

VILLAGE OF HONOR

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Year Ended December 31, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Honor, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Honor, Michigan (the "Village") as of and for the year ended December 31, 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 and each major fund of the Village of Honor, Michigan, as of December 31, 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 the 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 June 29, 2014, on our consideration of the Village of Honor, 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 the Village of Honor, Michigan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company".

Gabridge & Company, PLC
Interlochen, Michigan
June 29, 2014

Village of Honor Management's Discussion and Analysis

This discussion and analysis provides an overview of the Village of Honor's (the "Village" or "government") financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the Village's financial statements.

Financial Highlights

- The assets of the Village exceeded its liabilities at the close of this fiscal year by \$1,348,374 (shown as *Net Position*), representing a decrease of \$212,514 over the previous fiscal year. Of this amount, \$216,575 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- During the year, the Village received \$279,908 in revenues and \$492,422 in expenses, resulting in a decrease in net position of approximately \$212,514. Of the Village's \$492,422 expense total, \$276,207 is related to business-type activities and the balance of \$216,215 is related to governmental activities.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$59,283, or 40 percent, of the general fund's total annual expenditures.

Overview of the Financial Statements

The Village's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. They are presented using a method of accounting that is similar to a private sector business.

The *Statement of Net Position* presents information on all of the Village's assets and liabilities, the difference between the two being reported as the net position of the Village. Over time, increases or decreases in net position can 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 government'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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave, prepaid expenses, etc.).

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public safety, public works and, recreation and culture. Business-type activities of the Village include sewer system operations.

Focus on Funds

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. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village uses fund accounting to ensure compliance with finance-related legal requirements. The Village has two basic types of funds: governmental funds and proprietary funds.

Governmental Funds Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual system of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the government fund balance as expenditures. No depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the general fund as well as the major and local street funds.

Proprietary Funds are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village has one enterprise fund, which is the sewer fund.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report further presents required supplementary information (RSI) that explains the information presented in the financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village of Honor, assets exceeded liabilities by \$1,348,374 at the close of the most recent fiscal year. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the Village's total net position:

Village of Honor						
Net Position as of December 31, 2014 and December 31, 2013						
	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 80,658	\$ 106,975	\$ 150,233	\$ 156,616	\$ 230,891	\$ 263,591
Receivables	5,184	6,046	18,385	18,739	23,569	24,785
Inventory and Prepaids	2,313	11,066	-	1,748	2,313	12,814
Total Current Assets	88,155	124,087	168,618	177,103	256,773	301,190
<i>Noncurrent Assets</i>						
Cash - Restricted	-	-	230,857	268,772	230,857	268,772
Capital Assets not being Depreciated	79,760	79,760	-	-	79,760	79,760
Capital Assets being Depreciated	183,779	199,051	1,807,905	1,947,666	1,991,684	2,146,717
Total Assets	351,694	402,898	2,207,380	2,393,541	2,559,074	2,796,439
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable and Accrued Expenses	5,026	1,796	-	-	5,026	1,796
Current Portion of LT Debt	3,431	5,081	24,000	23,000	27,431	28,081
Internal Balances	(13,639)	(8,453)	13,639	8,453	-	-
Total Current Liabilities	(5,182)	(1,576)	37,639	31,453	32,457	29,877
<i>Noncurrent Liabilities</i>						
Long-term Debt	34,243	37,674	1,144,000	1,168,000	1,178,243	1,205,674
Total Liabilities	29,061	36,098	1,181,639	1,199,453	1,210,700	1,235,551
NET POSITION						
<i>Net Investment in</i>						
Capital Assets	225,865	236,056	639,905	756,666	865,770	992,722
Restricted	35,172	35,722	230,857	268,772	266,029	304,494
Unrestricted	61,596	95,022	154,979	168,650	216,575	263,672
Total Net Position	\$ 322,633	\$ 366,800	\$ 1,025,741	\$ 1,194,088	\$ 1,348,374	\$ 1,560,888

The most significant portion of the Village's net position is the investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt which is outstanding that the Village used to acquire or construct the asset. The Village has \$216,575 in unrestricted net position. These assets represent resources that are available for appropriation, but are limited by the Village policies regarding their use.

The total net position of the Village decreased by \$212,514 this fiscal year. The most significant reason for this decrease was the Village's decision to reduce sewer charges to the residents, from \$40.50 to \$9.00 per month. The following table illustrates and summarizes the results of the changes in the net position for the Village. The condensed information was derived from the government-wide statement of activities.

