$7.2 million. Of this total, \$4.8 million is invested in capital assets and \$796 thousand is restricted for various purposes. Consequently, unrestricted net position was \$1.6 million.

Condensed financial information  
Net position

	Governmental activities		Business-type activities		Totals	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,402,164	\$ 1,522,425	\$ 1,181,234	\$ 1,250,410	\$ 2,583,398	\$ 2,772,835
Capital assets	<u>1,867,296</u>	<u>1,505,837</u>	<u>5,489,695</u>	<u>5,654,996</u>	<u>7,356,991</u>	<u>7,160,833</u>
Total assets	<u>3,269,460</u>	<u>3,028,262</u>	<u>6,670,929</u>	<u>6,905,406</u>	<u>9,940,389</u>	<u>9,933,668</u>
Current and other liabilities	134,488	113,207	67,797	81,823	202,285	195,030
Long-term debt	<u>-</u>	<u>-</u>	<u>2,558,666</u>	<u>2,804,000</u>	<u>2,558,666</u>	<u>2,804,000</u>
Total liabilities	<u>134,488</u>	<u>113,207</u>	<u>2,626,463</u>	<u>2,885,823</u>	<u>2,760,951</u>	<u>2,999,030</u>
Net position:						
Net investment in						
capital assets	1,867,296	1,505,837	2,931,029	2,850,996	4,798,325	4,356,833
Restricted	796,374	823,704	-	-	796,374	823,704
Unrestricted	<u>471,302</u>	<u>585,514</u>	<u>1,113,437</u>	<u>1,168,587</u>	<u>1,584,739</u>	<u>1,754,101</u>
Total net position	<u>\$ 3,134,972</u>	<u>\$ 2,915,055</u>	<u>\$ 4,044,466</u>	<u>\$ 4,019,583</u>	<u>\$ 7,179,438</u>	<u>\$ 6,934,638</u>

Changes in net position

The Village's total revenues were \$2.1 million in the current fiscal year, compared to \$3.1 million in 2012. A \$1.2 million capital grant was received in 2012 in the form of forgiveness of a federal program debt. Approximately 28 percent of the Village's revenues for 2013 comes from property taxes and 31 percent comes from utility charges.

**Village of Lawton**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

The total cost of the Village's programs totaled \$1.9 million in 2013, about \$168 thousand (10 percent) more than last year. Approximately 36 percent of the Village's 2013 expenses comes from providing water and sewer services. General government represents 26 percent. Public safety and public works account for 17 percent and 12 percent, respectively, of the Village's 2013 total expenses.

*Condensed financial information  
Changes in net position*

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Program revenues:						
Charges for services	\$ 48,671	\$ 54,121	\$ 612,951	\$ 741,183	\$ 661,622	\$ 795,304
Operating grants and contributions	301,944	273,576	15,550	-	317,494	273,576
Capital grants	287,594	-	77,442	1,171,022	365,036	1,171,022
General revenues:						
Property taxes	608,866	622,437	-	-	608,866	622,437
State shared revenue	166,226	163,596	-	-	166,226	163,596
Franchise fees	24,921	26,583	-	-	24,921	26,583
Interest income	421	1,143	253	274	674	1,417
Total revenues	<b>1,438,643</b>	<b>1,141,456</b>	<b>706,196</b>	<b>1,912,479</b>	<b>2,144,839</b>	<b>3,053,935</b>
Expenses:						
Legislative	5,994	8,570	-	-	5,994	8,570
General government	486,756	456,223	-	-	486,756	456,223
Public safety	332,330	327,825	-	-	332,330	327,825
Public works	233,534	228,555	-	-	233,534	228,555
Recreation and culture	152,303	163,479	-	-	152,303	163,479
Community and economic development	7,809	7,548	-	-	7,809	7,548
Sewer	-	-	332,176	322,464	332,176	322,464
Water	-	-	349,137	217,484	349,137	217,484
Total expenses	<b>1,218,726</b>	<b>1,192,200</b>	<b>681,313</b>	<b>539,948</b>	<b>1,900,039</b>	<b>1,732,148</b>
Changes in net position	<b>\$ 219,917</b>	<b>\$ (50,744)</b>	<b>\$ 24,883</b>	<b>\$ 1,372,531</b>	<b>\$ 244,800</b>	<b>\$ 1,321,787</b>
Net position, end of year	<b>\$ 3,134,972</b>	<b>\$ 2,915,055</b>	<b>\$ 4,044,466</b>	<b>\$ 4,019,583</b>	<b>\$ 7,179,438</b>	<b>\$ 6,934,638</b>

**Governmental activities**

The increase in governmental activities net position for 2013 includes a \$288 thousand federal grant for a major street project. Revenues were otherwise fairly comparable to the prior year. Expenses increased by \$27 thousand, a little more than 2 percent.

The total cost of governmental activities this year was \$1.2 million. After subtracting the direct charges to those who directly benefited from the programs (\$49 thousand), operating grants and contributions (\$301 thousand), and the capital grant (\$288 thousand), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$581 thousand.

**Business-type activities**

Business-type activities increased the Village's net position by \$25 thousand in the current year. Total revenues decreased by \$1.2 million. The Village received the \$1.2 million capital grant in 2012 for water system construction essentially completed in the prior year. Also, utility charges for 2013 decreased by \$128 thousand due to significant reduced usage by a major customer. Expenses increased by \$141 thousand in the current year, primarily reflecting increased operating costs, depreciation, and interest expense for the water system asset additions.

**FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS**

**Governmental funds.** The Village's governmental funds reported combined ending fund balances of \$1.2 million in 2013, a decrease of \$136 thousand from the prior year.

The General Fund is the primary operating fund of the Village. At the end of the fiscal year, its fund balance was \$373 thousand, a decrease of \$110 thousand, as expenditures continued to exceed revenues.

The Major Street Fund experienced a decrease in its fund balance of \$43 thousand during the fiscal year, as revenues (\$401 thousand) were less than operating and maintenance costs (\$444 thousand) in the current year. The Major Street Fund has a fund balance of \$422 thousand, which is restricted for street preservation.

