

VILLAGE OF BENZONIA, MICHIGAN

ANNUAL FINANCIAL REPORT

YEAR ENDED FEBRUARY 28, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Council of the
Village of Benzonia, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Benzonia, Michigan (the "Village") 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Benzonia, Michigan, as of February 28, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2014, on our consideration of the Village of Benzonia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village of Benzonia, Michigan's internal control over financial reporting and compliance.



Gabridge & Company, PLC
Grand Rapids, Michigan
July 24, 2014

Management's Discussion and Analysis

As management of the Village of Benzonia, Michigan (The "Village" or "government") 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.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$1,924,038 (net position). Of this amount, \$311,017 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Village's governmental funds reported combined fund balances of \$499,613, an increase of \$18,286 in comparison with the prior year. Approximately 39% of this amount (\$195,950) is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$195,950, or approximately 117% of total general fund expenditures.

Overview of the Financial Statements

The discussion and analysis provided here 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) the notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net position* presents financial information on all of the Village's assets and liabilities, 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 fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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 a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, streets, health and welfare, community and economic development, and recreation and culture. The business-type activities of the Village include water distribution services.

The government-wide financial statements can be found on pages 12 – 13 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, major and local street funds which are all considered to be major funds.

The Village adopts an annual appropriated budget for the general fund and each special revenue fund. A budgetary comparison schedule for the general fund and each major special revenue fund has been provided to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 14 – 17 of this report.

Proprietary Funds. The Village maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally

among the Village's various functions. The Village uses internal service funds to account for motor vehicle costs and allocating the cost to the funds that are using the resources. Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds of the Village. The internal service fund data is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18 – 20 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are *not* reported in the government-wide financial statements because the resources of those funds *are* not available to support the Village's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The Village maintains one type of fiduciary fund. The *Agency fund* reports resources held by the Village in a custodial capacity for individuals, private organizations, and other governments.

The fiduciary fund financial statement can be found on page 21 of this report.

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

The notes to the financial statements can be found on pages 22 – 34 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Village's budgetary comparison schedules.

Required supplementary information can be found on pages 35 – 37 of this report.

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, assets exceeded liabilities by \$1,924,038, at the close of the most recent fiscal year.

Village of Benzonía Statement of Net Position as of February 28, 2014 and February 28, 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 540,085	\$ 524,817	\$ 104,183	\$ 77,274	\$ 644,268	\$ 602,091
Receivables (Net)	5,088	6,292	13,709	16,522	18,797	22,814
Due from State	24,783	15,796	-	-	24,783	15,796
Due from Agency Funds	1,000	-	-	-	1,000	-
Total Current Assets	570,956	546,905	117,892	93,796	688,848	640,701
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	77,297	77,945	77,297	77,945
Capital Assets, Net	400,492	434,490	1,412,464	1,418,630	1,812,956	1,853,120
Total Assets	971,448	981,395	1,607,653	1,590,371	2,579,101	2,571,766
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	8,885	12,419	43,194	11,282	52,079	23,701
Accrued Payroll & Related Liabilities	5,139	5,354	481	362	5,620	5,716
Accrued Interest Payable	-	-	7,343	7,827	7,343	7,827
Current Portion of Long-term Debt	-	-	25,250	24,250	25,250	24,250
Internal Balances	(2,642)	(2,397)	2,642	2,397	-	-
Total Current Liabilities	11,382	15,376	78,910	46,118	90,292	61,494
<i>Noncurrent Liabilities</i>						
Compensated Absences	9,126	9,126	-	-	9,126	9,126
Long-term Debt	-	-	555,645	581,416	555,645	581,416
Total Liabilities	20,508	24,502	634,555	627,534	655,063	652,036
NET POSITION						
Net Investment in Capital Assets	400,492	434,490	831,569	812,964	1,232,061	1,247,454
Restricted	303,663	306,283	77,297	77,495	380,960	383,778
Unrestricted	246,785	216,120	64,232	72,378	311,017	288,498
Total Net Position	\$ 950,940	\$ 956,893	\$ 973,098	\$ 962,837	\$ 1,924,038	\$ 1,919,730

By far, the largest portion of the Village's net position (\$1,232,061, or 64%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The Village uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Village's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Village's net position (\$380,960, or 20%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$311,017 is unrestricted and 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 reported categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Overall, the Village is reporting asset, liability, and net position levels that are very consistent when compared to the prior year. Accounts payable had the most dramatic change in balance between years. The accounts payable balance increased from \$23,701 as of February 28, 2013 to \$52,079 as of February 28, 2014. This is directly related to large water project costs incurred at year-end that were paid in the subsequent year. The compensated absence liability remains unchanged as of February 28, 2014 compared to February 28, 2013 at an even \$9,126. There is no change as the eligible Village employees all remain fully vested at the maximum level of payout.

The Village's overall net position increased \$4,308 from the prior fiscal year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental Activities. During the current fiscal year, net position for governmental activities decreased \$5,953 from the prior fiscal year for an ending balance of \$950,940. While the current recession certainly had an impact on the Village, management was able to take various actions (e.g., delaying certain nonrecurring expenses, reducing expenses related to non-essential ongoing programs in the culture and recreation function) that neutralized its effect on governmental activities. The most significant change in revenues relates to an accelerated payment of delinquent taxes that the Village received from the County during the year ended February 28, 2013 resulting in a one-time gain of roughly \$22,370. Governmental activity property taxes leveled off to a normalized level during the current year of \$160,409 (down from \$188,749 from the year ended February 28, 2013).

