

# **Village of Holly, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2014**

# Village of Holly, Michigan

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# Village of Holly, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Holly, Michigan

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the Village of Holly, Michigan (the "Village") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Village of Holly, Michigan'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the Village of Holly, Michigan as of June 30, 2014 and the respective changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Village Council  
Village of Holly, Michigan

***Emphasis of Matter***

As discussed in Note 2 to the basic financial statements, in 2014, the Village adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedule, and pension and other postemployment benefits system schedule, as identified in the table of 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, which 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 supplemental 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Holly, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Plante & Morse, PLLC*

January 27, 2015

# **Village of Holly, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Village of Holly, Michigan's (the "Village") financial performance provides an overview of the Village of Holly's financial activities for the fiscal year ended June 30, 2014. Please read it in conjunction with the Village's financial statements.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Village of Holly as a whole and present a longer-term view of the Village of Holly's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village of Holly's operations in more detail than the government-wide financial statements by providing information about the Village of Holly's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village of Holly acts solely as a trustee or agent for the benefit of those outside of the government.

### **Governmental Activities**

The following tables show, in a condensed format, the current year's net position and changes in net position compared to the prior year:

# Village of Holly, Michigan

## Management's Discussion and Analysis (Continued)

	Governmental Activities			Percent Change
	2013	2014	Change	
<b>Revenue</b>				
Program revenue:				
Charges for services	\$ 748,213	\$ 853,459	\$ 105,246	14%
Operating grants	511,505	411,005	(100,500)	-20%
Capital grants	5,853	-	(5,853)	-100%
General revenue:				
Property taxes	1,267,639	1,301,404	33,765	3%
State-shared revenue	542,427	555,809	13,382	2%
Investment earnings	5,220	7,891	2,671	51%
Other revenue	114,498	266,730	152,232	133%
Total revenue	<u>3,195,355</u>	<u>3,396,298</u>	<u>200,943</u>	6%
<b>Program Expenses</b>				
General government	500,590	411,804	(88,786)	-18%
Public safety	1,896,982	1,722,631	(174,351)	-9%
Public works	1,185,748	1,205,388	19,640	2%
Community and economic development	57,528	45,688	(11,840)	-21%
Recreation and culture	35,039	28,692	(6,347)	-18%
Interest on long-term debt	765	503	(262)	-34%
Total expenses	<u>3,676,652</u>	<u>3,414,706</u>	<u>(261,946)</u>	-7%
<b>Change in Net Position</b>	<u>\$ (481,297)</u>	<u>\$ (18,408)</u>	<u>\$ 462,889</u>	-96%

# Village of Holly, Michigan

## Management's Discussion and Analysis (Continued)

The Village's total governmental revenue increased by \$200,943 due primarily to an increase in the other revenue in the current year for the sale of an old Village office building. Expenses decreased by \$261,946 during the year due primarily to decreases in public safety for costs related to the Village Dispatch unit.

	Governmental Activities			Percent Change
	2013	2014	Change	
Other assets	\$ 1,401,234	\$ 2,083,269	\$ 682,035	49%
Capital assets	<u>3,547,392</u>	<u>3,096,523</u>	<u>(450,869)</u>	-13%
Total assets	4,948,626	5,179,792	231,166	5%
Current liabilities	89,015	299,622	210,607	237%
Long-term liabilities	<u>362,356</u>	<u>401,323</u>	<u>38,967</u>	11%
Total liabilities	<u>451,371</u>	<u>700,945</u>	<u>249,574</u>	55%
Net position:				
Net investment in capital assets	3,505,308	3,096,523	(408,785)	-12%
Restricted	299,735	357,820	58,085	19%
Unrestricted	<u>692,212</u>	<u>1,024,504</u>	<u>332,292</u>	48%
Total net position	<u>\$ 4,497,255</u>	<u>\$ 4,478,847</u>	<u>\$ (18,408)</u>	0%

Total governmental net position decreased by 0.4 percent from a year ago - from \$4,497,255 to \$4,478,847. Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - increased by \$332,292 for governmental activities. This represents an increase of approximately 48 percent. The current level of unrestricted net position for our governmental activities stands at \$1,024,504 or 30 percent of governmental activity expenses.

# Village of Holly, Michigan

## Management's Discussion and Analysis (Continued)

### Business-type Activities

The following table shows, in a condensed format, the current year's net position and changes in net position compared to the prior year:

	Business-type Activities			Percent Change
	2013	2014	Change	
Other assets	\$ 3,098,919	\$ 3,337,964	\$ 239,045	8%
Capital assets	32,706,154	31,754,866	(951,288)	-3%
Total assets	35,805,073	35,092,830	(712,243)	-2%
Deferred outflows of resources	-	98,999	98,999	
Current liabilities	194,963	321,387	126,424	65%
Long-term liabilities	15,650,006	14,552,402	(1,097,604)	-7%
Total liabilities	15,844,969	14,873,789	(971,180)	-6%
Net position:				
Net investment in capital assets	17,132,771	17,560,018	427,247	2%
Restricted	1,007,500	988,996	(18,504)	-2%
Unrestricted	1,819,833	1,769,026	(50,807)	-3%
Total net position	<b>\$ 19,960,104</b>	<b>\$ 20,318,040</b>	<b>\$ 357,936</b>	2%

	Business-type Activities			Percent Change
	2013	2014	Change	
Operating revenue	\$ 2,227,397	\$ 2,428,239	\$ 200,842	9%
Operating expenses, other than depreciation	1,537,674	1,715,069	177,395	12%
Depreciation and amortization	974,896	978,512	3,616	0%
Operating loss	(285,173)	(265,342)	19,831	-7%
Debt service charges	1,603,755	1,475,514	(128,241)	-8%
Interest income	14,481	33,308	18,827	130%
Interest expense	703,905	765,380	61,475	9%
Bond issuance costs	-	169,738	169,738	100%
Cell tower leases	42,315	45,775	3,460	8%
Capital contributions	4,676	3,799	(877)	-19%
Change in net position	<b>\$ 676,149</b>	<b>\$ 357,936</b>	<b>\$ (318,213)</b>	-47%

# **Village of Holly, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The Village's business-type activities consist of the Water and Sewer Funds. We provide water to residents from Village wells and sewage treatment through a Village-owned and operated sewage treatment plant. The net position of business-type activities increased 2 percent from a year ago, increasing from \$19,960,104 to \$20,318,040. Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - decreased by \$50,807 or 3 percent. The current level of unrestricted net position stands at \$1,769,026 or about 66 percent of annual operating expenses, including depreciation.

Debt service charges decreased 8 percent from a year ago, decreasing from \$1,603,755 to \$1,475,514 due primarily to decrease in active meters being serviced in the Village; the debt service fee for water and sewer is charged per meter instead of billed based on account.

Expenses increased \$412,224 from a year ago primarily due to an increase in the interest expense for the outstanding debt and the refunding of sewer debt that occurred in the current year. With the implementation of GASB Statement No. 65 during the current year, bond issuance costs are expensed in the year they occur.