The Library Fund had a \$41 thousand increase in its fund balance, as revenues (\$166 thousand) exceeded library operating expenditures (\$125 thousand). The Library Fund has a fund balance of \$322 thousand, which is restricted for Library operations.

**Proprietary fund.** The Water and Sewer Fund is identical to the Village's business-type activities described above. Total revenues, including \$629 thousand in customer charges and a federal grant of \$77 thousand in debt forgiveness exceeded the \$618 thousand in operating expenses and \$64 thousand in interest expense. As a result, the fund's net position increased by \$25 thousand. The fund's net position was \$4.0 million at the end of the fiscal year.

**General Fund budgetary highlights**

The Village did not amend the General Fund budget during the fiscal year.

Revenues were approximately \$64 thousand higher than anticipated, as state shared revenue was \$32 thousand more than budgeted and property taxes were \$25 thousand more than budgeted. Expenditures were \$142 thousand less than the amounts appropriated as personnel costs, professional services, police, sidewalks, and parks expenditure categories were lower than budgeted. The actual decrease in fund balance of \$110 thousand was \$206 thousand less than the anticipated decrease of \$316 thousand.

**Capital assets and debt administration**

**Capital assets**

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2013, amounts to \$7.4 million (net of accumulated depreciation, including land, buildings, equipment, sewer and water facilities, and the Village's street infrastructure). The increase in capital assets for the current fiscal year was \$196 thousand. The net investment in capital assets increased by \$36 thousand for governmental activities, and decreased \$165 thousand for business-type activities, net of \$270 thousand in combined depreciation for the fiscal year.

The major capital asset events during the current fiscal year included the following:

- \$436 thousand street reconstruction and maintenance projects
- \$25 thousand library books
- \$5 thousand computer equipment
- \$6 thousand to complete the water improvement project begun in 2011

More detailed information about the Village's capital assets is presented in Note 5 of the notes to the basic financial statements.

**Debt**

At the end of the fiscal year, the Village had \$2.6 million bonds outstanding, reflecting \$6 thousand in new debt, less \$174 thousand in debt payments and \$77 thousand of debt forgiveness.

All debt is backed by the full faith and credit of the Village.

Other noncurrent obligations of \$61 thousand represent accrued compensated absences.

More detailed information about the Village's noncurrent obligations is presented in Note 7 of the notes to the basic financial statements.

**Economic factors and next year's budgets and rates**

The Village's General Fund budget for the next year is set so that total expenditures will again exceed revenues, with a small increase in spending. Major revenues, including taxes and state grants, will not increase significantly in the foreseeable future. Water and sewer rates will remain stable during the upcoming fiscal year, but total water and sewer revenue will decline due to reduced utility usage by the Village's major customer.

**Contacting the Village's financial management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Village Hall at 125 S. Main Street, Lawton, Michigan 49065.

## **BASIC FINANCIAL STATEMENTS**

## STATEMENT OF NET POSITION

February 28, 2013

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	Downtown Development Authority
<b>ASSETS</b>				
Current assets:				
Cash	\$ 1,163,792	\$ 1,022,972	\$ 2,186,764	\$ 134
Receivables	238,372	59,262	297,634	2,816
Inventory	-	65,000	65,000	-
Total current assets	<u>1,402,164</u>	<u>1,147,234</u>	<u>2,549,398</u>	<u>2,950</u>
Noncurrent assets:				
Unamortized issuance costs	-	34,000	34,000	-
Capital assets not being depreciated	217,843	239,375	457,218	-
Capital assets, net of accumulated depreciation	<u>1,649,453</u>	<u>5,250,320</u>	<u>6,899,773</u>	<u>-</u>
Total noncurrent assets	<u>1,867,296</u>	<u>5,523,695</u>	<u>7,390,991</u>	<u>-</u>
Total assets	<u>3,269,460</u>	<u>6,670,929</u>	<u>9,940,389</u>	<u>2,950</u>
<b>LIABILITIES</b>				
Current liabilities:				
Payables	73,588	29,917	103,505	-
Customer deposits	-	37,880	37,880	-
Bonds payable	<u>-</u>	<u>175,000</u>	<u>175,000</u>	<u>-</u>
Total current liabilities	<u>73,588</u>	<u>242,797</u>	<u>316,385</u>	<u>-</u>
Noncurrent liabilities:				
Compensated absences	60,900	-	60,900	-
Bonds payable	<u>-</u>	<u>2,383,666</u>	<u>2,383,666</u>	<u>-</u>
Total noncurrent liabilities	<u>60,900</u>	<u>2,383,666</u>	<u>2,444,566</u>	<u>-</u>
Total liabilities	<u>134,488</u>	<u>2,626,463</u>	<u>2,760,951</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	1,867,296	2,931,029	4,798,325	-
Restricted for:				
Public safety	9,336	-	9,336	-
Public works	464,892	-	464,892	-
Recreation and culture	322,146	-	322,146	-
Unrestricted	<u>471,302</u>	<u>1,113,437</u>	<u>1,584,739</u>	<u>2,950</u>
Total net position	<u>\$ 3,134,972</u>	<u>\$ 4,044,466</u>	<u>\$ 7,179,438</u>	<u>\$ 2,950</u>

See notes to financial statements

**STATEMENT OF ACTIVITIES**

Year ended February 28, 2013

Functions/Programs	<u>Program revenues</u>			
	<u>Expenses</u>	<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
<b>Governmental activities:</b>				
Legislative	\$ 5,994	\$ -	\$ -	\$ -
General government	486,756	23,029	-	-
Public safety	332,330	20,064	2,343	-
Public works	233,534	-	195,048	287,594
Recreation and culture	152,303	5,478	104,553	-
Community and economic development	7,809	100	-	-
Total governmental activities	<u>1,218,726</u>	<u>48,671</u>	<u>301,944</u>	<u>287,594</u>
<b>Business-type activities:</b>				
Sewer	332,176	298,152	-	-
Water	349,137	314,799	15,550	77,442
Total business-type activities	<u>681,313</u>	<u>612,951</u>	<u>15,550</u>	<u>77,442</u>
Total primary government	<u>\$ 1,900,039</u>	<u>\$ 661,622</u>	<u>\$ 317,494</u>	<u>\$ 365,036</u>
<b>Component unit</b>				
Downtown Development Authority	<u>\$ 13,222</u>	<u>\$ -</u>	<u>\$ 375</u>	<u>\$ -</u>