Business-type Activities. For the Village's business-type activities, the results for the current fiscal year led to an increase in overall net position of \$10,261 with an ending net position balance of \$973,098. The total increase in net position for business-type activities (the water fund) of \$10,261, or 1% from the prior fiscal year, was attributable to a \$3,064 increase in charges for services (from a hotter than usual summer) and a \$17,045 decrease in expenses due to lower than usual operating and maintenance costs in the water fund.

The following chart summarizes the changes in net position for the Village:

Village of Benzonia
Change in Net Position for Fiscal Years Ended February 28, 2014 and February 28, 2013

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenue						
Program Revenues						
Charges for Services	\$ 27,407	\$ 27,756	\$ 93,366	\$ 89,953	\$ 120,773	\$ 117,709
Operating Grants & Contributions	64,565	51,767	-	2,991	64,565	54,758
Total Program Revenues	91,972	79,523	93,366	92,944	185,338	172,467
General Revenues						
Taxes	160,409	188,749	23,852	22,834	184,261	211,583
State Revenue Sharing	39,463	40,513	-	-	39,463	40,513
Other	737	1,411	49,955	46,598	50,692	48,009
Interest	2,106	4,185	108	149	2,214	4,334
Total General Revenues	202,715	234,858	73,915	69,581	276,630	304,439
Total Revenues	294,687	314,381	167,281	162,525	461,968	476,906
Expenses						
General Government	113,808	113,938	-	-	113,808	113,938
Public Works	165,734	139,631	-	-	165,734	139,631
Community & Economic Development	4,728	4,684	-	-	4,728	4,684
Recreation and Culture	10,784	9,596	-	-	10,784	9,596
Other Functions	5,586	5,423	-	-	5,586	5,423
Water System	-	-	157,020	174,065	157,020	174,065
Total Expenses	300,640	273,272	157,020	174,065	457,660	447,337
Change in Net Position	(5,953)	41,109	10,261	(11,540)	4,308	29,569
Net Position at the Beginning of Period	956,893	915,784	962,837	974,377	1,919,730	1,890,161
Net Position at the End of Period	\$ 950,940	\$ 956,893	\$ 973,098	\$ 962,837	\$ 1,924,038	\$ 1,919,730

Financial Analysis of 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's Council.

At February 28, 2014, the Village's governmental funds reported combined fund balances of \$499,613, an increase of \$18,286 in comparison with the prior year. Approximately 39% of this amount (\$195,950) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of the fund balance is *restricted* to indicate that it is restricted for particular purposes (\$303,663).

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$195,950. As a measure of the general fund's

liquidity, it may be useful to compare both unassigned fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents approximately 117 percent of total general fund expenditures.

The fund balance of the Village's general fund increased by \$20,906 during the current fiscal year. The overall revenues and expenditures remained consistent in the general fund compared to prior years, with the exception of property taxes. Property taxes had a one-time increase in the prior year because the County accelerated the payment of delinquent taxes (which eliminated the "unavailable" tax revenue adjustment). Property taxes normalized to a more consistent level of \$122,474 during the current year.

The major street fund, a major fund, had an \$11,660 decrease in fund balance during the current fiscal year which put the overall fund balance at \$67,958. This decrease in fund balance is due to increased expenditures caused by heavy snowfalls and related plowing during this past winter.

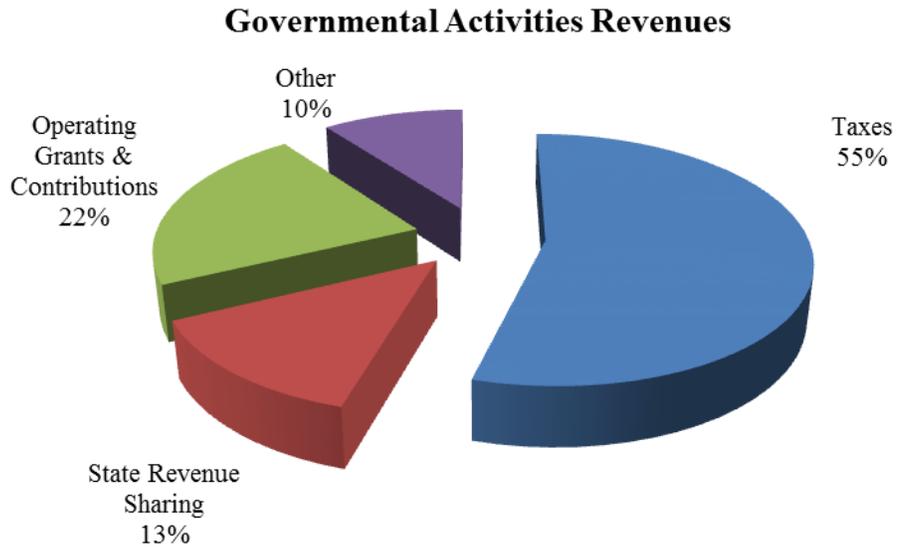
The local street fund, a major fund, had a \$9,040 increase in fund balance during the current fiscal year which put the overall fund balance at \$235,705. This increase in fund balance is due to decreased expenditures on road preservation compared to prior years.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

