

Village of Breedsville
Van Buren County, Michigan

FINANCIAL STATEMENTS

Year ended March 31, 2014

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Breedsville
Breedsville, Michigan

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Breedsville, Michigan, as of March 31, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting changes

As described in Note 8 to the financial statements, the Village adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Required supplementary information

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

Siegfried Crandall P.C.

June 5, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Breedsville's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended March 31, 2014. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

- The Village's total net position decreased by \$3,045 as a result of this year's activities.
- Of the \$138,552 total net position reported, \$57,718 is unrestricted, or available to be used at the Council's discretion.
- The General Fund's unassigned fund balance at the end of the fiscal year was \$57,718, which represents 129 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

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

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

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

A comparative analysis of the basic financial statements for 2014 and 2013 is also presented.

Government-wide financial statements

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

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

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

The government-wide financial statements present governmental activities. These activities include functions most commonly associated with government (e.g., general government, public safety, public works, recreation and culture, etc.). Property taxes and state grants generally fund these services.

Fund financial statements

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

- Some funds are required by state law and by bond agreements.
- The Village Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain other revenues.

The Village has one kind of fund:

- *Governmental funds.* The Village's basic services are included in its governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out, and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information that explains the relationship between them.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net position

Total net position at the end of the fiscal year was \$138,552. Of this total, \$34,483 is invested in capital assets and \$46,351 is restricted by enabling legislation for public works purposes. Consequently, unrestricted net position was \$57,718.

*Condensed financial information
Net position*

	<i>Governmental activities</i>	
	<u>2014</u>	<u>2013</u>
Current assets	\$ 104,482	\$ 105,162
Capital assets	<u>34,483</u>	<u>38,600</u>
Total assets	<u>138,965</u>	<u>143,762</u>
Current liabilities	<u>413</u>	<u>2,165</u>
Net position:		
Net investment in capital assets	34,483	38,600
Restricted by enabling legislation for public works	46,351	38,047
Unrestricted	<u>57,718</u>	<u>64,950</u>
Total net position	<u>\$ 138,552</u>	<u>\$ 141,597</u>

Changes in net position

The Village's total revenues are \$71,893. Operating grants and contributions account for 53 percent of the total revenues, while 23 percent comes from property taxes and 20 percent comes from state grants.

The total cost of all the Village's programs, covering a wide range of services, totaled \$74,938. About 52 percent of the Village's costs relate to public works expenses, while the provision for general governmental services accounts for 42 percent.

*Condensed financial information
Changes in net position*

	<i>Governmental activities</i>	
	<u>2014</u>	<u>2013</u>
Program revenues:		
Charges for services	\$ 1,747	\$ 407
Operating grants and contributions	38,347	36,974
General revenues:		
Property taxes	16,872	16,576
State shared revenue	14,715	14,450
Interest and rental income	212	160
	<u>71,893</u>	<u>68,567</u>
Expenses:		
General government	31,482	31,761
Public safety	188	180
Public works	39,068	45,288
Recreation and culture	4,200	4,640
	<u>74,938</u>	<u>81,869</u>
Changes in net position	<u>\$ (3,045)</u>	<u>\$ (13,302)</u>
Net position, end of year	<u>\$ 138,552</u>	<u>\$ 141,597</u>

Governmental activities

Governmental activities decreased the Village's net position by \$3,045 compared to a decrease of \$13,302 last year. Combined revenues increased by \$3,326, which is comparable to the prior year. Combined expenses decreased by \$6,931, primarily due to a decrease in road maintenance projects from the prior year.

The total cost of governmental activities this year was \$74,938. After subtracting the direct charges to those who directly benefited from the programs (\$1,747), and operating grants (\$38,347), the "public benefit" portion covered by taxes, state revenue sharing, and other general revenues was \$34,844, compared to \$44,488 in 2013.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$104,069, an increase of \$1,072 over the prior year. Of this amount, \$57,718 is available for spending at the Village's discretion.

The General Fund is the primary operating fund of the Village. At the end of the fiscal year, unassigned fund balance was \$57,718, which decreased by \$7,232 during the fiscal year as revenues of \$37,504 lagged behind expenditures of \$44,736.

The Major Street Fund experienced an increase of \$8,364 during the current year as revenues of \$17,714 lagged behind expenditures of \$26,078. The fund balance at year end was \$36,077.

The Local Street Fund had a decrease in fund balance of \$60 during the current year, as revenues of \$8,311 lagged behind expenditures of \$8,371. The fund balance at year end was \$10,274.

General Fund budgetary highlights

The Village amended the General Fund budgeted expenditures during the year. Budgeted expenditures were increased by \$3,500 from the original budget. Revenues were \$7,234 higher than anticipated, while expenditures were \$40,446 less than expected. The result was a positive budget variance of \$47,680 and a \$7,232 decrease in fund balance compared to a budgeted \$54,912 decrease.