### **The Village's Funds**

Our analysis of the Village's funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village's major funds for 2014 include the General Fund, which includes services of the general government - i.e., the Village Council, manager, clerk-treasurer - public safety (police and fire), public works, community and economic development, and provides services for planning and zoning, senior transportation, and parks and recreation. Public safety makes up 50 percent of the total General Fund expenditures.

# Village of Holly, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity, on a modified accrual basis, compared to the prior year:

	Governmental Funds			
	2013	2014	Change	Percent Change
<b>Revenue</b>				
Property taxes	\$ 1,267,639	\$ 1,301,404	\$ 33,765	3%
Charges for services	552,775	625,898	73,123	13%
Licenses and permits	78,524	108,366	29,842	38%
State-shared revenues	542,427	555,809	13,382	2%
Act 51 funding	347,552	358,358	10,806	3%
Federal, state, and local grants	170,408	52,395	(118,013)	-69%
Fines and forfeitures	37,867	15,699	(22,168)	-59%
Investment income	5,220	7,891	2,671	51%
Special assessments	275,905	333,650	57,745	21%
Other	68,628	166,516	97,888	143%
Total revenue	3,346,945	3,525,986	179,041	5%
<b>Expenditures</b>				
Current:				
General government	516,813	552,511	35,698	7%
Public safety	1,688,924	1,660,625	(28,299)	-2%
Public works	927,401	972,386	44,985	5%
Health and welfare	30,691	37,478	6,787	22%
Community and economic development	25,007	8,416	(16,591)	-66%
Recreation and culture	17,225	10,624	(6,601)	-38%
Capital outlay	12,009	58,279	46,270	385%
Debt service	27,876	1,425	(26,451)	-95%
Total expenditures	3,245,946	3,301,744	55,798	2%
<b>Net Change in Fund Balances</b>	100,999	224,242	123,243	122%
<b>Fund Balances - Beginning of year</b>	1,191,130	1,292,129	100,999	8%
<b>Fund Balances - End of year</b>	<b>\$ 1,292,129</b>	<b>\$ 1,516,371</b>	<b>\$ 224,242</b>	<b>17%</b>

Other revenue increased during the year by \$97,888. The majority of those increases related to revenue from Oakland County for switching dispatch services out of the Village.

# **Village of Holly, Michigan**

## **Management's Discussion and Analysis (Continued)**

Property tax revenue appears to be on the rebound with slight increases in taxable values resulting in a small increase in property tax revenue of about 3 percent. Charges for services increased by \$73,123 in the current year, primarily due to an increase in rents and charges to external parties. State-shared revenue and ACT 51 revenue was fairly consistent with the prior year with increases of approximately 2 and 3 percent, respectively.

Overall expenditures in the governmental funds increased by \$55,798 or 2 percent in the current year primarily related to increases in capital outlay expenditures related to the purchase of new vehicles and public works related to increases in vehicle fuel and retirement expense.

Other major funds are the Water and Sewer Funds, which are categorized as enterprise or business funds. These funds operate on revenue they receive from the customers (users) of the water and sewer systems.

### **General Fund Budgetary Highlights**

Over the course of the year, the Village amended the budget to take into account various minor expenditures and revenue changes. Increases in revenue and monitoring of expenditures resulted in an increase in the fund balance of \$151,031.

### **Capital Asset and Debt Administration**

During 2014, the Village relocated its offices to the Karl Richter Community Center and the majority of the governmental activities capital asset purchases of \$118,954 were related to the move and improvements made to the new space.

Additional information regarding the Village's capital assets can be found in Note 5 to the financial statements.

Additional information regarding the Village's long-term debt can be found in Note 9 to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

#### **Local Economy**

The Downtown Development Authority (the "DDA") and the Holly Chamber of Commerce have a working partnership agreement to promote the Village of Holly through special events and activities. During 2008, the Downtown Development Authority completed a new streetscape downtown. This investment in the downtown area should make the downtown area more attractive and user-friendly for visitors.

The Village and the DDA are working together to bring businesses to the downtown area that are attractive to our local residents as well as visitors. With the reduction in taxable values of approximately \$769,813 for this fiscal year, priorities were made to continue to provide services to the Village residents.

# **Village of Holly, Michigan**

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## **Management's Discussion and Analysis (Continued)**

### **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 the Village's office.

# Village of Holly, Michigan

## Statement of Net Position June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents (Note 4)	\$ 1,318,573	\$ 1,731,646	\$ 3,050,219	\$ 50,312
Receivables	207,563	573,147	780,710	488
Land contract receivable (Note 6)	360,447	-	360,447	-
Inventory	-	30,434	30,434	-
Restricted assets (Note 1)	-	988,996	988,996	-
Net pension asset (Note 12)	63,875	13,741	77,616	-
Due from fiduciary fund - Retiree Health	132,811	-	132,811	-
Capital assets: (Note 5)				
Assets not subject to depreciation	165,460	50,000	215,460	-
Assets subject to depreciation	2,931,063	31,704,866	34,635,929	-
Total assets	5,179,792	35,092,830	40,272,622	50,800
<b>Deferred Outflows of Resources -</b>				
Deferred charge on refunding	-	98,999	98,999	-
<b>Liabilities</b>				
Accounts payable	107,854	29,922	137,776	1,713
Accrued liabilities and other	21,944	291,465	313,409	-
Unearned revenue (Note 6)	169,824	-	169,824	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 9)	134,947	13,113	148,060	-
Capital leases (Note 8)	-	103,822	103,822	-
Current portion of long-term debt (Note 9)	-	1,045,000	1,045,000	-
Due in more than one year:				
Capital leases (Note 8)	-	155,521	155,521	-
Net OPEB obligation (Note 14)	266,376	98,392	364,768	-
Long-term debt (Note 9)	-	13,136,554	13,136,554	-
Total liabilities	700,945	14,873,789	15,574,734	1,713
<b>Net Position</b>				
Net investment in capital assets	3,096,523	17,560,018	20,656,541	-
Restricted for:				
Streets and highways	341,641	-	341,641	-
Senior transportation	14,387	-	14,387	-
Solid waste	1,792	-	1,792	-
Restricted for bond reserve	-	988,996	988,996	-
Unrestricted	1,024,504	1,769,026	2,793,530	49,087
Total net position	<u>\$ 4,478,847</u>	<u>\$ 20,318,040</u>	<u>\$ 24,796,887</u>	<u>\$ 49,087</u>

# Village of Holly, Michigan

	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 411,804	\$ 247,029	\$ 1,240	\$ -
Public safety:				
Police	1,364,701	77,455	2,106	-
Building inspections and related	24,296	60,778	-	-
Fire	333,634	1,455	-	-
Public works:				
Streets	569,668	-	374,340	-
Rubbish disposal	306,197	325,416	-	-
Other public works activities	314,419	90,352	-	-
Cemetery	9,584	20,250	-	-
Lake maintenance	5,520	-	-	-
Community and economic development:				
Planning, zoning, and related	6,587	4,174	-	-
Senior transportation	39,101	26,550	33,319	-
Recreation and culture	28,692	-	-	-
Interest on long-term debt	503	-	-	-
Total governmental activities	3,414,706	853,459	411,005	-
Business-type activities:				
Sewer Fund	2,306,403	2,185,012	-	-
Water Fund	1,322,296	1,764,516	-	3,799
Total business-type activities	3,628,699	3,949,528	-	3,799
Total primary government	<u>\$ 7,043,405</u>	<u>\$ 4,802,987</u>	<u>\$ 411,005</u>	<u>\$ 3,799</u>
Component units	<u>\$ 49,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
<b>Change in Net Position</b>				
<b>Net Position - Beginning of year</b>				
<b>Net Position - End of year</b>				