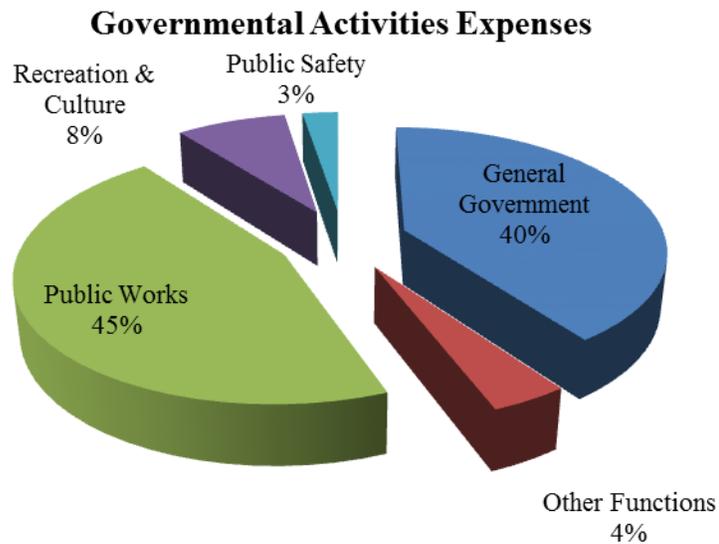
Unrestricted net position of the water fund at the end of the year was \$64,232. The increase in net position for the water fund was \$10,261. The change in net position for the water fund was largely due to decreased operating expenses compared to prior years. The equipment fund had an unrestricted net position of \$59,961 at year-end. This was a decrease of \$6,591 over the prior year.

Governmental Activities

The following chart summarizes the revenue sources for the governmental activities of the Village for the most recent fiscal year end.



The following chart summarizes the expenses for the governmental activities of the Village for the most recent fiscal year end.



General Fund Budgetary Highlights

Original budget compared to final budget. During the year there was no need to for any significant amendments to increase either original estimated revenues or original budgeted appropriations.

Final budget compared to actual results. During the current fiscal year the Village had no significant budget variances between the final amended budget compared to actual results.

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, 2014, amounts to \$1,812,956 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, machinery, equipment, vehicles, park facilities, roads, and water infrastructure. More detailed information about the Village's fixed assets can be found in Note 4.

Long-term Debt. As described in Note 6, the Village had \$598,895 in bonds and notes outstanding at the end of the fiscal year. The Village was in process of issuing a new bond as of year end. The Village is well under its legal debt limit as of year-end.

Economic Condition and Outlook

About \$190,000 of revenues are expected to be available for appropriation in the general fund in the upcoming year. The Village continues to review all budget line items for opportunities to reduce expenditures when possible. The budget will be monitored during the year to identify any necessary amendments. In 2015, the Village plans again to use current revenues to provide essential services and to maintain the Village's financial reserves at similar levels. Property tax revenues are expected to change minimally reflecting fairly stable property values.

The Village is in the process of completing a significant water system upgrade in the upcoming year. A \$690,000 2014 Drinking Water Revolving Fund bond, with up to \$255,000 of bond principal forgiveness, will be obtained to finance the project. The costs of the project, the Village's matching contribution, and the bond proceeds have been incorporated into the Villages budget for fiscal year ending February 28, 2015.

Contacting the Village

This financial report is designed to provide a general overview of the Village's finances to its citizens, customers, investors, and creditors 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 of Benzonia
PO Box 223
1276 Michigan Ave
Benzonia, MI 49616

BASIC FINANCIAL STATEMENTS

Village of Benzonia
Statement of Net Position
February 28, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 540,085	\$ 104,183	\$ 644,268
Receivables (Net)	980	2,465	3,445
Unbilled Revenue	4,108	11,244	15,352
Due from State	24,783	--	24,783
Due from Agency Funds	1,000	--	1,000
Total Current Assets	570,956	117,892	688,848
<i>Noncurrent Assets</i>			
Restricted Cash	--	77,297	77,297
Capital Assets not being Depreciated	96,350	55,108	151,458
Capital Assets being Depreciated	304,142	1,357,356	1,661,498
Total Assets	971,448	1,607,653	2,579,101
LIABILITIES			
<i>Current Liabilities</i>			
Accounts Payable	8,885	43,194	52,079
Accrued Payroll & Related Liabilities	5,139	481	5,620
Current Portion of Long-term Debt	--	25,250	25,250
Accrued Interest Payable	--	7,343	7,343
Internal Balances	(2,642)	2,642	--
Total Current Liabilities	11,382	78,910	90,292
<i>Noncurrent Liabilities</i>			
Bond Payable	--	477,000	477,000
Note Payable	--	78,645	78,645
Compensated Absences	9,126	--	9,126
Total Liabilities	20,508	634,555	655,063
NET POSITION			
Net Investment in Capital Assets	400,492	831,569	1,232,061
<i>Restricted for:</i>			
Major & Local Streets	303,663	--	303,663
Debt Service	--	44,370	44,370
Repairs	--	32,927	32,927
<i>Unrestricted</i>	246,785	64,232	311,017
Total Net Position	\$ 950,940	\$ 973,098	\$ 1,924,038