Village of Honor

Change in Net Position for Fiscal Year Ended December 31, 2014 and December 31, 2013

	Governmental Activities		Business-type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues						
Charges for Services	\$ 29,067	\$ 30,239	\$ 107,701	\$ 212,020	\$ 136,768	\$ 242,259
Operating Grants & Contributions	44,049	36,291	-	-	44,049	36,291
Capital Grants & Contributions	-	45,088	-	-	-	45,088
Total Program Revenues	<u>73,116</u>	<u>111,618</u>	<u>107,701</u>	<u>212,020</u>	<u>180,817</u>	<u>323,638</u>
General Revenues						
Property Taxes & Assessments	74,004	73,681	-	-	74,004	73,681
State Revenue Sharing	24,897	24,407	-	-	24,897	24,407
Unrestricted Investment Earnings	31	36	159	160	190	196
Other	-	1,110	-	172	-	1,282
Total General Revenues	<u>98,932</u>	<u>99,234</u>	<u>159</u>	<u>332</u>	<u>99,091</u>	<u>99,566</u>
Total Revenues	<u>172,048</u>	<u>210,852</u>	<u>107,860</u>	<u>212,352</u>	<u>279,908</u>	<u>423,204</u>
Expenses						
General Government	90,719	68,985	-	-	90,719	68,985
Public Works	114,176	107,719	-	-	114,176	107,719
Community & Economic Dev.	5,450	534	-	-	5,450	534
Recreation & Culture	4,188	3,290	-	-	4,188	3,290
Interest on Long-term Debt	1,682	1,991	-	-	1,682	1,991
Sewer	-	-	276,207	270,446	276,207	270,446
Total Expenses	<u>216,215</u>	<u>182,519</u>	<u>276,207</u>	<u>270,446</u>	<u>492,422</u>	<u>452,965</u>
Increase / (Decrease) in						
Net Position	(44,167)	28,333	(168,347)	(58,094)	(212,514)	(29,761)
Net Position at Beg. of Period	<u>366,800</u>	<u>338,467</u>	<u>1,194,088</u>	<u>1,252,182</u>	<u>1,560,888</u>	<u>1,590,649</u>
Net Position at End of Period	<u>\$ 322,633</u>	<u>\$ 366,800</u>	<u>\$ 1,025,741</u>	<u>\$ 1,194,088</u>	<u>\$ 1,348,374</u>	<u>\$ 1,560,888</u>

Governmental Activities

Most of the Village's basic services are reported here, including the legislative, general government, public safety, public works, recreation & culture, and community & economic development. Property taxes, charges for services, and State of Michigan revenue sharing fund most of these activities.

The Village spent \$90,719 on general government, or 42 percent of the Village's expenses. Public works expenses of \$114,176 represented 53 percent of the total expenses within the governmental activities.

Business-type Activities

The Village's business-type activities consist of the sewer fund. The Village provides sewage treatment to approximately 95% of the Village residents.

Financial Analysis of the Government's Funds

The Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Activities At the completion of the Village's fiscal year, its governmental funds reported fund balances of \$96,768. Of this amount, \$59,283, or 61 percent, is unassigned.

General Fund. The general fund is the main operating fund of the Village. The general fund decreased its balance in this fiscal year by \$33,426, bringing the balance to \$61,596.

Major Streets Fund. The fund balance of the major streets fund at the most recent fiscal year end was \$25,320. This was a decrease of \$2,729 from the previous fiscal year end.

Local Streets Fund. The fund balance of the local streets fund at the most recent fiscal year end was \$9,852. This was an increase of \$2,179 from the previous fiscal year end.

Business-type Activities

The Village's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the sewer fund at the end of the year amounted to \$154,979. The sewer fund had a decrease in net position for the year of \$168,347.

General Fund Budgetary Highlights

Differences between the original and final amended budgets and between final amended budgets and actual expenditures were relatively minor for the year.

The Village had the following general fund budget exceptions for the year:

<u>Fund</u>	<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Village Council	\$ 21,700	\$28,554	\$(6,854)
General	Legal	3,500	9,856	(6,356)
General	Treasurer	4,680	5,763	(1,083)
General	Hall & Grounds	16,250	20,387	(4,137)
General	Economic Development	-	5,000	(5,000)
General	Transfers Out	-	11,000	(11,000)

Capital Asset and Debt Administration

Capital Assets

The Village acquired no capital assets during the year. Total capital assets are described in the table located in note 4 of the footnotes.

Debt

The Village did not incur any additional debt during the year. Total changes in debt during 2014, as well as the December 31, 2014 schedule of long-term debt, can be found in note 5 of the footnotes.

Economic Factors and Next Year's Budgets and Rates

We continue to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the Village's residents with the same level of service to which they have been accustomed. However, should State-shared revenues or property tax base be reduced further, reductions in services are inevitable. Additionally, local businesses continue to close. These closures impact sewer revenue and could affect the Village's ability to meet its debt obligations.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact our office at PO Box 95, Honor, MI 49640.