## Statement of Activities Year Ended June 30, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (163,535)	\$ -	\$ (163,535)	\$ -
(1,285,140)	-	(1,285,140)	-
36,482	-	36,482	-
(332,179)	-	(332,179)	-
(195,328)	-	(195,328)	-
19,219	-	19,219	-
(224,067)	-	(224,067)	-
10,666	-	10,666	-
(5,520)	-	(5,520)	-
(2,413)	-	(2,413)	-
20,768	-	20,768	-
(28,692)	-	(28,692)	-
(503)	-	(503)	-
(2,150,242)	-	(2,150,242)	-
-	(121,391)	(121,391)	-
-	446,019	446,019	-
-	324,628	324,628	-
(2,150,242)	324,628	(1,825,614)	-
-	-	-	(49,484)
1,301,404	-	1,301,404	67,809
555,809	-	555,809	-
7,891	33,308	41,199	4
100,214	-	100,214	-
166,516	-	166,516	13,789
2,131,834	33,308	2,165,142	81,602
(18,408)	357,936	339,528	32,118
4,497,255	19,960,104	24,457,359	16,969
<b>\$ 4,478,847</b>	<b>\$ 20,318,040</b>	<b>\$ 24,796,887</b>	<b>\$ 49,087</b>

# Village of Holly, Michigan

## Governmental Funds Balance Sheet June 30, 2014

	General Fund	Nonmajor Funds	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 767,522	\$ 551,051	\$ 1,318,573
Receivables:			
Delinquent property taxes receivable	82	-	82
Special assessments receivable	11,538	3,735	15,273
Other	16,241	-	16,241
Due from other governmental units	116,985	58,982	175,967
Due from other funds	5,265	-	5,265
Due from fiduciary fund - Retiree Health	132,811	-	132,811
Land contract receivable (Note 6)	360,447	-	360,447
	<u>\$ 1,410,891</u>	<u>\$ 613,768</u>	<u>\$ 2,024,659</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	\$ 79,419	\$ 28,435	\$ 107,854
Due to other funds	-	5,265	5,265
Accrued liabilities and other	21,040	904	21,944
	<u>100,459</u>	<u>34,604</u>	<u>135,063</u>
Total liabilities			
<b>Deferred Inflows of Resources -</b>			
Unavailable revenue	371,985	1,240	373,225
<b>Fund Balances</b>			
Restricted:			
Roads	-	341,641	341,641
Solid waste	-	1,792	1,792
Senior transportation	-	14,387	14,387
Committed - Cemetery care	147,454	-	147,454
Assigned:			
Tri party	34,779	-	34,779
Sidewalks	142,645	-	142,645
Roads	-	145,993	145,993
Mill pond	100,000	-	100,000
Capital improvements	182,018	-	182,018
Senior transportation	-	76,940	76,940
Unassigned	331,551	(2,829)	328,722
	<u>938,447</u>	<u>577,924</u>	<u>1,516,371</u>
Total fund balances			
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,410,891</u>	<u>\$ 613,768</u>	<u>\$ 2,024,659</u>

# Village of Holly, Michigan

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## Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position June 30, 2014

<b>Fund Balance Reported in Governmental Funds</b>	\$ 1,516,371
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,096,523
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	373,225
Land contract sale recognized on the installment method, revenue is unearned	(169,824)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(134,947)
Net OPEB obligation	(266,376)
Net pension asset	<u>63,875</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 4,478,847</u></b>

# Village of Holly, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Nonmajor Funds	Total
<b>Revenue</b>			
Property taxes	\$ 1,301,404	\$ -	\$ 1,301,404
Licenses and permits	108,366	-	108,366
Federal grants	-	49,301	49,301
State-shared revenue and grants	558,903	358,358	917,261
Charges for services	620,198	5,700	625,898
Fines and forfeitures	15,699	-	15,699
Investment income	4,902	2,989	7,891
Other revenue:			
Special assessments	955	332,695	333,650
Other miscellaneous income	141,508	25,008	166,516
Total revenue	2,751,935	774,051	3,525,986
<b>Expenditures</b>			
Current:			
General government:			
Village council	7,374	-	7,374
Village manager	60,270	-	60,270
Clerk/Treasurer	119,539	-	119,539
Buildings and grounds	198,867	-	198,867
Attorney	16,042	-	16,042
Data processing	13,977	-	13,977
Other	136,442	-	136,442
Public safety:			
Police	1,144,289	-	1,144,289
Dispatch	210,837	-	210,837
Fire	282,288	-	282,288
Building inspections and related	23,211	-	23,211
Public works:			
Streets	-	351,645	351,645
Rubbish disposal	-	306,197	306,197
Other public works activities	292,867	-	292,867
Cemetery	16,157	-	16,157
Lake maintenance	-	5,520	5,520
Senior transportation	-	37,478	37,478
Community and economic development:			
Redevelopment and housing	1,829	-	1,829
Planning, zoning, and related	6,587	-	6,587
Recreation and culture	10,624	-	10,624
Capital outlay	58,279	-	58,279
Debt service	1,425	-	1,425
Total expenditures	2,600,904	700,840	3,301,744
<b>Net Change in Fund Balances</b>	151,031	73,211	224,242
<b>Fund Balances - Beginning of year</b>	787,416	504,713	1,292,129
<b>Fund Balances - End of year</b>	<b>\$ 938,447</b>	<b>\$ 577,924</b>	<b>\$ 1,516,371</b>

The Notes to Financial Statements are an Integral Part of this Statement.

# Village of Holly, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 224,242</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	135,914
Depreciation expense	(396,160)
Net book value of assets disposed of	190,623
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(8,234)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(190,623)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	36,744
Decrease in the obligation of contracts payables is recorded when incurred in the statement of activities	5,340
Decrease in accrued interest payable and other	922
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	4,702
Increase in the liability for other postemployment benefits is recorded when earned in the statement of activities	(85,753)
Increase in the net pension asset	63,875
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (18,408)</u></b>