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Benzonia
Statement of Activities
For the Year Ended February 28, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 113,808	\$ 15	\$ --	\$ --	\$ (113,793)	\$ --	\$ (113,793)
Public Works	165,734	26,832	64,565	--	(74,337)	--	(74,337)
Community & Economic Development	4,728	560	--	--	(4,168)	--	(4,168)
Recreation & Culture	10,784	--	--	--	(10,784)	--	(10,784)
Other Functions	5,586	--	--	--	(5,586)	--	(5,586)
Total Governmental Activities	300,640	27,407	64,565	--	(208,668)	--	(208,668)
Business-type Activities:							
Water System	157,020	93,366	--	--	--	(63,654)	(63,654)
Total Business-type Activities	157,020	93,366	--	--	--	(63,654)	(63,654)
Total Primary Government	\$ 457,660	\$ 120,773	\$ 64,565	\$ --	\$ (208,668)	\$ (63,654)	\$ (272,322)

General Purpose Revenues and Transfers:

Revenues

Property Taxes	160,409	23,852	184,261
State Revenue Sharing	39,463	--	39,463
Tower Rent	--	49,290	49,290
Interest Income	2,106	108	2,214
Other	737	665	1,402
Total General Revenues and Transfers	202,715	73,915	276,630
Change in Net Position	(5,953)	10,261	4,308
<i>Net Position at Beginning of Period</i>	951,805	955,236	1,907,041
<i>Restatement (See Note 11)</i>	5,088	7,601	12,689
<i>Net Position at Beginning of Period - Restated</i>	956,893	962,837	1,919,730
Net Position at End of Period	\$ 950,940	\$ 973,098	\$ 1,924,038

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Benzonia
Balance Sheet
Governmental Funds
February 28, 2014**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
ASSETS				
Cash & Cash Equivalents	\$ 189,612	\$ 58,600	\$ 227,804	\$ 476,016
Receivables (Net)	980	--	--	980
Unbilled Revenue	4,108	--	--	4,108
Due from State	6,223	9,477	9,083	24,783
Due from Agency Funds	1,000	--	--	1,000
Due from Other Funds	3,194	175	--	3,369
<i>Total Assets</i>	<u>\$ 205,117</u>	<u>\$ 68,252</u>	<u>\$ 236,887</u>	<u>\$ 510,256</u>
LIABILITIES				
Accounts Payable	\$ 4,882	\$ --	\$ 350	\$ 5,232
Accrued Payroll & Related Liabilities	4,285	294	459	5,038
Due to Other Funds	--	--	373	373
<i>Total Liabilities</i>	<u>9,167</u>	<u>294</u>	<u>1,182</u>	<u>10,643</u>
FUND BALANCE				
Restricted	--	67,958	235,705	303,663
Unassigned	195,950	--	--	195,950
<i>Total Fund Balance</i>	<u>195,950</u>	<u>67,958</u>	<u>235,705</u>	<u>499,613</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 205,117</u>	<u>\$ 68,252</u>	<u>\$ 236,887</u>	<u>\$ 510,256</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
February 28, 2014

Total Fund Balance - Governmental Funds	\$ 499,613
Net position of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements.	119,008
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(9,126)
General government capital assets of \$533,796, net of accumulated depreciation of \$192,351, are not financial resources and, accordingly, are not reported in the funds.	341,445
Total Net Position - Governmental Funds	\$ <u>950,940</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended February 28, 2014

	Special Revenue			Total Governmental Funds
	General	Major Streets	Local Streets	
Revenues				
Property Taxes	\$ 122,474	\$ --	\$ 37,935	\$ 160,409
Licenses & Permits	560	--	--	560
State Revenue Sharing	36,947	37,814	29,267	104,028
Charges for Services	26,847	--	--	26,847
Other	737	--	--	737
Interest Income	192	611	1,303	2,106
Total Revenues	187,757	38,425	68,505	294,687
Expenditures				
General Government	111,641	--	--	111,641
Public Works	37,821	50,085	59,465	147,371
Community & Economic Development	4,728	--	--	4,728
Recreation & Culture	7,075	--	--	7,075
Other Functions	5,586	--	--	5,586
Total Expenditures	166,851	50,085	59,465	276,401
Excess of Revenues Over (Under) Expenditures	20,906	(11,660)	9,040	18,286
Net Change in Fund Balance	20,906	(11,660)	9,040	18,286
<i>Fund Balance at Beginning of Period</i>	169,956	79,618	226,665	476,239
<i>Restatement (See Note 11)</i>	5,088	--	--	5,088
<i>Fund Balance at Beginning of Period - Restated</i>	175,044	79,618	226,665	481,327
Fund Balance at End of Period	\$ 195,950	\$ 67,958	\$ 235,705	\$ 499,613

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended February 28, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ 18,286
Changes in net position of internal service funds that are treated as enterprise fund changes in net position in the fund level statements are treated as governmental fund changes in net position in the entity-wide statements.	(6,591)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their useful lives as depreciation expense. This amount represents depreciation expense.	(17,648)
Changes in Net Position - Governmental Funds	\$ <u>(5,953)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Benzonia
Statement of Net Position
Proprietary Funds
February 28, 2014**