BASIC FINANCIAL STATEMENTS

**Village of Honor
Statement of Net Position
December 31, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
<i>Current Assets</i>			
Cash & Cash Equivalents	\$ 80,658	\$ 150,233	\$ 230,891
Accounts Receivable	--	18,385	18,385
Due from State	5,184	--	5,184
Inventory	2,313	--	2,313
Total Current Assets	88,155	168,618	256,773
<i>Noncurrent Assets</i>			
Capital Assets not being Depreciated	79,760	--	79,760
Capital Assets being Depreciated	183,779	1,807,905	1,991,684
Cash - Restricted	--	230,857	230,857
Total Assets	351,694	2,207,380	2,559,074
LIABILITIES			
<i>Current Liabilities</i>			
Accrued Expenses	5,026	--	5,026
Current Portion of Long-term Debt	3,431	24,000	27,431
Internal Balances	(13,639)	13,639	--
Total Current Liabilities	(5,182)	37,639	32,457
<i>Noncurrent Liabilities</i>			
Long-term Debt	34,243	1,144,000	1,178,243
Total Liabilities	29,061	1,181,639	1,210,700
NET POSITION			
Net Investment in Capital Assets	225,865	639,905	865,770
<i>Restricted for:</i>			
Major Streets	25,320	--	25,320
Local Streets	9,852	--	9,852
Debt Service	--	230,857	230,857
<i>Unrestricted</i>	61,596	154,979	216,575
Total Net Position	\$ 322,633	\$ 1,025,741	\$ 1,348,374

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

**Village of Honor
Statement of Activities
For the Year Ended December 31, 2014**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 90,719	\$ 7,856	\$ 5,000	\$ --	\$ (77,863)	\$ --	\$ (77,863)
Public Works	114,176	21,211	39,049	--	(53,916)	--	(53,916)
Community & Economic Development	5,450	--	--	--	(5,450)	--	(5,450)
Recreation & Culture	4,188	--	--	--	(4,188)	--	(4,188)
Interest on Long-term Debt	1,682	--	--	--	(1,682)	--	(1,682)
Total Governmental Activities	216,215	29,067	44,049	--	(143,099)	--	(143,099)
Business-type Activities:							
Sewer Fund	276,207	107,701	--	--	--	(168,506)	(168,506)
Total Business-type Activities	276,207	107,701	--	--	--	(168,506)	(168,506)
Total Primary Government	\$ 492,422	\$ 136,768	\$ 44,049	\$ --	\$ (143,099)	\$ (168,506)	\$ (311,605)
General Purpose Revenues and Transfers:							
Revenues							
Property Taxes					74,004	--	74,004
Interest Earned					31	159	190
State Revenue Sharing					24,897	--	24,897
Transfers					--	--	--
Total General Revenues and Transfers					98,932	159	99,091
Change in Net Position					(44,167)	(168,347)	(212,514)
<i>Net Position at Beginning of Period</i>					366,800	1,194,088	1,560,888
Net Position at End of Period					\$ 322,633	\$ 1,025,741	\$ 1,348,374

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

**Village of Honor
Balance Sheet
Governmental Funds
December 31, 2014**

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
ASSETS				
Cash & Cash Equivalents	\$ 47,176	\$ 24,370	\$ 9,112	\$ 80,658
Due from State	--	3,917	1,267	5,184
Inventory	2,313	--	--	2,313
Due from Other Funds	17,133	--	1,078	18,211
Total Assets	\$ 66,622	\$ 28,287	\$ 11,457	\$ 106,366
LIABILITIES				
Accrued Expenses	\$ 5,026	\$ --	\$ --	\$ 5,026
Due to Other Funds	--	2,967	1,605	4,572
Total Liabilities	5,026	2,967	1,605	9,598
FUND BALANCE				
Nonspendable	2,313	--	--	2,313
Restricted	--	25,320	9,852	35,172
Unassigned	59,283	--	--	59,283
Total Fund Balance	61,596	25,320	9,852	96,768
Total Liabilities and Fund Balance	\$ 66,622	\$ 28,287	\$ 11,457	\$ 106,366

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

Village of Honor
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2014

Total Fund Balance - Governmental Funds	\$	96,768
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds		(37,674)
General government capital assets of \$503,210, net of accumulated depreciation of \$239,671, are not financial resources and, accordingly, are not reported in the funds		263,539
Total Net Position - Governmental Funds	\$	<u>322,633</u>