# Village of Holly, Michigan

## Proprietary Funds Statement of Net Position June 30, 2014

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (Note 4)	\$ 274,154	\$ 1,457,492	\$ 1,731,646
Receivables	329,420	243,727	573,147
Inventory	30,434	-	30,434
Total current assets	634,008	1,701,219	2,335,227
Noncurrent assets:			
Restricted assets (Note 10)	460,000	528,996	988,996
Net pension asset	7,446	6,295	13,741
Capital assets (Note 5):			
Assets not subject to depreciation	50,000	-	50,000
Assets subject to depreciation	21,082,777	10,622,089	31,704,866
Total noncurrent assets	21,600,223	11,157,380	32,757,603
Total assets	22,234,231	12,858,599	35,092,830
<b>Deferred Outflows of Resources -</b>			
Deferred charge on refunding	98,999	-	98,999
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	19,216	10,706	29,922
Accrued liabilities and other	159,076	132,389	291,465
Compensated absences	11,065	2,048	13,113
Capital leases (Note 8)	51,911	51,911	103,822
Current portion of long-term debt (Note 9)	600,000	445,000	1,045,000
Total current liabilities	841,268	642,054	1,483,322
Noncurrent liabilities:			
Net OPEB obligation	55,023	43,369	98,392
Capital leases (Note 8)	77,761	77,760	155,521
Long-term debt (Note 9)	8,181,554	4,955,000	13,136,554
Total noncurrent liabilities	8,314,338	5,076,129	13,390,467
Total liabilities	9,155,606	5,718,183	14,873,789
<b>Net Position</b>			
Net investment in capital assets	12,467,104	5,092,914	17,560,018
Restricted - Bond reserve (Note 10)	460,000	528,996	988,996
Unrestricted	250,520	1,518,506	1,769,026
Total net position	<b>\$ 13,177,624</b>	<b>\$ 7,140,416</b>	<b>\$ 20,318,040</b>

# Village of Holly, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2014

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
<b>Operating Revenue</b>			
Sale of water	\$ -	\$ 977,159	\$ 977,159
Sewage disposal charges	1,214,812	-	1,214,812
Other sales to customers	64,240	63,680	127,920
Interest and penalty charges	53,292	24,418	77,710
Recoveries	-	12,299	12,299
Charges to other funds	-	18,339	18,339
Total operating revenue	1,332,344	1,095,895	2,428,239
<b>Operating Expenses</b>			
Water treatment and transmission	-	653,783	653,783
Wastewater treatment	698,170	-	698,170
Water collection system	253,521	-	253,521
Billing and administrative costs	54,415	55,180	109,595
Depreciation	678,498	300,014	978,512
Total operating expenses	1,684,604	1,008,977	2,693,581
<b>Operating (Loss) Income</b>	(352,260)	86,918	(265,342)
<b>Nonoperating Revenue (Expenses)</b>			
Investment income	5,103	28,205	33,308
Interest expense	(452,061)	(313,319)	(765,380)
Bond issuance costs	(169,738)	-	(169,738)
Debt service charge	852,668	622,846	1,475,514
Cell tower leases	-	45,775	45,775
Total nonoperating revenue	235,972	383,507	619,479
<b>Income - Before contributions</b>	(116,288)	470,425	354,137
<b>Capital Contributions</b>	-	3,799	3,799
<b>Change in Net Position</b>	(116,288)	474,224	357,936
<b>Net Position - Beginning of year</b>	13,293,912	6,666,192	19,960,104
<b>Net Position - End of year</b>	<b>\$ 13,177,624</b>	<b>\$ 7,140,416</b>	<b>\$ 20,318,040</b>

# Village of Holly, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2014

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from customers	\$ 1,401,497	\$ 1,140,640	\$ 2,542,137
Receipts from interfund services and reimbursements	-	18,339	18,339
Payments to suppliers	(411,979)	(232,937)	(644,916)
Payments to employees	(473,062)	(381,368)	(854,430)
Internal activity - Payments to other funds	(80,693)	(79,598)	(160,291)
Net cash provided by operating activities	435,763	465,076	900,839
<b>Cash Flows from Noncapital Financing Activities -</b>			
Cell tower leases	-	45,775	45,775
<b>Cash Flows from Capital and Related Financing Activities</b>			
Receipt of capital grants	-	3,799	3,799
Purchase of capital assets	(15,023)	(12,201)	(27,224)
Principal and interest paid on capital debt	(1,256,532)	(711,076)	(1,967,608)
Debt service charge	852,668	622,846	1,475,514
Net cash used in capital and related financing activities	(418,887)	(96,632)	(515,519)
<b>Cash Flows from Investing Activities - Interest received on investment</b>	(93,896)	28,205	(65,691)
<b>Net Increase in Cash and Cash Equivalents</b>	(77,020)	442,424	365,404
<b>Cash and Cash Equivalents - Beginning of year</b>	811,174	1,544,064	2,355,238
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 734,154</b>	<b>\$ 1,986,488</b>	<b>\$ 2,720,642</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>			
Cash and investments	\$ 274,154	\$ 1,457,492	\$ 1,731,646
Restricted cash	460,000	528,996	988,996
Total cash and cash equivalents	<b>\$ 734,154</b>	<b>\$ 1,986,488</b>	<b>\$ 2,720,642</b>

# Village of Holly, Michigan

## Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2014

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>			
Operating (loss) income	\$ (352,260)	\$ 86,918	\$ (265,342)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation	678,498	300,014	978,512
Changes in assets and liabilities:			
Receivables	69,153	63,084	132,237
Inventories	7,863	-	7,863
Accounts payable	18,714	4,121	22,835
Accrued and other liabilities	13,795	10,939	24,734
Net cash provided by operating activities	<u>\$ 435,763</u>	<u>\$ 465,076</u>	<u>\$ 900,839</u>
<b>Noncash Transactions</b>			
Refunding of sewer bonds and deferred charge on debt	\$ 4,331,554	\$ -	\$ 4,331,554
Payments to escrow agent for refunding	(4,331,554)	-	(4,331,554)

See Note 9 regarding the noncash transaction related to bond refunding that occurred during the year.

# Village of Holly, Michigan

## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	Retiree Health Care Fund (Employee Benefits Fund)	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 14,208	\$ 188,007
Investments:		
Certificates of deposit	325,228	-
Mutual funds	158,999	-
Receivables	-	870
Total assets	498,435	<u>\$ 188,877</u>
<b>Liabilities</b>		
Accounts payable	3,025	\$ 38,813
Due to primary government	132,811	-
Refundable deposits, bonds, etc.	-	130,602
Other miscellaneous liabilities	-	19,462
Total liabilities	135,836	<u>\$ 188,877</u>
<b>Net Position Held in Trust for Pension and Other Employee Benefits</b>	<u>\$ 362,599</u>	

# Village of Holly, Michigan

## Fiduciary Funds Statement of Changes in Fiduciary Net Position - Retiree Health Care Fund (Employee Benefits Fund) Year Ended June 30, 2014

<b>Additions</b>	
Investment income - Net increase in fair value investments	\$ 15,043
Contributions - Employee	13,849
Total additions	<u>28,892</u>
<b>Deductions</b>	
Benefit payments	42,320
Administrative expenses	5,388
Total deductions	<u>47,708</u>
<b>Net Decrease in Net Position Held in Trust</b>	(18,816)
<b>Net Position Held in Trust for Retiree Health Care Benefits - Beginning of year</b>	<u>381,415</u>
<b>Net Position Held in Trust for Retiree Health Care Benefits - End of year</b>	<u><u>\$ 362,599</u></u>