General revenues:

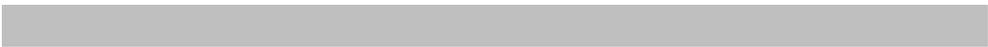
- Property taxes
- State shared revenue
- Franchise fees
- Interest income

Total general revenues

Changes in net position

Net position - beginning

Net position - ending



**Net (expenses) revenues and changes in net position**

<b>Primary government</b>			<b>Component unit</b>
<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Totals</b>	<b>Downtown Development Authority</b>
\$ (5,994)		\$ (5,994)	
(463,727)		(463,727)	
(309,923)		(309,923)	
249,108		249,108	
(42,272)		(42,272)	
<u>(7,709)</u>		<u>(7,709)</u>	
<u>(580,517)</u>		<u>(580,517)</u>	
-	\$ (34,024)	(34,024)	
-	58,654	58,654	
	<u>24,630</u>	<u>24,630</u>	
<u>(580,517)</u>	<u>24,630</u>	<u>(555,887)</u>	
			\$ <u>(12,847)</u>
608,866	-	608,866	5,011
166,226	-	166,226	-
24,921	-	24,921	-
421	253	674	-
<u>800,434</u>	<u>253</u>	<u>800,687</u>	<u>5,011</u>
219,917	24,883	244,800	(7,836)
<u>2,915,055</u>	<u>4,019,583</u>	<u>6,934,638</u>	<u>10,786</u>
<u>\$ 3,134,972</u>	<u>\$ 4,044,466</u>	<u>\$ 7,179,438</u>	<u>\$ 2,950</u>

See notes to financial statements

**BALANCE SHEET - governmental funds**

February 28, 2013

	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Nonmajor fund</u>	<u>Total governmental funds</u>
<b>ASSETS</b>					
Cash	\$ 354,733	\$ 402,997	\$ 281,226	\$ 36,564	\$ 1,075,520
Receivables	<u>162,076</u>	<u>20,905</u>	<u>47,780</u>	<u>7,611</u>	<u>238,372</u>
Total assets	<u>\$ 516,809</u>	<u>\$ 423,902</u>	<u>\$ 329,006</u>	<u>\$ 44,175</u>	<u>\$ 1,313,892</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Payables	\$ 63,613	\$ 1,551	\$ 3,792	\$ 1,634	\$ 70,590
Deferred revenue	<u>79,980</u>	<u>-</u>	<u>3,068</u>	<u>-</u>	<u>83,048</u>
Total liabilities	<u>143,593</u>	<u>1,551</u>	<u>6,860</u>	<u>1,634</u>	<u>153,638</u>
Fund balances:					
Restricted for					
Police training programs	8,970	-	-	-	8,970
Drug enforcement programs	366	-	-	-	366
Street maintenance and improvement	-	422,351	-	42,541	464,892
Library operations	-	-	322,146	-	322,146
Unassigned	<u>363,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,880</u>
Total fund balances	<u>373,216</u>	<u>422,351</u>	<u>322,146</u>	<u>42,541</u>	<u>1,160,254</u>
Total liabilities and fund balances	<u>\$ 516,809</u>	<u>\$ 423,902</u>	<u>\$ 329,006</u>	<u>\$ 44,175</u>	<u>\$ 1,313,892</u>

Reconciliation of the balance sheet to the statement of net position:

Total fund balance - total governmental funds \$ 1,160,254

Amounts reported for governmental activities in the statement of net position (page 11) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 1,814,992

Certain assets used in *governmental activities* are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 83,048

Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds. (60,900)

An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net position. 137,578

Net position of *governmental activities* \$ 3,134,972

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**

**BALANCES - governmental funds**

Year ended February 28, 2013

	<u>General</u>	<u>Major Street</u>	<u>Library</u>	<u>Nonmajor fund</u>	<u>Total governmental funds</u>
<b>REVENUES</b>					
Property taxes	\$ 588,148	\$ -	\$ 39,072	\$ -	\$ 627,220
Licenses and permits	28,329	-	-	-	28,329
Federal grants	-	287,594	-	-	287,594
State grants	175,947	113,497	21,736	41,316	352,496
Contributions from local units	32,857	-	81,742	-	114,599
Charges for services	11,784	-	-	-	11,784
Fines and forfeitures	30	-	16,726	-	16,756
Interest and rentals	2,260	89	55	18	2,422
Other	2,839	-	6,553	30	9,422
	<u>842,194</u>	<u>401,180</u>	<u>165,884</u>	<u>41,364</u>	<u>1,450,622</u>
Total revenues					
<b>EXPENDITURES</b>					
Legislative	5,994	-	-	-	5,994
General government	467,014	-	-	-	467,014
Public safety	327,190	-	-	-	327,190
Public works	109,296	444,398	-	65,479	619,173
Community and economic development	7,809	-	-	-	7,809
Recreation and culture	23,986	-	124,522	-	148,508
Capital outlay	10,652	-	13	-	10,665
	<u>951,941</u>	<u>444,398</u>	<u>124,535</u>	<u>65,479</u>	<u>1,586,353</u>
Total expenditures					
<b>NET CHANGES IN FUND BALANCES</b>	(109,747)	(43,218)	41,349	(24,115)	(135,731)
<b>FUND BALANCES - BEGINNING</b>	<u>482,963</u>	<u>465,569</u>	<u>280,797</u>	<u>66,656</u>	<u>1,295,985</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 373,216</u>	<u>\$ 422,351</u>	<u>\$ 322,146</u>	<u>\$ 42,541</u>	<u>\$ 1,160,254</u>

See notes to financial statements

**Village of Lawton**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES - governmental funds (Continued)**

Year ended February 28, 2013

Reconciliation of the statement of revenues, expenditures, and changes  
in fund balances to the statement of activities:

Net change in fund balance - total governmental funds (page 14) \$ (135,731)

Amounts reported for *governmental activities* in the statement of  
activities (page 12) are different because:

Capital assets:

Asset acquisitions 466,799  
Provision for depreciation (81,719)

Net changes in other liabilities:

Increase in deferred revenue (11,949)  
Increase in compensated absences (100)

Net loss of the internal service fund is reported with *governmental activities* (17,383)

Change in net position of *governmental activities* \$ 219,917

Village of Lawton

**STATEMENT OF NET POSITION - proprietary funds**

February 28, 2013

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and Sewer</i>	<i>Internal service</i>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,022,972	\$ 88,272
Receivables	59,262	-
Inventory	65,000	-
Total current assets	<u>1,147,234</u>	<u>88,272</u>
Noncurrent assets:		
Unamortized bond issuance costs	34,000	-
Capital assets not being depreciated	239,375	-
Capital assets, net of accumulated depreciation	<u>5,250,320</u>	<u>52,304</u>
Total noncurrent assets	<u>5,523,695</u>	<u>52,304</u>
Total assets	<u>6,670,929</u>	<u>140,576</u>
<b>LIABILITIES</b>		
Current liabilities:		
Payables	29,917	2,998
Customer deposits	37,880	-
Current portion of long-term obligation	<u>175,000</u>	<u>-</u>
Total current liabilities	242,797	2,998
Noncurrent liabilities - long-term obligation	<u>2,383,666</u>	<u>-</u>
Total liabilities	<u>2,626,463</u>	<u>2,998</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,931,029	52,304
Unrestricted	<u>1,113,437</u>	<u>85,274</u>
Total net position	<u>\$ 4,044,466</u>	<u>\$ 137,578</u>

See notes to financial statements

*Village of Lawton*

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET POSITION - *proprietary funds***

*Year ended February 28, 2013*

	<u><i>Business-type activities</i></u>	<u><i>Governmental activities</i></u>
	<u><i>Water and Sewer</i></u>	<u><i>Internal service</i></u>
<b>OPERATING REVENUES</b>		
Charges for services:		
Public utility fees	\$ 599,751	\$ -
Equipment rental	-	99,838
Other	<u>28,750</u>	<u>-</u>
Total operating revenues	<u>628,501</u>	<u>99,838</u>
<b>OPERATING EXPENSES</b>		
Sewer	273,440	-
Water	172,755	-
Motor pool	-	93,613
Depreciation	<u>171,409</u>	<u>23,621</u>
Total operating expenses	<u>617,604</u>	<u>117,234</u>
<b>OPERATING INCOME (LOSS)</b>	<u>10,897</u>	<u>(17,396)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Capital grant - DWRP	77,442	-
Interest revenue	253	13
Interest expense	<u>(63,709)</u>	<u>-</u>
Net nonoperating revenues	<u>13,986</u>	<u>13</u>
<b>CHANGES IN NET POSITION</b>	24,883	(17,383)
<b>NET POSITION - BEGINNING</b>	<u>4,019,583</u>	<u>154,961</u>
<b>NET POSITION - ENDING</b>	<u>\$ 4,044,466</u>	<u>\$ 137,578</u>

*See notes to financial statements*

**STATEMENT OF CASH FLOWS - proprietary funds**

Year ended February 28, 2013

	<i><b>Business-type activities</b></i>	<i><b>Governmental activities</b></i>
	<i><b>Water and Sewer</b></i>	<i><b>Internal service</b></i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 635,149	\$ 99,838
Payments to vendors and suppliers	(348,305)	(61,097)
Payments to employees	(97,440)	(31,280)
	<u>189,404</u>	<u>7,461</u>
Net cash provided by operating activities		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Decrease in bond draws receivable	11,872	-
Net proceeds from the issuance of capital debt	6,108	-
Acquisition of capital assets	(6,108)	-
Decrease in accounts payable	(11,871)	-
Principal payments on capital debt	(174,000)	-
Interest payments on capital debt	(62,519)	-
	<u>(236,518)</u>	<u>-</u>
Net cash used in capital and related financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	253	13
	<u>253</u>	<u>13</u>
NET INCREASE (DECREASE) IN CASH	(46,861)	7,474
<b>CASH - BEGINNING</b>	<u>1,069,833</u>	<u>80,798</u>
<b>CASH - ENDING</b>	<u>\$ 1,022,972</u>	<u>\$ 88,272</u>
<b>Noncash capital and related financing activities:</b>		
Principal reductions on capital debt	\$ (251,442)	\$ -
Less, debt forgiven	<u>77,442</u>	<u>-</u>
Cash used	<u>\$ (174,000)</u>	<u>\$ -</u>

See notes to financial statements

*Village of Lawton*

**STATEMENT OF CASH FLOWS - *proprietary funds* (Continued)**

*Year ended February 28, 2013*

	<u><i>Business-type activities</i></u>	<u><i>Governmental activities</i></u>
	<u><i>Water and Sewer</i></u>	<u><i>Internal service</i></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 10,897	\$ (17,396)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	171,409	23,621
Decrease in receivables	5,443	-
Decrease in inventory	3,000	-
Decrease (increase) in payables	(2,550)	1,236
Increase in customer deposits	<u>1,205</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 189,404</u>	<u>\$ 7,461</u>

*See notes to financial statements*

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Lawton, Michigan (the Village), conform to accounting principles generally accepted in the United States of America (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the more significant accounting policies.

*Reporting entity:*

The accompanying financial statements present the Village and its component unit, an entity for which the Village is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village.

*Discretely presented component unit - Downtown Development Authority*

The Authority's governing body is appointed by the Village Council and its budget must be approved by the Village Council. Separate financial statements for the component unit have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit.

*Government-wide and fund financial statements:*

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Village. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

*Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds 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 if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Village generally considers property tax revenues to be available if they are expected to be 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, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, 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. All other revenue items are considered to be measurable and available only when cash is received by the Village.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Measurement focus, basis of accounting, and financial statement presentation (continued):*

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.