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

Village of Honor
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2014

	<u>Special Revenue</u>			Total Governmental Funds
	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	
Revenues				
Property Taxes	\$ 74,004	\$ --	\$ --	\$ 74,004
State Revenue Sharing	24,897	27,446	11,603	63,946
Licenses & Permits	275	--	--	275
Contributions	5,000	--	--	5,000
Refunds & Reimbursements	15,506	8,739	--	24,245
Charges for Service	4,538	--	--	4,538
Miscellaneous	9	--	--	9
Interest Earned	19	10	2	31
Total Revenues	<u>124,248</u>	<u>36,195</u>	<u>11,605</u>	<u>172,048</u>
Expenditures				
General Government	74,667	260	520	75,447
Public Works	55,606	47,364	11,206	114,176
Community & Economic Development	5,450	--	--	5,450
Recreation & Culture	4,188	--	--	4,188
Debt Service - Principal	5,081	--	--	5,081
Debt Service - Interest	1,682	--	--	1,682
Total Expenditures	<u>146,674</u>	<u>47,624</u>	<u>11,726</u>	<u>206,024</u>
Excess of Revenues Over (Under) Expenditures	<u>(22,426)</u>	<u>(11,429)</u>	<u>(121)</u>	<u>(33,976)</u>
Other Financing Sources (Uses)				
Transfers from Other Funds	--	11,700	3,000	14,700
Transfers to Other Funds	(11,000)	(3,000)	(700)	(14,700)
Net Other Financing Sources (Uses)	<u>(11,000)</u>	<u>8,700</u>	<u>2,300</u>	<u>--</u>
Net Change in Fund Balance	(33,426)	(2,729)	2,179	(33,976)
<i>Fund Balance at Beginning of Period</i>	95,022	28,049	7,673	130,744
Fund Balance at End of Period	<u>\$ 61,596</u>	<u>\$ 25,320</u>	<u>\$ 9,852</u>	<u>\$ 96,768</u>

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

Village of Honor
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended December 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(33,976)
<p>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 current year depreciation expense of \$15,272.</p>		
		(15,272)
<p>Long-term debt payments are reported as financing uses in the governmental funds and thus contribute to the change in fund balance. However, debt payments reduce long-term debt on the Statement of Net Position. This represents the amount of principal payment made during the year on long-term debt</p>		
		5,081
Changes in Net Position-Governmental Funds	\$	<u>(44,167)</u>

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

**Village of Honor
Statement of Net Position
Proprietary Funds
December 31, 2014**

	Business-type Activities - Enterprise Funds
	Sewer Fund
ASSETS	
<i>Current Assets</i>	
Cash & Cash Equivalents	\$ 150,233
Accounts Receivable	18,385
Total Current Assets	168,618
<i>Noncurrent Assets</i>	
Capital Assets being Depreciated	1,807,905
Cash - Restricted	230,857
Total Assets	2,207,380
LIABILITIES	
<i>Current Liabilities</i>	
Current Portion of Long-term Debt	24,000
Due to Other Funds	13,639
Total Current Liabilities	37,639
<i>Noncurrent Liabilities</i>	
Long-term Debt	1,144,000
Total Liabilities	1,181,639
NET POSITION	
Net Investment in Capital Assets	639,905
<i>Restricted for:</i>	
Debt Service	230,857
<i>Unrestricted</i>	154,979
Total Net Position	\$ 1,025,741

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

Village of Honor
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended December 31, 2014

	Business-type Activities - Enterprise Funds
	Sewer Fund
Operating Revenues	
Refunds & Reimbursements	\$ 21,136
Sewer Charges	73,985
Waste Hauler Charges	12,580
<i>Total Operating Revenues</i>	107,701
Operating Expenses	
Salaries & Wages	18,327
Benefits	470
Office Suppliers	4,987
Contract Services	27,502
Insurance/Audit	5,472
Utilities	21,750
Repairs & Maintenance	3,076
Equipment Rentals	1,206
Permits & Fees	1,500
Depreciation Expense	139,761
Other	3,123
<i>Total Operating Expenses</i>	227,174
<i>Operating Income (Loss)</i>	(119,473)
Non-Operating Revenues (Expenses)	
Interest Earned	159
Bond Interest	(49,033)
<i>Net Non-Operating Revenues (Expenses)</i>	(48,874)
Change In Net Position	(168,347)
<i>Net Position at Beginning of Period</i>	1,194,088
<i>Net Position at End of Period</i>	\$ 1,025,741

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

**Village of Honor
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2014**

	Business-type Activities - Enterprise Fund
	Sewer Fund
Cash Flows from Operating Activities	
Cash Received from Charges to Customers	\$ 108,055
Cash Payments for Wages and Benefits	(18,797)
Cash Payments for Suppliers	(66,868)
<i>Total Cash Flows from Operating Activities</i>	22,390
Cash Flows from Non-capital Financing Activities	
Change in Interfund Balances	5,186
<i>Total Cash Flows from Non-capital Financing Activities</i>	5,186
Cash Flows from Capital and Related Financing Activities	
Interest Payments on Bonds	(49,033)
Principal Payments on Bonds	(23,000)
<i>Cash Flows from Capital and Related Financing Activities</i>	(72,033)
Cash Flows from Investing Activities	
Interest on Investments	159
<i>Cash Flows from Investing Activities</i>	159
Net Increase (Decrease) in Cash and Cash Equivalents	(44,298)
<i>Cash and Cash Equivalents - Beginning of Year</i>	425,388
<i>Cash and Cash Equivalents - End of Year</i>	\$ 381,090
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$ (119,473)
Adjustments to Reconcile Operating Income to Net Cash	
Depreciation Expense	139,761
Changes in Assets and Liabilities	
Accounts Receivable	354
Prepaid Expenses	1,748
Net Cash Provided by Operating Activities	\$ 22,390

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

Village of Honor
Notes to the Financial Statements
December 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Honor (the “Village” or “government”) have been prepared in accordance with generally accepted accounting principles. 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 was incorporated in 1914 and is located in Benzie County, Michigan. The Village operates under a charter adopted January 30, 1915, and is governed by an elected President-Council form of government. The Village population as of the 2010 census was 328.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity’s financial statements are based primarily on the concept of financial accountability. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the Village.