# Village of Holly, Michigan

## Component Units Statement of Net Position June 30, 2014

	Downtown Development Authority	Economic Development Corporation	Total
<b>Assets</b>			
Cash and cash equivalents (Note 4)	\$ 50,247	\$ 65	\$ 50,312
Property tax receivable	488	-	488
Total assets	50,735	65	50,800
<b>Liabilities - Accounts payable</b>	1,713	-	1,713
<b>Net Position</b>	<b>\$ 49,022</b>	<b>\$ 65</b>	<b>\$ 49,087</b>

# Village of Holly, Michigan

## Component Units Statement of Activities Year Ended June 30, 2014

	Expenses	Net (Expense) Revenue and Changes in Net Position		
		Downtown Development Authority	Economic Development Corporation	Total
<b>Functions/Programs</b>				
Downtown Development Authority	\$ 49,484	\$ (49,484)	\$ -	\$ (49,484)
Economic Development Corporation	-	-	-	-
Total component units	<b><u>\$ 49,484</u></b>	(49,484)	-	(49,484)
General revenue:				
Property taxes		67,809	-	67,809
Investment income		4	-	4
Other miscellaneous income		13,789	-	13,789
Total general revenue		<u>81,602</u>	-	<u>81,602</u>
<b>Change in Net Position</b>		32,118	-	32,118
<b>Net Position - Beginning     of year</b>		<u>16,904</u>	<u>65</u>	<u>16,969</u>
<b>Net Position - End of     year</b>		<b><u>\$ 49,022</u></b>	<b><u>\$ 65</u></b>	<b><u>\$ 49,087</u></b>

# Village of Holly, Michigan

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the Village of Holly, Michigan (the "Village"):

#### **Reporting Entity**

The Village of Holly, Michigan is governed by an elected seven-member council. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Village's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village (see discussion below for description).

#### **Discretely Presented Component Units:**

**Downtown Development Authority** - The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and promote economic growth within the downtown district. The Authority's governing body, which consists of five individuals, is selected by the Village Council. In addition, the Authority's budget is subject to approval by the Village Council. The Authority does not publish separate financial statements.

**Economic Development Corporation** - The Economic Development Corporation (the "EDC"), which was established pursuant the provisions of Public Act 338 of 1974 (MCL 125.1601 through 125.1636), as amended, is governed by a nine-person board of directors appointed by the Village Council. The EDC may not issue debt without the Village Council's approval. The EDC does not publish separate financial statements.

#### **Accounting and Reporting Principles**

The Village follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Report Presentation**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. 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 and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **Fund Accounting**

The Village accounts for its various activities in several different funds, in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures for which specific revenues were used. The various funds are aggregated into three broad fund types:

### Note I - Summary of Significant Accounting Policies (Continued)

**Governmental funds** include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The Village reports the following fund as “major” governmental fund:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services, other than those specifically assigned to another fund.

**Proprietary funds** include enterprise funds, which provide goods or services to users in exchange for charges or fees. The Village reports the following funds as “major” enterprise funds:

- The Sewer Fund accounts for the activity related to sanitary sewage collection and treatment. The Village operates its own sewage treatment plant.
- The Water Fund accounts for the operations of the water distribution system.

**Fiduciary funds** include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include the following:

- The Retiree Health Care Fund (Employee Benefits Fund) accumulates resources for future retiree health care payments to retirees.
- The Agency Fund accounts for deposits received by the Village that will ultimately be returned to customers, developers, and others once the terms of the deposit arrangement have been satisfied. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Interfund activity: During the course of operations the Village has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

# Village of Holly, Michigan

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

#### **Basis of Accounting**

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the Village has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the Village considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow of resources."

Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

#### **Specific Balances and Transactions**

**Cash, Cash Equivalents, and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

**Inventories** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** - The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest and a bond reserve. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include property, plant, equipment, intangible assets, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Infrastructure, intangibles, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Capital Asset Class	Lives
Roads, bridges, and sidewalks	15 - 20
Water and sewer distribution systems	30 - 75
Water and sewer treatment facilities	30 - 50
Buildings and building improvements	25 - 50
Office furnishings and equipment	4 - 20
Vehicles	5

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund is generally used to liquidate governmental long-term debt.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Village has deferred outflows of resources of \$98,999 related to a deferred charge on the refunding of waterwaste revenue bonds in the Sewer fund.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from delinquent property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amount become available. The Village has deferred inflows of resources related to special assessments and land contract sales in the governmental funds for \$12,778 and \$360,447, respectively.

#### **Net Position Flow Assumption**

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

#### **Fund Balance Flow Assumption**

Sometimes the Village will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Village's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### Note I - Summary of Significant Accounting Policies (Continued)

#### Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. In the fund financial statements, governmental funds report the following components of fund balance:

**Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact

**Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose

**Committed:** Amounts that have been formally set aside by the Village Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Village Council.

**Assigned:** Intent to spend resources on specific purposes expressed by the Village Council

**Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

#### Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. The related property taxes are billed and become a lien on July 1. The taxes are due without penalty during the period from July 1 through September 30, with a final collection date of February 28. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Village's 2013 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended June 30, 2014 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the Village totaled \$98.9 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 13.5244 mills for operating purpose. This resulted in \$1,301,404 for operating. These amounts are recognized in the respective General Fund financial statements as tax revenue.

### Note I - Summary of Significant Accounting Policies (Continued)

**Pension and Other Postemployment Benefit Costs** - The Village offers both pension and retiree healthcare benefits to retirees. The Village receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the Village reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The General Fund and Water and Sewer Funds, primarily, are used to liquidate the obligation.

**Compensated Absences (Vacation and Sick Leave)** - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. All other accrued compensated absences are reported in the government-wide financial statements; generally the funds that report each employee's compensation (the General Fund and Water and Sewer Funds, primarily) are used to liquidate the obligation.

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

**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. Actual results could differ from those estimates.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 2 - Change in Accounting

During the current year, the Village adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or outflows of resources.

As a result of implementing this statement, the following assets and liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification After Adoption of GASB Statement No. 65
Revenue in governmental funds not collected within 60 days of year end	\$ 12,778	Liability	Deferred inflow of resources
Bond issuance costs	55,828	Asset	Outflow of resources (an expense)
Deferred charge on refunding	98,999	Contra - Liability	Deferred outflow of resources

### Note 3 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. The Village accounts for its construction code activities within the General Fund.

Shortfall at July 1, 2013	\$ (314,567)
Current year permit revenue	60,778
Related expenses - Direct costs	<u>23,211</u>
Current year surplus	<u>37,567</u>
Cumulative shortfall at June 30, 2014	<u>\$ (277,000)</u>

**Fund Deficits** - As of June 30, 2014, the Lake Improvement Fund had a fund deficit of \$2,829. The deferred revenue in the Lake Improvement Fund due to funds being unavailable as of June 30, 2014 was the primary cause of the deficit in this fund.

# Village of Holly, Michigan

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## Notes to Financial Statements June 30, 2014

### Note 3 - Stewardship, Compliance, and Accountability (Continued)

**Noncompliance with Legal or Contractual Provisions** - During the year, the Village Council was not provided an investment report on a quarterly basis in accordance with PA 196 of 1997, as amended.