	Business-type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Water System	
ASSETS		
<i>Current Assets</i>		
Cash & Cash Equivalents	\$ 104,183	\$ 64,069
Receivables (Net)	2,465	--
Unbilled Revenue	11,244	--
Total Current Assets	117,892	64,069
<i>Noncurrent Assets</i>		
Restricted Cash	77,297	--
Capital Assets not being Depreciated	55,108	--
Capital Assets being Depreciated	1,357,356	59,047
Total Assets	1,607,653	123,116
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	43,194	3,653
Accrued Payroll & Related Liabilities	481	101
Current Portion of Long-term Debt	25,250	--
Accrued Interest Payable	7,343	--
Due to Other Funds	2,642	354
Total Current Liabilities	78,910	4,108
<i>Noncurrent Liabilities</i>		
Bond Payable	477,000	--
Note Payable	78,645	--
Total Liabilities	634,555	4,108
NET POSITION		
Net Investment in Capital Assets	831,569	59,047
<i>Restricted for:</i>		
Debt Service	44,370	--
Repairs	32,927	--
<i>Unrestricted</i>	64,232	59,961
Total Net Position	\$ 973,098	\$ 119,008

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended February 28, 2014

	Business-type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	<u>Water System</u>	<u>Funds</u>
Operating Revenues		
Charges for Services	\$ 93,366	\$ 56,394
Other	665	--
<i>Total Operating Revenues</i>	<u>94,031</u>	<u>56,394</u>
Operating Expenses		
Pump Station	23,722	--
Administration	10,448	--
Disturbution	21,894	--
Customer Service	2,250	--
Water Tower	11,181	--
Equipment Operations	--	44,410
Depreciation	61,274	18,950
<i>Total Operating Expenses</i>	<u>130,769</u>	<u>63,360</u>
<i>Operating Income (Loss)</i>	<u>(36,738)</u>	<u>(6,966)</u>
Non-Operating Revenues (Expenses)		
Property Taxes	23,852	--
Tower Rent	49,290	--
Interest Income	108	375
Interest Expense	(26,251)	--
<i>Net Non-Operating Revenues (Expenses)</i>	<u>46,999</u>	<u>375</u>
<i>Change In Net Position</i>	10,261	(6,591)
<i>Net Position at Beginning of Period</i>	955,236	125,599
<i>Restatement (See Note 11)</i>	7,601	--
<i>Net Position at Beginning of Period - Restated</i>	962,837	125,599
<i>Net Position at End of Period</i>	<u>\$ 973,098</u>	<u>\$ 119,008</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia
Statement of Cash Flows
Proprietary Funds
For the Year Ended February 28, 2014

	Business-type Activities - Enterprise Funds	Governmental Activities Internal Service Funds
	Water System	
Cash Flows from Operating Activities		
Cash Received from Charges for Services	\$ 96,844	\$ 54,936
Cash Payments to Employees for Services and Fringe Benefits	(28,693)	-
Cash Payments to Suppliers for Goods and Services	(8,771)	(44,452)
Total Cash Flows from Operating Activities	59,380	10,484
Cash Flows from Non-capital Financing Activities		
Increase (Decrease) in Due to Other Funds	245	-
Total Cash Flows from Non-capital Financing Activities	245	-
Cash Flows from Capital and Related Financing Activities		
Payments Received from Debt Service	23,852	-
Purchases of Capital Assets	(55,108)	(2,600)
Interest Payments on Bonds	(26,735)	-
Principal Payments on Bonds	(24,771)	-
Total Cash Flows from Capital and Related Financing Activities	(82,762)	(2,600)
Cash Flows from Investing Activities		
Tower Rent	49,290	-
Interest on Investments	108	375
Total Cash Flows from Investing Activities	49,398	375
Net Increase (Decrease) in Cash & Cash Equivalents	26,261	8,259
<i>Cash and Equivalents - Beginning of Year</i>	155,219	55,810
Cash & Cash Equivalents - End of Year	\$ 181,480	\$ 64,069
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income	\$ (36,738)	\$ (6,966)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense	61,274	18,950
Changes in Assets & Liabilities		
Receivables (Net)	6,456	(1,458)
Unbilled Revenue	(3,643)	-
Accounts Payable	31,912	(42)
Accrued Payroll	119	-
Net Cash Provided by Operating Activities	\$ 59,380	\$ 10,484

The Notes to the Financial Statements are an integral part of these Financial Statements

**Village of Benzonia
Statement of Fiduciary Net Position
Fiduciary Funds
February 28, 2014**

	Agency
	Current Tax Collection
ASSETS	
Cash & Cash Equivalents	\$ 1,360
<i>Total Assets</i>	1,360
LIABILITIES	
Due to General Fund	1,000
Due to Other Units of Government	360
<i>Total Liabilities</i>	1,360
NET POSITION	
Held in Trust	\$ --

The Notes to the Financial Statements are an integral part of these Financial Statements

Village of Benzonia

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Village of Benzonia (the “Village” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village’s accounting policies are described below.

Reporting Entity

The Village of Benzonia was incorporated in 1891 as a general law Village. It operates under an elected President-Council form of government. The Village population as of the 2010 census was 497.

These financial statements only present the Village. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. Based upon the application of these criteria, there are no other entities for which the Village exercises oversight responsibility.

Benzonia Public Library - The Benzonia Public Library is located in the Village and serves the general public. The Library Board members are not appointed by, controlled by, or financially accountable to the Village Council. Library operations and management functions are totally separate from the Village and the Library currently has a separate audit of its financial statements. Based on these facts, the Village does not consider the Library part of its reporting entity. Accordingly the financial activity of the Benzonia Public Library has not been included in these financial statements.

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 primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are 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 or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

Village of Benzonia

Notes to the Financial Statements

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 major individual enterprise funds 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 fund 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

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 or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village of Benzonia 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** accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state sources.