Government-wide 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, 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 or segment is 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 other items not properly included among program revenues are reported in as general revenue.

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.

Village of Honor
Notes to the Financial Statements
December 31, 2014

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. Revenue is 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 revenue 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village collects property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes from the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect.

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and state-shared revenue associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current period. All other revenue items are considered to be available only when the cash is received by the Village.

The Village reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, included the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants and other intergovernmental revenues.

Major Streets Fund - This fund is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines. Funding is primarily through state sources.

Local Streets Fund - This fund is used to account for the maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state sources.

Village of Honor
Notes to the Financial Statements
December 31, 2014

Sewer Fund - The sewer fund accounts for the activities of the Village's sewage collection system.

In addition, The Village reports the following governmental fund types:

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

Assets, Liabilities, and Net Position or Equity

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Accounts Receivable

Accounts receivable are recorded in the sewer fund at the time customers are billed for current services. Uncollected delinquent accounts are placed on the customer's tax bill in the summer and any amounts not collected by the Village are turned over to the County.

Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies.

Restricted Assets

It is the Village's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for the purposes for which both restricted and unrestricted fund balances are available. The Village's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by the assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Generally, capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and

Village of Honor
Notes to the Financial Statements
December 31, 2014

an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation has been provided on these fixed assets using the straight line method over their estimated useful lives.

Furniture and Office Equipment	5 Years
Maintenance Equipment	7 Years
Park Equipment and Structures	10 Years
Roads and Paving	20 Years
Buildings and Improvements	20-30 Years

Fund Equity

In the fund financial statements, fund balance is presented in five possible categories, each of which identifies the extent to which the Village is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly.

Restricted – amounts that have constraints placed on their use by an external party, constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Council, as the Village’s highest level of decision-making authority, pursuant to constraints imposed by resolution. These committed amounts cannot be used for any other purpose unless the Council removes or changes the specific use through another resolution.

Assigned – amounts that are constrained by the Village’s intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

NOTE 2 - STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

Budget Information

The general fund and special revenue fund types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis. It is used to reflect actual results and consist only of those amounts

Village of Honor
Notes to the Financial Statements
 December 31, 2014

contained in the formal budget and amended by the Village.

In the body of the financial statements the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a function basis. The approved budgets of the Village for these budgetary funds were adopted at the activity level.

Management prepares the budget for Council approval at a public hearing prior to December 31 of each year. Encumbrance accounting is not used and appropriations lapse at year-end. Budget amendments are authorized by council during the year to prevent expenditures in excess of appropriations.

Budget Compliance

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Village had the following expenditures in excess of the amount appropriated during the current year:

<u>Fund</u>	<u>Activity</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Village Council	\$ 21,700	\$28,554	\$(6,854)
General	Legal	3,500	9,856	(6,356)
General	Treasurer	4,680	5,763	(1,083)
General	Hall & Grounds	16,250	20,387	(4,137)
General	Economic Development	-	5,000	(5,000)
General	Transfers Out	-	11,000	(11,000)
Major Streets	Winter Maintenance	7,900	7,997	(97)
Major Streets	Construction	-	34,090	(34,090)
Local Streets	Winter Maintenance	6,450	7,950	(1,500)

Interfund Balances

The Village reports interfund balances between its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/fund balance sheet for governmental funds.

Village of Honor
Notes to the Financial Statements
 December 31, 2014

Interfund transactions resulting in interfund receivable and payables are as follows:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 17,133	\$ -
Major Streets Fund	-	2,967
Local Streets Fund	1,078	1,605
Sewer Fund	-	13,639
	<u>\$ 18,211</u>	<u>\$ 18,211</u>

All balances resulted from the time lag between the dates that; 1) inter-fund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

	<u>Transfers- Out</u>	<u>Transfers- In</u>
General Fund	\$ 11,000	\$ -
Major Streets Fund	3,000	11,700
Local Streets Fund	700	3,000
Sewer Fund	-	-
	<u>\$ 14,700</u>	<u>\$ 14,700</u>

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.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943 as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the Village, by resolution, may authorize the Treasurer to invest surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings account, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection 2.
3. In commercial paper rated at the time of purchase within the 2 highest classifications established

Village of Honor
Notes to the Financial Statements
 December 31, 2014

by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.