### Note 4 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Retiree Health Care Fund is established through Public Act 149 of 1999. This act authorizes the fund, in accordance with Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investment vehicles listed above. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village and its component units had \$1,367,975 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 4 - Deposits and Investments (Continued)

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. There were no investments held at year end or during the year that were subject to custodial credit risk.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. There were no investments held at year end or during the year that were subject to interest rate risk.

Investment	Fair Value	Weighted Average Maturity
Pooled Investments #77866	\$ 1,272,305	646 days
Pooled Investments #77865	1,437,699	646 days

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Pooled Investments #77866	\$ 1,272,305	N/A	N/A
Pooled Investments #77865	1,437,699	N/A	N/A

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 5 - Capital Assets

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 198,000	\$ -	\$ 49,500	\$ 148,500
Construction in progress	-	16,960	-	16,960
Subtotal	198,000	16,960	49,500	165,460
Capital assets being depreciated:				
Roads and sidewalks	9,507,471	-	-	9,507,471
Buildings and improvements	1,677,195	73,770	240,500	1,510,465
Office furnishings and equipment	734,380	-	-	734,380
Vehicles	1,330,620	45,184	-	1,375,804
Subtotal	13,249,666	118,954	240,500	13,128,120
Accumulated depreciation:				
Roads and sidewalks	7,448,537	234,900	-	7,683,437
Buildings and improvements	808,700	35,852	99,377	745,175
Office furnishings and equipment	495,394	40,495	-	535,889
Vehicles	1,147,643	84,913	-	1,232,556
Subtotal	9,900,274	396,160	99,377	10,197,057
Net capital assets being depreciated	3,349,392	(277,206)	141,123	2,931,063
Net capital assets	\$ 3,547,392	\$ (260,246)	\$ 190,623	\$ 3,096,523
<b>Business-type Activities</b>				
Capital assets not being depreciated -				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Capital assets being depreciated:				
Water and sewer distribution system	46,417,270	2,823	-	46,420,093
Equipment and vehicles	1,364,158	24,401	-	1,388,559
Subtotal	47,781,428	27,224	-	47,808,652
Accumulated depreciation:				
Water and sewer distribution system	14,381,008	915,831	-	15,296,839
Equipment and vehicles	744,266	62,681	-	806,947
Subtotal	15,125,274	978,512	-	16,103,786
Net capital assets being depreciated	32,656,154	(951,288)	-	31,704,866
Net capital assets	\$ 32,706,154	\$ (951,288)	\$ -	\$ 31,754,866

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 5 - Capital Assets (Continued)

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

Governmental activities:

General government	\$	77,294
Public safety		64,325
Public works		252,630
Recreation and culture		1,911
Total governmental activities	\$	<u>396,160</u>

Business-type activities:

Water	\$	300,014
Sewer		678,498
Total business-type activities	\$	<u>978,512</u>

### Note 6 - Land Contract Sale and Receivable

During the year the Village entered into an agreement to sell the former Village Offices on land contract. The sale of the land, building, and building improvements occurred in August 2014 at a price of \$411,000; the net book value of the assets sold was \$190,623. The sales price is to be paid over four years and the final payment is due in September 2017. Title of the property transferred to the buyer on the date of the sale.

At June 30, 2014 there was a receivable of \$360,447 remaining to be paid by the buyer. Revenue of \$50,553 was recognized in the current year related to the sale. The unrecognized gain of \$169,824 is reported as unearned revenue in the government-wide financial statements and a deferred inflow of resources of \$360,447 is reported in the governmental fund statements.

### Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due to/from Other Funds</b>		
General Fund	Nonmajor governmental funds	\$ <u>5,265</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

There is a payable from the Retiree Health Care Fund (Employee Benefits Fund) to the primary government in the amount of \$132,811 as a result of the premium payments related to retiree healthcare being paid through pooled cash.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 8 - Leases

**Capital Leases** - The Village Sewer and Water Funds entered into a lease agreement to finance the purchase of water meters. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2015	\$ 119,700
2016	79,800
2017	79,800
2018	<u>5,222</u>
Total minimum lease payments	284,522
Less amount representing interest	<u>(25,179)</u>
Present value	<u>\$ 259,343</u>

### Note 9 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties that benefit from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the Village) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Long-term Debt (Continued)

The Village has the following long-term debt outstanding as of June 30, 2014:

#### Business-type Activities:

General obligations:

2006 General Obligation Limited Tax Bond, with interest from 4 percent to 4.375 percent, maturing in 2025	\$ 4,150,000
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Revenue bonds:

1991 Water Revenue Bond, with interest of 5.113 percent, maturing in 2014	115,000
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1999 Water Supply Revenue Bonds Act 94, with interest of 2.5 percent, maturing in 2019	510,000
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2014 Refunding Wastewater System Revenue Bond, with interest from 2 percent to 4 percent, maturing in 2025	4,185,000
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Bond refunding premium	146,554
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2004 Wastewater System Revenue Bond, with interest of 3.9 percent, maturing in 2014	300,000
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2006 Water System Revenue Bond, with interest from 4 percent to 5.5 percent, maturing in 2027	<u>4,775,000</u>
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Total revenue bonds	<u>10,031,554</u>
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Total business-type activity debt	<u>\$ 14,181,554</u>
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# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 9 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Installment purchases	\$ 36,744	\$ -	\$ 36,744	\$ -	\$ -
Contracts payable	5,340	-	5,340	-	-
Accumulated compensated absences	139,649	134,947	139,649	134,947	134,947
Total governmental activities	<u>\$ 181,733</u>	<u>\$ 134,947</u>	<u>\$ 181,733</u>	<u>\$ 134,947</u>	<u>\$ 134,947</u>
<b>Business-type Activities</b>					
General obligation bonds	\$ 4,450,000	\$ -	\$ 300,000	\$ 4,150,000	\$ 300,000
Revenue bonds	10,880,000	4,185,000	5,180,000	9,885,000	745,000
Unamortized bond premium on refunding series 2014 bond	-	146,554	-	146,554	-
Contracts payable	6,794	-	6,794	-	-
Total bonds and contracts payable	15,336,794	4,331,554	5,486,794	14,181,554	1,045,000
Accumulated compensated absences	15,413	13,113	15,413	13,113	13,113
Total business-type activities	<u>\$ 15,352,207</u>	<u>\$ 4,344,667</u>	<u>\$ 5,502,207</u>	<u>\$ 14,194,667</u>	<u>\$ 1,058,113</u>

Total interest expense for the year was \$503 and \$765,883 for governmental activities and business-type activities, respectively. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Business-type Activities		
	Principal	Interest	Total
2015	\$ 1,045,000	\$ 532,661	\$ 1,577,661
2016	1,015,000	502,944	1,517,944
2017	1,040,000	469,438	1,509,438
2018	1,035,000	435,363	1,470,363
2019	1,080,000	399,725	1,479,725
2020-2024	5,705,000	1,360,938	7,065,938
2025-2029	3,115,000	190,713	3,305,713
Total	<u>\$ 14,035,000</u>	<u>\$ 3,891,782</u>	<u>\$ 17,926,782</u>

### Note 9 - Long-term Debt (Continued)

**Advance Refunding** - During the year, the Village issued \$4,185,000 in revenue bonds at a premium of \$146,554 with an average interest rate of 2.95 percent. The proceeds of these bonds along with an additional cash payment from the Village of \$331,355 was used to advance refund \$4,450,000 of outstanding revenue bonds with an average interest rate of 4.85 percent. The net proceeds of \$4,548,999 (after payment of \$113,911 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed. The advance refunding reduced total debt service payments over the next 20 years by \$423,858, which represents an economic gain of \$318,276.