Village of Benzonia

Notes to the Financial Statements

The **local street fund** accounts for the maintenance and improvement activities for streets designated as “local” within the Village. Funding is primarily through state sources.

The Village reports the following major proprietary fund:

The **water fund** accounts for the activities of the Village’s water distribution system.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village’s water and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses are not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities, and Net Position or Equity

Cash and Cash Equivalents

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

State statutes and Village policy authorize the Village to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers’ acceptances of United States banks.

Village of Benzonia

Notes to the Financial Statements

- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments

Investments are stated at fair market value in accordance with GASB Statement No. 31. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectible.

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 columns in the government-wide financial statements. Capital assets are defined by the government as assets with an estimated useful life in excess of two years and an initial individual cost of more than \$500. 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. 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 Benzonia

Notes to the Financial Statements

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

<u>Decription</u>	<u>Life</u>
Buildings & Improvements	30 Years
Office Equipment	5 Years
Park Equipment & Structures	10 Years
Roads & Paving	20 Years
Water System & Other	20 - 50 Years
Motor Vehicles & Equipment	5 - 10 Years

Compensated Absences (Vacation and Sick Leave)

Eligible employees are permitted to accumulate earned but unused vacation pay benefits in varying amounts based on length of service and certain other established criteria. Sick pay and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are treated as a current period expense.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position Flow Assumption

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

Village of Benzonia

Notes to the Financial Statements

It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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.

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 Village Council is the highest level of decision-making authority for the government that can, by adoption of a resolution or motion with a majority vote prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution or motion remains in place until a similar action is taken (the adoption of another resolution or motion with a majority vote) 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 Village Council can authorize management to assign fund balance. The Village Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Village of Benzonia

Notes to the Financial Statements

Revenues and Expenditures / Expenses

Property tax revenue recognition

Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before September 15, at which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and accordingly, the total levy is recognized as revenue.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Comparative Data / Reclassifications

Comparative data is not included in the Village's financial statements.

Note 2 - Excess of Expenditures over Appropriations

Budgetary Information

The annual budget is prepared by the Village's management and adopted by the Council prior to February 28. Amendments to the budget are approved by the Council. The annual operating budget has been prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America and is adopted at the department/activity level. Unexpended appropriations lapse at year-end.

Excess of expenditures over appropriations in budgeted funds

During the year ended February 28, 2014; the Village had no budget exceptions.

Note 3 - Cash

The Village maintains pooled and individual fund demand deposits and certificates of deposit accounts for the primary government.

Village of Benzonia

Notes to the Financial Statements

Following is a reconciliation of deposit balances as February 28, 2014:

	<u>Primary Government</u>
Statement of Net Position	
Cash and Cash Equivalents	\$ 644,268
Restricted Cash & Cash Equivalents	77,297
Statement of Fiduciary Net Position	
Cash and Cash Equivalents	<u>1,360</u>
Total Deposits and Investments	<u>\$ 722,925</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 537,925
Certificates of Deposit	<u>185,000</u>
Total	<u>\$ 722,925</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits might not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year-end, \$267,434 of the Village's bank balance of \$752,573 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the Village believes it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the market rate of securities in the portfolio will fall due to changes in market interest rates. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Village of Benzonia

Notes to the Financial Statements

Maturity dates for investments and certificates of deposit held at year-end are summarized as follows:

	<u>Certificates of Deposit</u>
Due within one year	\$ 20,000
Due in 1-5 Years	165,000
	<u>\$ 185,000</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Village's investment policy does not limit investments in a single financial institution of a single security type (with the exception of U.S. treasuries and agencies and authorized pools) to a % of the total investment portfolio.

Village of Benzonia

Notes to the Financial Statements

Note 4 - Capital Assets

Capital asset activity for governmental activities for the year ended February 28, 2014 was as follows:

Governmental Activities	Balance at 2/28/2013	Additions	Disposals	Balance at 2/28/2014
Capital assets not being depreciated				
Land	\$ 96,350	\$ -	\$ -	\$ 96,350
Capital assets being depreciated:				
Buildings & Improvements	69,243	-	-	69,243
Office Equipment	19,617	-	-	19,617
Park Equipment & Structures	58,035	-	-	58,035
Roads & Paving	290,551	-	-	290,551
Total capital assets being depreciated	<u>437,446</u>	<u>-</u>	<u>-</u>	<u>437,446</u>
Less accumulated depreciation:				
Buildings & Improvements	58,868	1,385	-	60,253
Office Equipment	19,330	150	-	19,480
Park Equipment & Structures	53,215	1,585	-	54,800
Roads & Paving	43,290	14,528	-	57,818
Total accumulated depreciation	<u>174,703</u>	<u>17,648</u>	<u>-</u>	<u>192,351</u>
Net capital assets, Governmental	<u>359,093</u>	<u>(17,648)</u>	<u>-</u>	<u>341,445</u>
Internal Service Fund				
Capital Assets being depreciated				
Equipment	325,336	2,600	-	327,936
Less accumulated depreciation				
Equipment	<u>249,939</u>	<u>18,950</u>	<u>-</u>	<u>268,889</u>
Net Capital Assets, Internal Service	<u>75,397</u>	<u>(16,350)</u>	<u>-</u>	<u>59,047</u>
Net Capital Assets per Statement of Net Position	<u>\$ 434,490</u>	<u>\$ (33,998)</u>	<u>\$ -</u>	<u>\$ 400,492</u>