4. In banker's acceptances of United States banks.
5. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Types of Deposits and Investments

The Village maintains all its surplus funds with local banks in the form of savings/checking accounts. Cash and cash equivalents were reported in the financial statements under the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash & Cash Equivalents	\$ 80,658	\$ 150,233	\$ 230,891
Cash - Restricted	-	230,857	230,857
	\$ 80,658	\$ 381,090	\$ 461,748

Amounts insured by the FDIC and uninsured and uncollateralized are as follows:

	Bank Balance	Carrying Amount
Amount Insured by the FDIC	\$ 250,000	\$ 250,000
Amount Uncollateralized and Uninsured	212,715	211,748
	\$ 462,715	\$ 461,748

NOTE 4 - RECEIVABLES

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

	General Fund	Major Streets	Local Streets	Sewer	Total
Receivables					
Accounts	\$ -	\$ -	\$ -	\$ 18,385	\$ 18,385
Due from State	-	3,917	1,267	-	5,184
	\$ -	\$ 3,917	\$ 1,267	\$ 18,385	\$ 23,569

Village of Honor
Notes to the Financial Statements
December 31, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Village's governmental and business-type activities was as follows:

<u>Governmental Activities</u>	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
Capital Assets not Being Depreciated				
Land	\$ 79,760	\$ -	\$ -	\$ 79,760
Capital Assets Being Depreciated				
Buildings & Improvements	74,379	-	-	74,379
Office Equip. & Furniture	4,909	-	-	4,909
Maintenance Equipment	108,935	-	-	108,935
Park Equip. & Structures	29,807	-	-	29,807
Roads & Paving	205,421	-	-	205,421
Total Capital Assets Being Depreciated	<u>423,451</u>	<u>-</u>	<u>-</u>	<u>423,451</u>
Less Accumulated Depreciation:				
Buildings & Improvements	62,248	819	-	63,067
Office Equip. & Furniture	4,909	-	-	4,909
Maintenance Equipment	97,086	4,182	-	101,268
Park Equip. & Structures	29,807	-	-	29,807
Roads & Paving	30,350	10,271	-	40,621
Total Accumulated Depreciation	<u>224,400</u>	<u>15,272</u>	<u>-</u>	<u>239,672</u>
Governmental Activities Capital Assets, Net	<u>\$ 278,811</u>	<u>\$ (15,272)</u>	<u>\$ -</u>	<u>\$ 263,539</u>
<u>Business-type Activities</u>	Balance at January 1, 2014	Additions	Disposals	Balance at December 31, 2014
Capital Assets Being Depreciated				
Sewer System	\$ 3,043,255	\$ -	\$ -	\$ 3,043,255
Storage Building	25,000	-	-	25,000
Equipment	25,414	-	-	25,414
Total Capital Assets Being Depreciated	<u>3,093,669</u>	<u>-</u>	<u>-</u>	<u>3,093,669</u>
Less Accumulated Depreciation:				
Sewer System	1,117,739	138,444	-	1,256,183
Storage Building	2,917	1,250	-	4,167
Equipment	25,347	67	-	25,414
Total Accumulated Depreciation	<u>1,146,003</u>	<u>139,761</u>	<u>-</u>	<u>1,285,764</u>
Business-type Activities Capital Assets, Net	<u>\$ 1,947,666</u>	<u>\$ (139,761)</u>	<u>\$ -</u>	<u>\$ 1,807,905</u>

Village of Honor
Notes to the Financial Statements
 December 31, 2014

Depreciation expense was allocated as follows:

Governmental Activities:	
General Government	\$ 12,227
Public Works	3,045
Total Governmental Activities	\$ 15,272
Business-type Activities:	
Sewer Fund	\$ 139,761

NOTE 6 - LONG-TERM DEBT

The following is a summary of transactions that occurred in long-term debt during the year ended December 31, 2014:

	Interest Rate	Maturity	12/31/2013 Balance	Reductions	12/31/2014 Balance	Due Within One Year
Governmental Activities						
2011 Installment Loan - Land	4.25%	2016	\$ 42,755	\$ 5,081	\$ 37,674	\$ 3,431
Business-type Activities						
2006 Sewer Bonds	4.25%	2046	\$ 1,091,000	\$ 21,000	\$ 1,070,000	\$ 22,000
2010 Sewer Bonds	2.375%	2048	100,000	2,000	98,000	2,000
Total Long-term Debt, Business-type Activities:			\$ 1,191,000	\$ 23,000	\$ 1,168,000	\$ 24,000

2006 Sewer Bonds - Interest is payable April 1st and December 1st of each year at the rate of 4.25% on the outstanding balance. Principal is paid on October 1st each year.