Subsequent to June 30, 2014, the Village refunded additional bonds. In December 2014, the Village refunded a portion of the 2006 Water Supply System Revenue Bonds and issued the 2014 Water Supply System Revenue Bonds in an amount not to exceed \$4,135,000.

**Revenue Pledged** - The Village has pledged substantially all revenue of the Water Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water plant. The bonds are payable solely from the net revenue of the water system. The remaining principal and interest to be paid on the revenue bonds total \$7,123,307. During the current year, net revenue of the water system was \$1,087,577 compared to the annual debt requirements of \$693,971.

The Village has pledged substantially all revenue of the Sewer Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the wastewater plant. The bonds are payable solely from the net revenue of the sewer system. The remaining principal and interest to be paid on the revenue bonds total \$5,537,224. During the current year, net revenue of the sewer system was \$1,184,009 compared to the annual debt requirements of \$517,925.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 10 - Restricted Assets

The balances of the restricted asset accounts represent unspent bond proceeds and bond reserves held in the form of cash and investments:

	<u>Business-type Activities</u>
Unspent bond proceeds and related interest	\$ 496
Revenue bond restrictions - Bond reserve	<u>988,500</u>
Total restricted assets	<u>\$ 988,996</u>

### Note 11 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for all such claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

### Note 12 - Defined Benefit Pension Plan

**Plan Description** - The Village participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the System for these employees was established by negotiation with the Village's competitive bargaining units and requires no contribution from the employees.

#### Annual Pension Cost and Net Pension Asset

Annual required contribution	\$ 472,763
Interest on net pension obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual pension cost (APC)	472,763
Contributions made	<u>(550,379)</u>
Decrease in net pension obligation	(77,616)
Net pension asset - Beginning of year	<u>-</u>
Net pension asset - End of year	<u>\$ (77,616)</u>

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 12 - Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2014, the Village's annual pension cost of \$472,763 for the plan was equal to the Village's required contribution of \$472,763. The Village actual contribution was \$550,379. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 11 years.

#### Three-year Trend Information

	Fiscal Year Ended June 30		
	2014	2013	2012
Annual pension cost (APC)	\$ 472,763	\$ 347,307	\$ 293,775
Percentage of APC contributed	116.4 %	100.0 %	100.0 %
Net pension asset	\$ (77,616)	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2013	2012	2011
Actuarial value of assets	\$ 7,255,010	\$ 7,194,568	\$ 7,385,644
Actuarial accrued liability (AAL) (entry age)	\$ 12,726,555	\$ 12,280,556	\$ 12,187,273
Unfunded AAL (UAAL)	\$ 5,471,545	\$ 5,085,988	\$ 4,801,629
Funded ratio	57.0 %	58.6 %	60.6 %
Covered payroll	\$ 1,237,915	\$ 918,677	\$ 970,678
UAAL as a percentage of covered payroll	441.9 %	553.6 %	494.7 %

### **Note 13 - Defined Contribution Pension Plan**

The Village offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457; no employer contributions are required.

The Village provides pension benefits for all employees who are at least 18 years of age, with starting dates on or after July 1, 2006, as well as the Village manager. Payroll costs of all employees and plan participants amounted to \$353,005 in fiscal year 2014. During the current year, the General Fund, Building Inspections Fund, and DDA General Fund contributed the Village's portion of the pension cost, amounting to \$21,182, which is 5 to 10 percent of eligible wages. Employees made required and voluntary contributions to the plan during the current year. The plan is administered by the Village treasurer/clerk. Investments are made through ICMA and AXA, which hold the assets of the plan within a trust. As a result, the plan assets are not reflected in the financial statements since the Village has no fiduciary or administrative responsibility for the plan. It is the policy of the Village to pay the pension costs as accrued.

The deferred compensation is not available to the employees until termination, retirement, death, or unforeseen emergency.

### **Note 14 - Other Postemployment Benefits**

**Plan Description** - The Village provides retiree healthcare benefits to eligible pre-Medicare retired employees and their spouses with a 35 percent contribution required from the retirees. Currently, the plan has five members including employees in active service, terminated employees not yet receiving benefits, and retired employees and beneficiaries currently receiving benefits.

This is a single-employer defined benefit plan administered by the Village. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

**Funding Policy** - The collective bargaining agreements require a contribution of 35 percent per month of the premium from all retired employees or their spouses currently participating in the plan. In the current year, the Village contributed \$0 into a prefunded retiree healthcare fund, which is reported in these financial statements as an other employee benefit trust fund type.

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 14 - Other Postemployment Benefits (Continued)

**Funding Progress** - The Village's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The Village has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Village's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB liability:

Annual required contribution (recommended)	\$ 126,477
Interest on the prior year's net OPEB obligation	10,860
Less adjustment to the annual required contribution	<u>(13,906)</u>
Annual OPEB cost	123,431
Amounts contributed:	
Payments of current premiums	-
Adjustment to the net OPEB obligation	<u>-</u>
Increase in net OPEB liability	123,431
OPEB obligation - Beginning of year	<u>241,337</u>
OPEB obligation - End of year	<u>\$ 364,768</u>

Employer contributions and annual OPEB cost data for the year ended June 30, 2014 and the three preceding years are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Annual OPEB Contributions	Net OPEB (Asset) Obligation
6/30/11	12/31/07	\$ -	\$ -	\$ (41,428)
6/30/12	6/30/12	157,850	-	(10,010)
6/30/13	6/30/13	127,110	-	241,337
6/30/14	6/30/14	126,477	-	364,768

# Village of Holly, Michigan

## Notes to Financial Statements June 30, 2014

### Note 14 - Other Postemployment Benefits (Continued)

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)*	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/07	\$ 582,694	\$ 478,775	\$ (103,919)	121.7 %	\$ 1,319,010	(7.9)%
6/30/12	535,592	1,113,409	(577,817)	48.1	1,351,769	(42.7)
6/30/13	441,561	946,750	(505,189)	46.6	1,329,519	(38.0)
6/30/14	498,435	1,021,818	(523,383)	48.8	1,544,406	(33.9)

\* The AAL for the actuarial valuation date of June 30, 2012 has been restated to properly reflect the estimated annual cost of retiree health insurance.

**Methods and Assumptions** - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

**Retirement Age for Active Employees** - Based on historical average retirement age for the covered group, active plan members were assumed to retire at age 57, or at the first subsequent year in which the member would qualify for benefits.

**Marital Status** - Marital status of members at the calculation date was assumed to continue throughout retirement.

**Turnover** - Nongroup-specific age-based turnover data from GASB Statement No. 45 were used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for the purpose of allocating to periods the present value of total benefits to be paid.