Capital assets and debt administration

Capital assets

The Village's investment in capital assets for its governmental activities as of March 31, 2014, amounts to \$34,483 (net of accumulated depreciation). This investment includes a range of assets, including buildings, equipment, and infrastructure. The \$4,117 net decrease in the Village's investment in capital assets for the current fiscal year was comprised of this year's depreciation.

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

Long-term debt

The Village had no debt at the beginning or end of year.

Economic factors and next year's budgets and rates

Small decreases in property taxes are expected in 2015, resulting in an overall decrease in total revenues. The Village plans to maintain all ongoing programs for 2015.

Contacting the Village's financial management

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

Cherokee Thompson, President
Village of Breedsville
P.O. Box 103, 82 E. Main Street
Breedsville, MI 49027

Phone: (269) 427-7500

BASIC FINANCIAL STATEMENTS

Village of Breedsville

STATEMENT OF NET POSITION

March 31, 2014

	<i>Governmental activities</i>
ASSETS	
Current assets:	
Cash	\$ 86,822
Receivables, net	<u>17,660</u>
Total current assets	104,482
Capital assets, net	<u>34,483</u>
Total assets	<u>138,965</u>
LIABILITIES	
Accounts payable	<u>413</u>
NET POSITION	
Net investment in capital assets	34,483
Restricted by enabling legislation for public works	46,351
Unrestricted	<u>57,718</u>
Total net position	<u>\$ 138,552</u>

See notes to financial statements

STATEMENT OF ACTIVITIES

Year ended March 31, 2014

	<u>Program revenues</u>		<i>Net (expenses) revenues and change in net position</i>	
	<u>Expenses</u>	<u>Charges for services</u>		<u>Operating grants and contributions</u>
Functions/Programs				
Governmental activities:				
General government	\$ 31,482	\$ 756	\$ -	\$ (30,726)
Public safety	188	-	189	1
Public works	39,068	991	38,158	81
Recreation and culture	<u>4,200</u>	<u>-</u>	<u>-</u>	<u>(4,200)</u>
Total governmental activities	<u>\$ 74,938</u>	<u>\$ 1,747</u>	<u>\$ 38,347</u>	<u>\$ (34,844)</u>
General revenues:				
				16,872
				14,715
				<u>212</u>
Total general revenues				<u>31,799</u>
Change in net position				(3,045)
Net position - beginning				<u>141,597</u>
Net position - ending				<u>\$ 138,552</u>

See notes to financial statements

Village of Breedsville

BALANCE SHEET - governmental funds

March 31, 2014

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 47,870	\$ 30,867	\$ 8,085	\$ 86,822
Receivables	<u>10,261</u>	<u>5,210</u>	<u>2,189</u>	<u>17,660</u>
Total assets	<u>\$ 58,131</u>	<u>\$ 36,077</u>	<u>\$ 10,274</u>	<u>\$ 104,482</u>
LIABILITIES AND FUND BALANCES				
Liabilities - accounts payable	<u>\$ 413</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 413</u>
Fund balances:				
Restricted for public works	-	36,077	10,274	46,351
Unassigned	<u>57,718</u>	<u>-</u>	<u>-</u>	<u>57,718</u>
Total fund balances	<u>57,718</u>	<u>36,077</u>	<u>10,274</u>	<u>104,069</u>
Total liabilities and fund balances	<u>\$ 58,131</u>	<u>\$ 36,077</u>	<u>\$ 10,274</u>	<u>\$ 104,482</u>

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

Total fund balance - total governmental funds \$ 104,069

Amounts reported for *governmental activities* in the statement of net position (page 9) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 34,483

Net position of *governmental activities* \$ 138,552

See notes to financial statements

Village of Breedsville

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - governmental funds

Year ended March 31, 2014

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total governmental funds</u>
REVENUES				
Taxes	\$ 16,872	\$ -	\$ -	\$ 16,872
State grants	16,291	26,019	8,280	50,590
Interest	122	59	31	212
Contribution from local unit	2,472	-	-	2,472
Other	<u>1,747</u>	<u>-</u>	<u>-</u>	<u>1,747</u>
Total revenues	<u>37,504</u>	<u>26,078</u>	<u>8,311</u>	<u>71,893</u>
EXPENDITURES				
General government	30,932	-	-	30,932
Public safety	188	-	-	188
Public works	8,786	17,714	8,371	34,871
Recreation and culture	4,100	-	-	4,100
Capital outlay	<u>730</u>	<u>-</u>	<u>-</u>	<u>730</u>
Total expenditures	<u>44,736</u>	<u>17,714</u>	<u>8,371</u>	<u>70,821</u>
NET CHANGES IN FUND BALANCES	(7,232)	8,364	(60)	1,072
FUND BALANCES - BEGINNING	<u>64,950</u>	<u>27,713</u>	<u>10,334</u>	<u>102,997</u>
FUND BALANCES - ENDING	<u>\$ 57,718</u>	<u>\$ 36,077</u>	<u>\$ 10,274</u>	<u>\$ 104,069</u>

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

Net change in fund balance - total governmental funds \$ 1,072

Amounts reported for *governmental activities* in the statement of activities (page 10) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Deduct - depreciation provision (4,117)

Change in net position of *governmental activities* \$ (3,045)

See notes to financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting entity:

The accompanying financial statements present only the Village, located in Van Buren County. There are no component units, entities for which the Village is considered to be financially accountable.

Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Village. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The major individual governmental funds are reported as a separate column 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period, or soon enough thereafter, to pay liabilities of the current period. For this purpose, the Village generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Village.

The Village reports the following major governmental funds:

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

The Major Street Fund accounts for the use of motor fuel taxes, which are earmarked by state statute for major street repairs and improvements.

The Local Street Fund accounts for the use of motor fuel taxes, which are earmarked by the state for local street repairs and improvements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Amounts reported as program revenues include operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Assets, liabilities, and net position or equity:

Bank deposits - 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. Pooled interest income is proportionately allocated to all funds.

Receivables - In general, outstanding balances between funds are reported as “due to/from other funds.” No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets, other than infrastructure, are defined by the Village as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Village has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

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

Building	15 - 60 years
Equipment	3 - 5 years
Vehicles	3 - 5 years
Roads	15 - 30 years

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

Fund equity - In the fund financial statements, restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws and regulations of other governments. The Village Council retains the authority to assign fund balance. Unassigned fund balance is the residual classification for the General Fund. When the Village incurs an expenditure for purposes for which various fund balance classifications can be used, it is the Village’s policy to use restricted fund balance first, followed by assigned fund balance, and, finally, unassigned fund balance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property tax revenue recognition - 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 14, 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 in the current year.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year. The Village had no budget variations requiring disclosure.

NOTE 3 - CASH

Deposits - Michigan Compiled Laws, Section 129.91 (Public Act 20 of 1943, as amended) and the Village’s investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village’s deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. The Village’s investment policy does not specifically address credit risk for deposits. As of March 31, 2014, none of the Village’s bank balances of \$89,276 was exposed to custodial credit risk.

NOTE 4 - RECEIVABLES

Receivables as of March 31, 2014, for the Village’s individual funds were as follows:

<u>Fund</u>	<u>Property taxes</u>	<u>Inter- governmental</u>	<u>Totals</u>
General	\$ 8,108	\$ 2,153	\$ 10,261
Major Street	-	5,210	5,210
Local Street	-	2,189	2,189
Totals	<u>\$ 8,108</u>	<u>\$ 9,552</u>	<u>\$ 17,660</u>

All receivables are considered fully collectible and are due within one year.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2014, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets being depreciated:				
Buildings	\$ 8,000	\$ -	\$ -	\$ 8,000
Equipment	25,150	-	-	25,150
Infrastructure	<u>27,788</u>	<u>-</u>	<u>-</u>	<u>27,788</u>
Subtotal	<u>60,938</u>	<u>-</u>	<u>-</u>	<u>60,938</u>
Less accumulated depreciation for:				
Buildings	(8,000)	-	-	(8,000)
Equipment	(8,163)	(2,265)	-	(10,428)
Infrastructure	<u>(6,175)</u>	<u>(1,852)</u>	<u>-</u>	<u>(8,027)</u>
Subtotal	<u>(22,338)</u>	<u>(4,117)</u>	<u>-</u>	<u>(26,455)</u>
Governmental activities capital assets, net	<u>\$ 38,600</u>	<u>\$ (4,117)</u>	<u>\$ -</u>	<u>\$ 34,483</u>

Depreciation expense was charged solely to the public works function.

NOTE 6 - PROPERTY TAXES

The 2013 taxable valuation of the Village approximated \$2,618,000, on which ad valorem taxes levied, consisted of .63805 mills for operating purposes, raising approximately \$16,700. This amount is recognized in the respective fund financial statements as property tax revenue.

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has joined together with other local governmental units in the State to form the Michigan Municipal League Insurance Pool (MML), a public-entity risk pool currently operating as a common risk management and insurance program for local governmental units within the State. The Village pays an annual premium to MML for all of its separate types of insurance coverage. MML is self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event.

NOTE 8 - RECENT ACCOUNTING PRONOUNCEMENT

Effective April 1, 2013, the Village adopted the provisions of the following accounting pronouncement that did not result in restatement or reclassification of opening net position or fund balances.

Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Breedsville

BUDGETARY COMPARISON SCHEDULE - General Fund

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
Property taxes	\$ 10,000	\$ 10,000	\$ 16,872	\$ 6,872
State grants	16,720	16,720	16,291	(429)
Interest	150	150	122	(28)
Contribution from local unit	2,400	2,400	2,472	72
Other	1,000	1,000	1,747	747
	<u>30,270</u>	<u>30,270</u>	<u>37,504</u>	<u>7,234</u>
Total revenues				
EXPENDITURES				
General government:				
Legislative - Village Council	9,000	9,000	7,280	1,720
Election	150	150	-	150
Clerk	3,600	3,600	1,887	1,713
Treasurer	2,600	2,600	1,869	731
Hall and grounds	10,750	10,750	7,231	3,519
Other	19,812	20,312	12,665	7,647
	<u>45,912</u>	<u>46,412</u>	<u>30,932</u>	<u>15,480</u>
Total general government				
Public safety - liquor control	<u>220</u>	<u>220</u>	<u>188</u>	<u>32</u>
Public works:				
Roads	2,400	2,400	-	2,400
Maintenance	2,850	4,350	3,795	555
Street lights	5,400	5,400	4,991	409
	<u>10,650</u>	<u>12,150</u>	<u>8,786</u>	<u>3,364</u>
Total public works				

Village of Breedsville

BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
EXPENDITURES (Continued)				
Recreation and culture - parks and recreation	\$ 3,000	\$ 4,500	\$ 4,100	\$ 400
Capital outlay	21,900	21,900	730	21,170
Total expenditures	<u>81,682</u>	<u>85,182</u>	<u>44,736</u>	<u>40,446</u>
NET CHANGES IN FUND BALANCES	(51,412)	(54,912)	(7,232)	47,680
FUND BALANCES - BEGINNING	<u>64,950</u>	<u>64,950</u>	<u>64,950</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 13,538</u>	<u>\$ 10,038</u>	<u>\$ 57,718</u>	<u>\$ 47,680</u>

Village of Breedsville

BUDGETARY COMPARISON SCHEDULE - Major Street Fund

Year ended March 31, 2014

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
REVENUES				
State grants	\$ 20,000	\$ 20,000	\$ 26,019	\$ 6,019
Interest	50	50	59	9
	<u>20,050</u>	<u>20,050</u>	<u>26,078</u>	<u>6,028</u>
Total revenues				
EXPENDITURES				
Public works:				
Routine maintenance	10,450	10,450	6,890	3,560
Traffic services	200	200	131	69
Winter maintenance	11,000	11,000	10,668	332
Other	4,825	4,825	25	4,800
	<u>26,475</u>	<u>26,475</u>	<u>17,714</u>	<u>8,761</u>
Total expenditures				
NET CHANGES IN FUND BALANCES	(6,425)	(6,425)	8,364	14,789
FUND BALANCES - BEGINNING	<u>27,713</u>	<u>27,713</u>	<u>27,713</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 21,288</u>	<u>\$ 21,288</u>	<u>\$ 36,077</u>	<u>\$ 14,789</u>

Village of Breedsville

BUDGETARY COMPARISON SCHEDULE - Local Street Fund

Year ended March 31, 2014

	<i>Original budget</i>	<i>Final budget</i>	<i>Actual</i>	<i>Variance with final budget positive (negative)</i>
REVENUES				
State grants	\$ 7,000	\$ 7,000	\$ 8,280	\$ 1,280
Interest	40	40	31	(9)
Total revenues	<u>7,040</u>	<u>7,040</u>	<u>8,311</u>	<u>1,271</u>
EXPENDITURES				
Public works:				
Routine maintenance	4,000	4,000	1,234	2,766
Winter maintenance	6,600	7,200	7,112	88
Other	600	600	25	575
Total expenditures	<u>11,200</u>	<u>11,800</u>	<u>8,371</u>	<u>3,429</u>
NET CHANGES IN FUND BALANCES	(4,160)	(4,760)	(60)	4,700
FUND BALANCES - BEGINNING	<u>10,334</u>	<u>10,334</u>	<u>10,334</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 6,174</u>	<u>\$ 5,574</u>	<u>\$ 10,274</u>	<u>\$ 4,700</u>

June 5, 2014

Members of the Village Council
Village of Breedsville

We have audited the financial statements of the governmental activities and each major fund of the Village of Breedsville for the year ended March 31, 2014. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village of Breedsville are described in Note 1 to the financial statements. Except as disclosed in Note 8 to the financial statements, no new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2014. We noted no transactions entered into by the Village of Breedsville during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Village's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments

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

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2014.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Breedsville's auditor. 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 management's discussion and analysis and the budgetary comparison schedules, 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 response 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.

Communication Regarding Internal Control

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

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

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

Material audit adjustments and financial statement preparation:

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

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

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

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

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

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

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

Siegfried Crandall P.C.