The repayment schedule for the 2006 Sewer Bonds is as follows:

	Principal	Interest	Total
2015	\$ 22,000	\$ 49,300	\$ 71,300
2016	23,000	48,366	71,366
2017	23,000	47,388	70,388
2018	24,000	46,410	70,410
2019	25,000	45,390	70,390
2020-2024	135,000	210,588	345,588
2025-2029	158,000	179,820	337,820
2030-2034	183,000	144,374	327,374
2035-2039	212,000	103,022	315,022
2040-2044	246,000	55,164	301,164
2045-2046	19,000	6,970	25,970
	\$ 1,070,000	\$ 936,792	\$ 2,006,792

Village of Honor
Notes to the Financial Statements
 December 31, 2014

2011 Honor State Bank - Installment Loan - The Village incurred a \$55,000 installment loan for the purchase of land within the Village of Honor. The general fund makes monthly loan payments of \$415.53, including interest at 4.25%. The loan matures and balloons in September 2016.

The payment schedule for the 2011 Honor State Bank Installment Loan is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,431	\$ 1,755	\$ 5,186
2016	34,243	1,072	35,315
	<u>\$ 37,674</u>	<u>\$ 2,827</u>	<u>\$ 40,501</u>

2010 Sewer Bonds - Interest is payable June 1st and October 1st of each year at the rate of 2.375% on the outstanding balance. Principal is paid on December 1st each year.

The payment schedule for the 2010 Sewer Bonds is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,000	\$ 2,494	\$ 4,494
2016	2,000	2,446	4,446
2017	2,000	2,398	4,398
2018	2,000	2,352	4,352
2019	2,000	2,304	4,304
2020-2024	10,000	10,806	20,806
2025-2029	14,000	9,476	23,476
2030-2034	15,000	7,718	22,718
2035-2039	15,000	5,938	20,938
2040-2044	20,000	3,802	23,802
2045-2049	14,000	1,428	15,428
	<u>\$ 98,000</u>	<u>\$ 51,162</u>	<u>\$ 149,162</u>

NOTE 7 - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage through the Michigan Township Participating Plan. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime, and inland marine claims. Also, the Village carries workers' compensation insurance with The Accident Fund of Michigan. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Honor
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Property Taxes	\$ 70,000	\$ 70,000	\$ 74,004	\$ 4,004
Licenses & Permits	50	50	275	225
State Shared Revenue	20,000	20,000	24,897	4,897
Private Contributions	--	--	5,000	5,000
Equipment Rentals	21,000	21,000	12,472	(8,528)
Refunds & Reimbursements	--	--	3,043	3,043
Charges Household	3,000	3,000	4,538	1,538
Interest	15	15	19	4
<i>Total Revenues</i>	<u>114,065</u>	<u>114,065</u>	<u>124,248</u>	<u>10,183</u>
Other Financing Sources				
<i>Total Revenues and Other Financing Sources</i>	<u>114,065</u>	<u>114,065</u>	<u>124,248</u>	<u>10,183</u>
Expenditures				
General Government				
Village Council	21,700	21,700	28,554	(6,854)
Elections	200	200	--	200
Clerk	12,670	12,670	10,107	2,563
Legal	3,500	3,500	9,856	(6,356)
Treasurer	4,680	4,680	5,763	(1,083)
Village Hall & Grounds	16,250	16,250	20,387	(4,137)
<i>Total General Government</i>	<u>59,000</u>	<u>59,000</u>	<u>74,667</u>	<u>(15,667)</u>
<i>Public Safety - Fire Department</i>	<u>900</u>	<u>900</u>	<u>--</u>	<u>900</u>
Public Works				
General Public Works	57,337	57,337	35,987	21,350
Street Lighting	13,000	13,000	12,986	14
Sanitation	7,300	7,300	6,633	667
<i>Total Public Works</i>	<u>77,637</u>	<u>77,637</u>	<u>55,606</u>	<u>22,031</u>

Village of Honor
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
Expenditures				
Community and Economic Development				
Zoning	1,400	1,400	450	950
Economic Development	--	--	5,000	(5,000)
<i>Total Community and Economic Development</i>	<u>1,400</u>	<u>1,400</u>	<u>5,450</u>	<u>(4,050)</u>
<i>Recreation and Culture - Parks</i>	<u>2,500</u>	<u>2,500</u>	<u>4,188</u>	<u>(1,688)</u>
Debt Service				
Debt Service - Principal	5,081	5,081	5,081	--
Debt Service - Interest	1,682	1,682	1,682	--
<i>Debt Service</i>	<u>6,763</u>	<u>6,763</u>	<u>6,763</u>	<u>--</u>
<i>Total Expenditures</i>	<u>148,200</u>	<u>148,200</u>	<u>146,674</u>	<u>1,526</u>
Other Financing Uses				
Transfers to Other Funds	--	--	11,000	(11,000)
<i>Total Expenditures and Other Financing Uses</i>	<u>148,200</u>	<u>148,200</u>	<u>157,674</u>	<u>(9,474)</u>
<i>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</i>	<u>(34,135)</u>	<u>(34,135)</u>	<u>(33,426)</u>	<u>709</u>
<i>Net Change in Fund Balance</i>	<u>(34,135)</u>	<u>(34,135)</u>	<u>(33,426)</u>	<u>709</u>
<i>Fund Balance at Beginning of Period</i>	95,022	95,022	95,022	--
<i>Fund Balance at End of Period</i>	<u>\$ 60,887</u>	<u>\$ 60,887</u>	<u>\$ 61,596</u>	<u>\$ 709</u>