The Library Fund accounts for operations of a public library within the Village. Revenues are primarily derived from local unit contributions, property taxes, and penal fines.

The Village reports the following major proprietary fund:

The Water and Sewer Fund accounts for the activities of the Village's water distribution system, sewage collection system, and treatment plant.

Additionally, the Village reports the following fund type:

The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

*Assets, liabilities, and net position or equity:*

*Cash* - Cash is considered to be cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

*Receivables* - No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible and all are due within one year.

*Inventory of supplies* - Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Assets, liabilities, and net position or equity (continued):*

*Capital assets* - Capital assets, which include property, equipment, and infrastructure assets (e.g., sewer and water systems, streets, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. 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 the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructures assets prospectively, beginning March 1, 2004.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	10 - 50 years

*Compensated absences* - It is the Village's policy to permit employees to accumulate earned, but unused, sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Village. Vested compensated absences are accrued when earned in the government-wide funds financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

*Net position* - Net position represents the difference between assets and deferred outflows of resources, less liabilities and deferred inflows of resources. The Village reports three categories of net position, as follows: (1) *Net investment in capital assets* consists of net capital assets reduced by outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction, or improvement of those assets, and increases by balances of deferred outflows of resources related to those assets; (2) *Restricted net position* is considered restricted if its use is constrained to a particular purpose. Restrictions are imposed by external organizations, such as federal or state laws or buyers of the Village's debt. Restricted net position is reduced by liabilities and deferred inflows of resources related to the restricted assets; (3) *Unrestricted net position* consists of all other net position that does not meet the definition of the above components and is available for general use by the Village.

*Fund equity* - Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either a) not in spendable form, or b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Village Council retains the right to assign fund balance. Unassigned fund balances are amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted or assigned to those purposes. When the Village incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Village's policy to use the restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Assets, liabilities, and net position or equity (continued):*

*Property tax revenue recognition* - The Village property tax is levied each July 1 on the assessed values as of December 31 of the prior year. The Village property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

*Budgetary information* - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village’s governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

*Excess of expenditures over appropriations* - During the year, the Village incurred expenditures in a budgeted fund, which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Function</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance</u>
Major Street	Public works	\$ 196,400	\$ 444,398	\$ (247,998)

The Village did not approve a budget for the Downtown Development Authority.

**NOTE 3 - CASH**

The Village’s cash balances at February 28, 2013, were as follows:

	<u>Primary government:</u>			<u>Total</u>
	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Component unit</u>	
Deposits	\$ 1,163,792	\$ 1,022,972	\$ 134	\$ 2,186,898

State statutes and the Village’s investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. The Village’s investment policy does not specifically address custodial credit risk for deposits. At February 28, 2013, \$1,720,514 of the Village’s bank balances of \$2,220,514 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - RECEIVABLES**

Receivables as of February 28, 2013, all of which are considered fully collectible and due within one year, for the Village's individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental:				
General	\$ 96,318	\$ -	\$ 65,758	\$ 162,076
Major Street	-	-	20,905	20,905
Library	47,780	-	-	47,780
Nonmajor	-	-	7,611	7,611
Total governmental funds	<u>\$ 144,098</u>	<u>\$ -</u>	<u>\$ 94,274</u>	<u>\$ 238,372</u>
Proprietary:				
Water and Sewer	<u>\$ -</u>	<u>\$ 59,262</u>	<u>\$ -</u>	<u>\$ 59,262</u>
Component unit	<u>\$ 2,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,816</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended February 28, 2013, was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Governmental activities:				
Capital assets not being depreciated - land	\$ 217,843	\$ -	\$ -	\$ 217,843
Capital assets being depreciated:				
Vehicles	243,563	-	-	243,563
Land improvements	102,686	-	-	102,686
Furniture, fixtures, and equipment	690,117	30,450	-	720,567
Infrastructure	747,415	436,349	-	1,183,764
Buildings and improvements	835,696	-	-	835,696
Subtotal	<u>2,619,477</u>	<u>466,799</u>	<u>-</u>	<u>3,086,276</u>
Less accumulated depreciation for:				
Vehicles	(189,440)	(18,355)	-	(207,795)
Land improvements	(69,001)	(4,492)	-	(73,493)
Furniture, fixtures, and equipment	(578,187)	(28,258)	-	(606,445)
Infrastructure	(133,374)	(38,097)	-	(171,471)
Buildings and improvements	(361,481)	(16,138)	-	(377,619)
Subtotal	<u>(1,331,483)</u>	<u>(105,340)</u>	<u>-</u>	<u>(1,436,823)</u>
Total capital assets being depreciated, net	<u>1,287,994</u>	<u>361,459</u>	<u>-</u>	<u>1,649,453</u>
Governmental activities capital assets, net	<u>\$ 1,505,837</u>	<u>\$ 361,459</u>	<u>\$ -</u>	<u>\$ 1,867,296</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 12,228
Public safety	2,426
Public works	39,130
Recreation and culture	27,935
Depreciation on capital assets held by internal service fund	<u>23,621</u>
Total governmental activities	<u>\$ 105,340</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5 - CAPITAL ASSETS (Continued)**

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated - land	\$ 239,375	\$ -	\$ -	\$ 239,375
Capital assets being depreciated:				
Collection and distribution system	7,254,538	6,108	-	7,260,646
Equipment	<u>106,697</u>	<u>-</u>	<u>-</u>	<u>106,697</u>
Subtotal	<u>7,361,235</u>	<u>6,108</u>	<u>-</u>	<u>7,367,343</u>
Less accumulated depreciation for:				
Collection and distribution system	(1,844,021)	(168,913)	-	(2,012,934)
Equipment	<u>(101,593)</u>	<u>(2,496)</u>	<u>-</u>	<u>(104,089)</u>
Subtotal	<u>(1,945,614)</u>	<u>(171,409)</u>	<u>-</u>	<u>(2,117,023)</u>
Total capital assets being depreciated, net	<u>5,415,621</u>	<u>(165,301)</u>	<u>-</u>	<u>5,250,320</u>
Business-type activities capital assets, net	<u>\$ 5,654,996</u>	<u>\$ (165,301)</u>	<u>\$ -</u>	<u>\$ 5,489,695</u>