Village of Benzonia

Notes to the Financial Statements

Capital asset activity for business-type activities for the year ended February 28, 2014 was as follows:

Business-type Activities - Water	Balance at 2/28/2013	Additions	Disposals	Balance at 2/28/2014
Capital assets not being depreciated				
Construction in Progress	\$ -	\$ 55,108	\$ -	\$ 55,108
Capital assets being depreciated:				
Water System Infrastructure	2,011,452	-	-	2,011,452
Other Additions	124,056	-	-	124,056
Total capital assets being depreciated	<u>2,135,508</u>	<u>-</u>	<u>-</u>	<u>2,135,508</u>
Less accumulated depreciation:				
Water System Infrastructure	634,382	55,684	-	690,066
Other Additions	82,496	5,590	-	88,086
Total accumulated depreciation	<u>716,878</u>	<u>61,274</u>	<u>-</u>	<u>778,152</u>
Net capital assets - Water:	<u>\$ 1,418,630</u>	<u>\$ (61,274)</u>	<u>\$ -</u>	<u>\$ 1,412,464</u>

Depreciation expense was charged to governmental functions of the Village as follows:

Governmental Activities:	
General Government	\$ 2,167
Public Works	11,772
Recreation & Culture	3,709
Total Governmental Activities	<u>\$ 17,648</u>
Business-type Activities:	
Water Fund	<u>\$ 61,274</u>
Internal Service Funds	
Equipment Fund	<u>\$ 18,950</u>

Village of Benzonia

Notes to the Financial Statements

Note 5 - Interfund Balances & Interfund Transfers

The composition of interfund balances as of February 28, 2014, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Local Streets	\$ 373
General	Motor Vehicle	354
General	Water	2,467
Major Streets	Water	175

All amounts due from other funds represent advances to other funds to finance operations or capital outlays.

Transfers are used to 1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and 2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no interfund transfers for the year ended February 28, 2014.

Note 6 - Long-term Debt

Listed below are descriptions of the bond issues and installment contracts in the Village business-type activities.

Business-type Activities

1. **1981 General Obligation Water Supply System Bonds** - \$185,000 of bonds issued in 1981 to finance water system improvements within the Village. Principal payments are due annually on October 1 with interest payable at a rate of 5% on April 1 and October 1. Final Maturity payment is October 1, 2015.
2. **1998 General Obligation Water Supply System Bonds** – Principal payments are due annually on May 1 with interest payable at a rate of 4.5% on May 1 and November 1. Final payment is due in 2038.
3. **1998 Water Supply Revenue Bonds** – Principal payments are due annually on May 1 with interest payable at a rate of 4.5% on May 1 and November 1. Final payment is due in 2038.
4. **BCEDC Note Payable** – The Village secured a note from the Benzie County Economic Development Corporation for a water system expansion in 2008. The \$125,000 loan is

Village of Benzonia

Notes to the Financial Statements

amortized over 20 years at an interest rate of 4.75%, with fixed monthly payments of \$807.79.

Changes in long-term debt during the current year were as follows:

	Interest Rate	Maturity	2/28/2013	Additions	Reductions	2/28/2014	Due Within One Year
Business-type Activities:							
<i>Bonds Payable</i>							
1981 General Obligation	5.00%	2015	\$ 20,000	\$ -	\$ 8,000	\$ 12,000	\$ 8,000
1998 Revenue	4.50%	2038	190,000	-	4,000	186,000	4,000
1998 General Obligation	4.50%	2038	304,000	-	6,000	298,000	7,000
<i>Notes Payable</i>							
BCEDC Note	4.75%	2028	91,666	-	6,771	84,895	6,250
Total Primary Government Long-term Debt			\$ 605,666	\$ -	\$ 24,771	\$ 580,895	\$ 25,250

Debt service requirements to maturity are scheduled below:

	Business-type Activities		
	Principal	Interest	Total
2014	\$ 25,250	\$ 25,576	\$ 50,826
2015	21,250	24,681	45,931
2016	18,250	23,963	42,213
2017	18,250	23,423	41,673
2018	19,250	22,861	42,111
2019-2023	105,250	104,877	210,127
2024-2028	113,394	81,728	195,123
2029-2033	114,000	46,170	160,170
2034-2038	146,000	17,370	163,370
Totals:	\$ 580,895	\$ 370,650	\$ 951,545

The Village also had compensated absences of \$9,126, with no changes during the year ended February 28, 2014.

Note 7 – Employee Retirement & Benefit System

The Village participates in a SIMPLE IRA plan. The Village elects to contribute a matching percentage to each eligible employee up to 3% of employee's wages. The Village made contributions of \$2,865 for the current fiscal year.

Village of Benzonia

Notes to the Financial Statements

Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The risks of loss arising from general liability, property and casualty, and workers' compensation are managed through purchased commercial insurance.

Note 9 - Contingent Liabilities

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. As of July 24, 2014, the date that this report was available to be issued, management estimates that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village.

Note 10 - Subsequent Events

As of February 28, 2014 Village was in the process of improving the water system which will be financed with a 2014 Drinking Water Revolving Fund bond in the amount of \$690,000 with up to \$255,000 of loan forgiveness.