Village of Honor
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Streets
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
State Shared Revenue	\$ 24,000	\$ 24,000	\$ 26,692	\$ 2,692
Metro Act	750	750	754	4
Refunds & Reimbursements	--	--	8,739	8,739
Interest Earned	5	5	10	5
Total Revenues	<u>24,755</u>	<u>24,755</u>	<u>36,195</u>	<u>11,440</u>
Other Financing Sources				
Transfers from other funds	--	--	11,700	11,700
Total Revenues and Other Financing Sources	<u>24,755</u>	<u>24,755</u>	<u>47,895</u>	<u>23,140</u>
Expenditures				
Preservation Streets	13,600	13,600	5,277	8,323
Winter Maintenance	7,900	7,900	7,997	(97)
Audit	550	550	260	290
New Construction	--	--	34,090	(34,090)
Metro Act	1,000	1,000	--	1,000
Total Expenditures	<u>23,050</u>	<u>23,050</u>	<u>47,624</u>	<u>(24,574)</u>
Other Financing Uses				
Transfers to Other Funds	12,000	12,000	3,000	9,000
Total Expenditures and Other Financing Uses	<u>35,050</u>	<u>35,050</u>	<u>50,624</u>	<u>(15,574)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(10,295)</u>	<u>(10,295)</u>	<u>(2,729)</u>	<u>7,566</u>
Net Change in Fund Balance	<u>(10,295)</u>	<u>(10,295)</u>	<u>(2,729)</u>	<u>7,566</u>
<i>Fund Balance at Beginning of Period</i>	28,049	28,049	28,049	--
Fund Balance at End of Period	<u>\$ 17,754</u>	<u>\$ 17,754</u>	<u>\$ 25,320</u>	<u>\$ 7,566</u>

Village of Honor
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Streets
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Favorable (Unfavorable) Final to Actual
Revenues				
State Shared Revenue	\$ 8,500	\$ 8,500	\$ 10,849	\$ 2,349
Metro Act	750	750	754	4
Private Contributions	8,000	8,000	--	(8,000)
Interest Earned	3	3	2	(1)
Total Revenues	<u>17,253</u>	<u>17,253</u>	<u>11,605</u>	<u>(5,648)</u>
Other Financing Sources				
Transfers from other funds	<u>12,000</u>	<u>12,000</u>	<u>3,000</u>	<u>(9,000)</u>
Total Revenues and Other Financing Sources	<u>29,253</u>	<u>29,253</u>	<u>14,605</u>	<u>(14,648)</u>
Expenditures				
Preservation Streets	21,050	21,050	3,256	17,794
Winter Maintenance	6,450	6,450	7,950	(1,500)
Audit	550	550	520	30
Metro Act	<u>1,000</u>	<u>1,000</u>	<u>--</u>	<u>1,000</u>
Total Expenditures	<u>29,050</u>	<u>29,050</u>	<u>11,726</u>	<u>17,324</u>
Other Financing Uses				
Transfers to Other Funds	<u>--</u>	<u>--</u>	<u>700</u>	<u>(700)</u>
Total Expenditures and Other Financing Uses	<u>29,050</u>	<u>29,050</u>	<u>12,426</u>	<u>16,624</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>203</u>	<u>203</u>	<u>2,179</u>	<u>1,976</u>
Net Change in Fund Balance	<u>203</u>	<u>203</u>	<u>2,179</u>	<u>1,976</u>
<i>Fund Balance at Beginning of Period</i>	7,673	7,673	7,673	--
Fund Balance at End of Period	<u>\$ 7,876</u>	<u>\$ 7,876</u>	<u>\$ 9,852</u>	<u>\$ 1,976</u>

June 29, 2015

To the Village Council
Village of Honor, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Village of Honor (the "Village"), Michigan for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 16, 2015. 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 December 31, 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 June 29, 2015.

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.

Other Matters

We applied certain limited procedures to the budgetary comparison schedules and management's discussion and analysis, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the use of 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

Gabridge & Company, PLC
Interlochen, 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*

June 29, 2015

To the Village Council
Village of Honor, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Village of Honor, Michigan (the "Village") as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 29, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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.

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 the Village'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.

Best regards,

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Gabridge & Company, PLC
Interlochen, MI