**NOTE 6 - PAYABLES**

Payables as of February 28, 2013, for the Village's individual major funds and nonmajor funds, in the aggregate, were as follows:

<u>Fund</u>	<u>Accounts</u>	<u>Payroll</u>	<u>Inter- governmental</u>	<u>Interest</u>	<u>Totals</u>
Governmental:					
General	\$ 10,087	\$ 35,361	\$ 18,165	\$ -	\$ 63,613
Major Street	-	1,551	-	-	1,551
Library	-	3,792	-	-	3,792
Nonmajor	<u>-</u>	<u>1,634</u>	<u>-</u>	<u>-</u>	<u>1,634</u>
Total governmental funds	<u>\$ 10,087</u>	<u>\$ 42,338</u>	<u>\$ 18,165</u>	<u>\$ -</u>	<u>\$ 70,590</u>
Proprietary:					
Water and Sewer	<u>\$ 37,880</u>	<u>\$ 3,917</u>	<u>\$ -</u>	<u>\$ 26,000</u>	<u>\$ 67,797</u>
Motor Pool	<u>\$ -</u>	<u>\$ 2,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,998</u>

**NOTE 7 - LONG-TERM OBLIGATIONS**

At February 28, 2013, long-term obligations, other than compensated absences, consist of the following issues:

Business-type activities:

Bonds and notes:

\$1,900,000 1998 Wastewater Improvement Project revenue bonds - payable in annual installments ranging from \$85,000 to \$115,000, plus interest of 2.25%; final payment due April 2020	\$ 760,000
2010 \$3,240,000 Drinking Water Revolving Fund revenue bonds - payable in annual installments ranging from \$74,000 to \$125,000, plus interest of 2.50%; final payment due April 2031	<u>1,798,666</u>

Total business-type activities	<u>\$ 2,558,666</u>
--------------------------------	---------------------

All debt is secured by the full faith and credit of the Village.

Long-term obligation activity for the year ended February 28, 2013, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Governmental activities:					
Compensated absences	<u>\$ 60,800</u>	<u>\$ 48,900</u>	<u>\$ 48,800</u>	<u>\$ 60,900</u>	<u>\$ -</u>
Business-type activities:					
1998 Sewer revenue bonds	\$ 860,000	\$ -	\$ 100,000	\$ 760,000	\$ 100,000
2010 Water revenue bonds	<u>1,944,000</u>	<u>6,108</u>	<u>151,442</u>	<u>1,798,666</u>	<u>75,000</u>
Total business-type activities	<u>\$ 2,804,000</u>	<u>\$ 6,108</u>	<u>\$ 251,442</u>	<u>\$ 2,558,666</u>	<u>\$ 175,000</u>

The decrease in the 2010 Water revenue bonds includes \$77,442 forgiveness of a portion of the debt by the issuing federal agency; the reduction has been presented as a (noncash) capital grant in both the government-wide financial and the fund statements.

**NOTE 7 - LONG-TERM OBLIGATIONS (Continued)**

At February 28, 2013, debt service requirements, excluding compensated absences, are as follows:

<i>Year ended February 28</i>	<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>
2014	\$ 175,000	\$ 58,303
2015	180,000	53,997
2016	180,000	49,635
2017	190,000	45,157
2018	190,000	45,157
2019 - 2023	670,000	159,796
2024 - 2028	500,000	88,206
2029 - 2032	<u>473,666</u>	<u>22,338</u>
Totals	<u>\$ 2,558,666</u>	<u>\$ 522,589</u>

**NOTE 8 - TAX REVENUE**

The 2012 taxable valuation of the Village approximated \$39,977,000, on which ad valorem taxes levied consisted of 11.4594 mills for operating purposes, 2.5476 mills for streets, and 0.9166 mills for library operations raising approximately \$467,000 for operating, \$104,000 for streets, and \$38,000 for library operations. These amounts are recognized in the respective fund financial statements as property tax revenue. The following information is presented regarding the taxes levied for a major taxpayer:

	<i>Total tax revenue</i>	<i>Major taxpayer</i>	<i>Taxpayer percentage</i>
Current property taxes	<u>\$ 627,220</u>	<u>\$ 167,364</u>	27%

**NOTE 9 - DEFINED CONTRIBUTION PENSION PLAN**

The Village sponsors a defined contribution pension plan for all full-time employees. Employees are allowed to contribute amounts subject to IRS limitations. The Village makes a matching contribution (not to exceed 5% of covered payroll) for all personnel who contribute to the plan. For the year ended February 28, 2013, the Village and covered employees contributed \$23,650 and \$30,963, respectively, to the plan. The Village has no administrative or fiduciary responsibilities over the plan or plan assets. Accordingly, activity and balances of the plan are not included in these financial statements.

**NOTE 10 - CONSTRUCTION CODE ACT**

A summary of construction code enforcement transactions for the year ended February 28, 2013, is as follows:

Revenues	\$ 3,308
Expenses	<u>(6,481)</u>
Deficiency of revenues over expenses	<u>\$ (3,173)</u>

**NOTE 11 - SEGMENT INFORMATION - ENTERPRISE FUND**

Segment information for the Water and Sewer Fund, an enterprise fund, for the year ended February 28, 2013, is as follows:

<i>Condensed statement of net position</i>			
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
Assets:			
Current	\$ 268,173	\$ 879,061	\$ 1,147,234
Capital	1,581,611	3,908,084	5,489,695
Other	-	34,000	34,000
Total assets	<u>\$ 1,849,784</u>	<u>\$ 4,821,145</u>	<u>\$ 6,670,929</u>
Liabilities:			
Current	\$ 10,059	\$ 57,738	\$ 67,797
Long-term:			
Due in one year	100,000	75,000	175,000
Due beyond one year	<u>660,000</u>	<u>1,723,666</u>	<u>2,383,666</u>
Total liabilities	<u>770,059</u>	<u>1,856,404</u>	<u>2,626,463</u>
Net position:			
Net investment in capital assets	821,611	2,109,418	2,931,029
Unrestricted	<u>258,114</u>	<u>855,323</u>	<u>1,113,437</u>
Total net position	<u>\$ 1,079,725</u>	<u>\$ 2,964,741</u>	<u>\$ 4,044,466</u>