Note 11 - Restatement

As of March 1, 2013 the village had the following restatements to beginning fund equity;

- Governmental activities and the general fund were increased by \$5,088 to account for unbilled revenue previously not recorded.
- Business-type activities and the water fund were increased by \$7,601 to account for unbilled revenue previously not recorded.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Benzon
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended February 28, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				<u>Final to Actual</u>
Revenues				
Taxes	\$ 113,170	\$ 113,170	\$ 122,474	\$ 9,304
Licenses & Permits	180	180	560	380
State Revenue Sharing	30,000	30,000	36,947	6,947
Charges for Services	25,800	25,800	26,847	1,047
Interest & Rents	500	500	192	(308)
Other	350	350	737	387
Total Revenues	<u>170,000</u>	<u>170,000</u>	<u>187,757</u>	<u>17,757</u>
Expenditures				
General Government				
Village Council	13,000	15,000	13,915	1,085
Clerk	15,000	15,000	14,041	959
Treasurer	14,000	15,000	14,282	718
Building & Grounds	60,000	50,000	47,768	2,232
Other General Government	30,217	40,217	21,635	18,582
Total General Government	<u>132,217</u>	<u>135,217</u>	<u>111,641</u>	<u>23,576</u>
Public Works				
Street Lights	--	10,000	8,092	1,908
Sanitation	30,000	30,000	29,729	271
Total Public Works	<u>30,000</u>	<u>40,000</u>	<u>37,821</u>	<u>2,179</u>
Community & Economic Development				
Planning Commission	6,590	6,590	4,728	1,862
Recreation & Culture - Parks & Recreation	24,000	11,000	7,075	3,925
Other Functions	9,000	9,000	5,586	3,414
Total Expenditures	<u>201,807</u>	<u>201,807</u>	<u>166,851</u>	<u>34,956</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(31,807)</u>	<u>(31,807)</u>	<u>20,906</u>	<u>52,713</u>
Net Change in Fund Balance	<u>(31,807)</u>	<u>(31,807)</u>	<u>20,906</u>	<u>52,713</u>
Fund Balance at Beginning of Period	175,044	175,044	175,044	--
Fund Balance at End of Period	<u>\$ 143,237</u>	<u>\$ 143,237</u>	<u>\$ 195,950</u>	<u>\$ 52,713</u>

Village of Benzonia
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended February 28, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative)
				<u>Final to Actual</u>
Revenues				
Taxes	\$ 50,000	\$ 50,000	\$ 37,935	\$ (12,065)
State Revenue Sharing	20,000	20,000	29,267	9,267
Interest & Rents	--	--	1,303	1,303
Total Revenues	<u>70,000</u>	<u>70,000</u>	<u>68,505</u>	<u>(1,495)</u>
Expenditures				
Street Preservation	120,000	120,000	28,133	91,867
Traffic Services	1,000	1,000	206	794
Winter Maintenance	25,000	25,000	26,769	(1,769)
Administration	6,000	6,000	4,357	1,643
Total Expenditures	<u>152,000</u>	<u>152,000</u>	<u>59,465</u>	<u>92,535</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(82,000)</u>	<u>(82,000)</u>	<u>9,040</u>	<u>91,040</u>
Net Change in Fund Balance	<u>(82,000)</u>	<u>(82,000)</u>	<u>9,040</u>	<u>91,040</u>
<i>Fund Balance at Beginning of Period</i>	226,665	226,665	226,665	--
Fund Balance at End of Period	<u>\$ 144,665</u>	<u>\$ 144,665</u>	<u>\$ 235,705</u>	<u>\$ 91,040</u>

Village of Benzonia
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended February 28, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
State Revenue Sharing	\$ 34,000	\$ 34,000	\$ 37,814	\$ 3,814
Interest & Rents	--	--	611	611
Total Revenues	<u>34,000</u>	<u>34,000</u>	<u>38,425</u>	<u>4,425</u>
Expenditures				
Street Preservation	25,000	23,000	19,433	3,567
Traffic Services	1,200	3,200	1,485	1,715
Winter Maintenance	22,000	22,000	25,202	(3,202)
Administration	4,500	4,500	3,965	535
Total Expenditures	<u>52,700</u>	<u>52,700</u>	<u>50,085</u>	<u>2,615</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(18,700)</u>	<u>(18,700)</u>	<u>(11,660)</u>	<u>7,040</u>
Net Change in Fund Balance	<u>(18,700)</u>	<u>(18,700)</u>	<u>(11,660)</u>	<u>7,040</u>
<i>Fund Balance at Beginning of Period</i>	79,618	79,618	79,618	--
Fund Balance at End of Period	<u>\$ 60,918</u>	<u>\$ 60,918</u>	<u>\$ 67,958</u>	<u>\$ 7,040</u>

July 14, 2014

To the Village Council
Village of Benzonia

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Benzonia, Michigan for the year ended February 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), 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 18, 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 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended February 28, 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 Village's financial statements was:

- 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.

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 trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, 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 July 14, 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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the Village Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Gabridge & Company, PLC
Grand Rapids, MI

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

To the Village Council
Village of Benzonia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Benzonia, Michigan, as of and for the year ended February 28, 2014, and the related notes to the financial statements, which collectively comprise Village of Benzonia, Michigan's basic financial statements, and have issued our report thereon dated July 14, 2014.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Benzonia, Michigan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Gabridge & Company, PLC
Grand Rapids, MI
July 14, 2014