<i>Condensed statement of revenues, expenses, and changes in net position</i>			
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
Operating revenues	\$ 298,152	\$ 330,349	\$ 628,501
Depreciation	(46,673)	(124,736)	(171,409)
Other operating expenses	<u>(273,440)</u>	<u>(172,755)</u>	<u>(446,195)</u>
Operating income (loss)	(21,961)	32,858	10,897
Nonoperating items:			
Capital grant	-	77,442	77,442
Interest expense - net	<u>(17,098)</u>	<u>(46,358)</u>	<u>(63,456)</u>
Changes in net position	(39,059)	63,942	24,883
Net position, beginning of year	<u>1,113,623</u>	<u>2,905,960</u>	<u>4,019,583</u>
Net position, end of year	<u>\$ 1,074,564</u>	<u>\$ 2,969,902</u>	<u>\$ 4,044,466</u>

**NOTE 11 - SEGMENT INFORMATION - ENTERPRISE FUND (Continued)**

*Condensed statement of cash flows*

	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>
Cash flows from:			
Operating activities	\$ 28,922	\$ 160,482	\$ 189,404
Capital and related financing activities	(118,225)	(118,293)	(236,518)
Investing activities	-	253	253
	<u>(89,303)</u>	<u>42,442</u>	<u>(46,861)</u>
Change in cash			
Cash, beginning of year	<u>314,898</u>	<u>754,935</u>	<u>1,069,833</u>
Cash, end of year	<u>\$ 225,595</u>	<u>\$ 797,377</u>	<u>\$ 1,022,972</u>

A major commercial customer accounts for revenues of \$193,271, which represents 33 percent of total water and sewer revenues for the year ended February 28, 2013.

**NOTE 12 - JOINT VENTURE**

The Village is a member of the Lawton Fire Department (the Fire Department), which is a joint venture of the Townships of Antwerp and Porter, and the Village of Lawton. The Administrative Board of the Fire Department consists of six members, which consists of two members appointed by each participating unit. The Fire Department was formed to jointly provide fire protection services within the combined service area, which encompasses the participating municipalities. During the year ended February 28, 2013, the Village of Lawton was not required to make a contribution to the Fire Department. The Village is unaware of any indication that the Fire Department is accumulating significant financial resources or is experiencing fiscal stress that would cause an additional benefit or burden to the participating governments in the near future. Complete audited financial statements for the Fire Department can be obtained from the Village of Lawton.

**NOTE 13 - RISK MANAGEMENT**

The Village is exposed to various risks of loss related to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

**NOTE 14 - RESTRICTED NET POSITION**

The government-wide statement of net position reports \$796,374 of restricted net position, of which \$464,892 is restricted by enabling legislation.

**NOTE 15 - RECENT ACCOUNTING PRONOUNCEMENTS**

Effective March 1, 2012, the Village adopted the provisions of the following accounting pronouncements:

Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989, that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. Adoption of this standard did not result in restatement or reclassification of opening net position (formerly net assets) or fund balances.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position or fund balances.

**NOTE 16 - PENDING ACCOUNTING PRONOUNCEMENTS**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*, effective for periods beginning after June 15, 2012. This Statement, which is an amendment to Statements No. 14 and No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the Statement also clarifies the reporting of equity interest in legally separate organizations. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning March 1, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the fiscal year beginning March 1, 2013.

**REQUIRED SUPPLEMENTARY INFORMATION**

Village of Lawton

**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended February 28, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 563,500	\$ 563,500	\$ 588,148	\$ 24,648
Licenses and permits	25,250	25,250	28,329	3,079
State grants	144,400	144,400	175,947	31,547
Contribution from local unit	30,500	30,500	32,857	2,357
Charges for services	11,300	11,300	11,784	484
Fines and forfeitures	100	100	30	(70)
Interest and rentals	2,304	2,304	2,260	(44)
Other	400	400	2,839	2,439
	<u>777,754</u>	<u>777,754</u>	<u>842,194</u>	<u>64,440</u>
Total revenues				
<b>EXPENDITURES</b>				
Legislative - Village Council	<u>13,000</u>	<u>13,000</u>	<u>5,994</u>	<u>7,006</u>
General government:				
President	1,460	1,460	910	550
Clerk	66,200	66,200	56,100	10,100
Treasurer	5,500	5,500	5,287	213
Hall and grounds	36,000	36,000	28,108	7,892
Financial administration	85,150	85,150	66,634	18,516
Insurance and bonds	286,000	286,000	278,580	7,420
Cemetery	39,100	39,100	31,395	7,705
	<u>519,410</u>	<u>519,410</u>	<u>467,014</u>	<u>52,396</u>
Total general government				
Public safety:				
Police protection	338,600	338,600	319,736	18,864
Crossing guards	8,100	8,100	7,454	646
	<u>346,700</u>	<u>346,700</u>	<u>327,190</u>	<u>19,510</u>
Total public safety				
Public works:				
Public works department	11,700	11,700	6,718	4,982
Sidewalks	32,200	32,200	9,732	22,468
Streets	99,000	99,000	92,846	6,154
	<u>142,900</u>	<u>142,900</u>	<u>109,296</u>	<u>33,604</u>
Total public works				

**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended February 28, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>EXPENDITURES (Continued)</b>				
Community and economic development - planning and zoning	\$ 19,900	\$ 19,900	\$ 7,809	\$ 12,091
Recreation and culture:				
Parks and recreation	31,100	31,100	19,861	11,239
Museum	300	300	-	300
Civic betterment	8,800	8,800	4,125	4,675
Total recreation and culture	<u>40,200</u>	<u>40,200</u>	<u>23,986</u>	<u>16,214</u>
Capital outlay	<u>11,600</u>	<u>11,600</u>	<u>10,652</u>	<u>948</u>
Total expenditures	<u>1,093,710</u>	<u>1,093,710</u>	<u>951,941</u>	<u>141,769</u>
<b>NET CHANGES IN FUND BALANCES</b>	(315,956)	(315,956)	(109,747)	206,209
<b>FUND BALANCES - BEGINNING</b>	<u>482,963</u>	<u>482,963</u>	<u>482,963</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 167,007</u>	<u>\$ 167,007</u>	<u>\$ 373,216</u>	<u>\$ 206,209</u>

Village of Lawton

**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended February 28, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
<b>REVENUES</b>				
Federal grants	\$ 96,500	\$ 96,500	\$ 287,594	\$ 191,094
State grants	90,000	90,000	113,497	23,497
Interest	500	500	89	(411)
	<u>187,000</u>	<u>187,000</u>	<u>401,180</u>	<u>214,180</u>
<b>EXPENDITURES</b>				
Public works:				
Preservation	158,000	158,000	424,003	(266,003)
Administration	4,307	4,307	4,154	153
Traffic services	9,093	9,093	3,556	5,537
Winter maintenance	25,000	25,000	12,685	12,315
	<u>196,400</u>	<u>196,400</u>	<u>444,398</u>	<u>(247,998)</u>
<b>NET CHANGES IN FUND BALANCES</b>	(9,400)	(9,400)	(43,218)	(33,818)
<b>FUND BALANCES - BEGINNING</b>	<u>465,569</u>	<u>465,569</u>	<u>465,569</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 456,169</u>	<u>\$ 456,169</u>	<u>\$ 422,351</u>	<u>\$ (33,818)</u>

Village of Lawton

**BUDGETARY COMPARISON SCHEDULE - Library Fund**

Year ended February 28, 2013

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<i>Variance with final budget positive (negative)</i>
<b>REVENUES</b>				
Property taxes	\$ 35,850	\$ 35,850	\$ 39,072	\$ 3,222
State grants	1,200	1,200	21,736	20,536
Contribution from local unit	79,500	79,500	81,742	2,242
Fines and forfeitures	17,500	17,500	16,726	(774)
Interest	300	300	55	(245)
Other	4,100	4,100	6,553	2,453
	<u>138,450</u>	<u>138,450</u>	<u>165,884</u>	<u>27,434</u>
Total revenues				
<b>EXPENDITURES</b>				
Recreation and culture:				
Salaries and wages	68,300	68,300	66,633	1,667
Payroll taxes and fringe benefits	8,870	8,870	8,848	22
Office supplies	450	450	75	375
Operating supplies	5,000	5,000	4,398	602
Telephone	2,050	2,050	1,498	552
Electric	4,100	4,100	4,288	(188)
Heat	1,100	1,100	618	482
Custodial services	2,300	2,300	1,408	892
Repairs and maintenance	6,700	6,700	3,973	2,727
Building and equipment rental	1,130	1,130	1,100	30
Miscellaneous	1,000	1,000	2,986	(1,986)
Books, magazines, and periodicals	25,000	25,000	22,057	2,943
Audio and video	6,000	6,000	4,741	1,259
Education and training	1,000	1,000	-	1,000
Computer software and internet	3,500	3,500	1,847	1,653
Memberships and dues	200	200	-	200
Travel	200	200	52	148
	<u>136,900</u>	<u>136,900</u>	<u>124,522</u>	<u>12,378</u>
Total recreation and culture				
Capital outlay	<u>-</u>	<u>-</u>	<u>13</u>	<u>(13)</u>
Total expenditures	<u>136,900</u>	<u>136,900</u>	<u>124,535</u>	<u>12,365</u>
<b>NET CHANGES IN FUND BALANCES</b>	1,550	1,550	41,349	39,799
<b>FUND BALANCES - BEGINNING</b>	<u>280,797</u>	<u>280,797</u>	<u>280,797</u>	<u>-</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 282,347</u>	<u>\$ 282,347</u>	<u>\$ 322,146</u>	<u>\$ 39,799</u>

# Siegfried Crandall PC

Certified Public Accountants & Advisors

246 E. Kilgore Road  
Kalamazoo, MI 49002-5599  
www.siegfriedcrandall.com

Telephone 269-381-4970  
800-876-0979  
Fax 269-349-1344

August 1, 2013

To the Village Council  
Village of Lawton

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton for the year ended February 28, 2013. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, 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 January 10, 2013. Professional standards also require that we communicate to you the following information related to our audit.

### ***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 Lawton are described in Note 1 to the financial statements. Except as described in Note 15 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2013. We noted no transactions entered into by the Village of Lawton 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 financial statements was capital asset depreciation.

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation 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.

***Audit Adjustments***

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as 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 August 1, 2013.

***Other 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 Lawton's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Communication Regarding Internal Control***

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lawton as of and for the year ended February 28, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Lawton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village'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 have identified a deficiency in internal control that we consider to be a material weakness.

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 Village's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Village of Lawton's internal control to be a material weakness:

Material audit adjustments and financial statement preparation:

*Condition and criteria:* Policies and procedures to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record revenue accruals and deferrals, expense accruals, changes in capital assets and related long-term debt, and to develop appropriate footnote disclosures were not in place. Having the auditor draft the annual financial statements is allowable under current auditing standards and ethical guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, when an entity (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. This is a repeat finding.

*Effect:* The Village's financial reporting system does not produce financial statements in accordance with accounting principles generally accepted in the United States of America.

*Cause:* As in prior years, the Village has relied upon the auditor to identify and develop material adjustments necessary to prepare the financial statements and appropriate disclosures.

*Auditor's Recommendation:* We recommend that management analyze the relative costs and benefits of securing the internal or other external resources necessary to develop material adjustments and prepare a draft of the Village's annual financial statements versus contracting with its auditor for these services.

*Management Response:* Management has made an evaluation of the respective costs and benefits of obtaining internal or external resources, specifically for the preparation of financial statements, and has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so.

We did not audit the Village of Lawton's response to the internal control finding described above and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Village Council of the Village of Lawton and the State of Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Siegfried Crandall P.C.*