**Healthcare Cost Trend Rate** - The expected rate increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 3.8 percent initially to an ultimate rate of 6.5 percent after six years was used.

**Health Insurance Premiums** - 2014 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

**Payroll Growth Rate** - The expected long-term payroll growth rate was assumed to equal 1 percent.

### **Note 14 - Other Postemployment Benefits (Continued)**

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014 was 30 years.

### **Note 15 - Commitments**

The Village has committed to a multi-year refuse collection agreement through June 30, 2014 at the following base rates:

- July 1, 2014 through June 30, 2015 at \$11.77 per month per unit

In addition to the base rate, a fuel recovery fee will be charged based on ongoing fuel prices.

### **Note 16 - Upcoming Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Village is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

## **Required Supplemental Information**

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# Village of Holly, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 1,340,502	\$ 1,340,502	\$ 1,301,404	\$ (39,098)
Licenses and permits	78,570	78,570	108,366	29,796
Federal grants	15,000	15,000	-	(15,000)
State-shared revenue and grants	557,383	557,383	558,903	1,520
Charges for services	459,823	459,823	620,198	160,375
Fines and forfeitures	70,000	70,000	15,699	(54,301)
Investment income	2,500	2,500	4,902	2,402
Other revenue - Other miscellaneous income	8,050	8,050	141,508	133,458
Total revenue	2,531,828	2,531,828	2,750,980	219,152
<b>Expenditures - Current</b>				
General government:				
Village council	7,421	7,421	7,374	47
Village manager	66,602	66,602	60,270	6,332
Clerk/Treasurer	102,970	102,970	119,539	(16,569)
Buildings and grounds	136,186	136,186	198,867	(62,681)
Attorney	35,200	35,200	16,042	19,158
Data processing	13,000	13,000	13,977	(977)
Other	114,137	114,137	136,442	(22,305)
Total general government	475,516	475,516	552,511	(76,995)
Public safety:				
Police	1,084,867	1,084,867	1,144,289	(59,422)
Dispatch	305,073	223,160	210,837	12,323
Fire	281,209	281,209	282,288	(1,079)
Building inspections and related	37,965	37,965	23,211	14,754
Total public safety	1,709,114	1,627,201	1,660,625	(33,424)
Public works:				
Other public works activities	214,152	214,152	292,867	(78,715)
Cemetery	29,605	29,605	16,157	13,448
Total public works	243,757	243,757	309,024	(65,267)
Community and economic development - Planning, zoning, and related	4,650	4,650	6,587	(1,937)
Recreation and culture	23,986	23,986	10,624	13,362
Capital outlay	40,500	40,500	58,279	(17,779)
Debt service	-	-	1,425	(1,425)
Total expenditures	2,497,523	2,415,610	2,599,075	(183,465)
<b>Excess of Revenue Over Expenditures</b>	34,305	116,218	151,905	35,687
<b>Other Financing Sources - Transfers in</b>	2,971	2,971	-	(2,971)
<b>Net Change in Fund Balance</b>	37,276	119,189	151,905	32,716
<b>Fund Balance - Beginning of year</b>	496,444	496,444	496,444	-
<b>Fund Balance - End of year</b>	<u>\$ 533,720</u>	<u>\$ 615,633</u>	<u>\$ 648,349</u>	<u>\$ 32,716</u>

# Village of Holly, Michigan

## Note to Required Supplemental Information Year Ended June 30, 2014

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all special revenue funds, except that operating transfers and debt proceeds have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

The budget is presented to the Village Council for consideration and adopted by the Council prior to July 1 each year. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the fund total level. The Village manager cannot transfer budget amounts within departments without approval of the Village Council. The Village manager presents a resolution to the Village Council for the budget amendments throughout the fiscal year. The budget to actual shows the budget at a more detailed level than how it is adopted.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

	<u>Total Revenue</u>	<u>Total Expenditures</u>	<u>Total Change in Fund Balance</u>	<u>Fund Balance</u>
General Fund:				
Amounts per operating statement	\$ 2,751,935	\$ 2,600,904	\$ 151,031	\$ 938,447
Municipal Street Fund budgeted separately from the General Fund	(955)	-	(955)	(142,645)
Cemetery Endowment Trust Fund budgeted separately from the General Fund	-	(1,829)	1,829	(147,453)
	<u>\$ 2,750,980</u>	<u>\$ 2,599,075</u>	<u>\$ 151,905</u>	<u>\$ 648,349</u>
Amounts per budget statement				

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Village of Holly had the following budget overruns.

	<u>Budget</u>	<u>Actual</u>
General Fund - Expenditures	\$ 2,415,610	\$ 2,599,075

The cause of the budget overrun was unanticipated expenditures.

# Village of Holly, Michigan

## Required Supplemental Information Pension System Schedule Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/13	\$ 7,255,010	\$ 12,726,555	\$ 5,471,545	57.0	\$ 1,237,915	442.0
12/31/12	7,194,568	12,280,556	5,085,988	58.6	918,677	553.6
12/31/11	7,385,644	12,187,273	4,801,629	60.6	970,678	494.7

# Village of Holly, Michigan

## Required Supplemental Information OPEB System Schedule Year Ended June 30, 2014

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/14	\$ 498,435	\$ 1,021,818	\$ 523,383	48.8	\$ -	-
6/30/13	441,561	946,750	505,189	46.6	-	-
6/30/12	535,592	1,113,409	577,817	48.1	-	-
12/31/07	582,694	478,775	(103,919)	121.7	-	-

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
6/30/14	6/30/14	\$ 126,477	-
6/30/13	6/30/13	127,110	-
6/30/12	6/30/12	157,850	-
6/30/11	12/31/07	-	-

\* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2014, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	4.50 percent
Projected salary increases	1.0 percent
*Includes inflation at	4.5%
Premium increases	6.10 - 6.60 percent

## **Other Supplemental Information**

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# Village of Holly, Michigan

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
<b>Assets</b>						
Cash and investments	\$ 413,009	\$ 18,169	\$ -	\$ 27,158	\$ 92,715	\$ 551,051
Receivables:						
Special assessments receivable	-	-	3,676	59	-	3,735
Due from other governmental units	42,533	16,449	-	-	-	58,982
<b>Total assets</b>	<b>\$ 455,542</b>	<b>\$ 34,618</b>	<b>\$ 3,676</b>	<b>\$ 27,217</b>	<b>\$ 92,715</b>	<b>\$ 613,768</b>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficit)</b>						
<b>Liabilities</b>						
Accounts payable	\$ 1,230	\$ 991	\$ -	\$ 25,425	\$ 789	\$ 28,435
Due to other funds	-	-	5,265	-	-	5,265
Accrued liabilities and other	229	76	-	-	599	904
<b>Total liabilities</b>	<b>1,459</b>	<b>1,067</b>	<b>5,265</b>	<b>25,425</b>	<b>1,388</b>	<b>34,604</b>
<b>Deferred Inflows of Resources -</b>						
Unavailable revenue	-	-	1,240	-	-	1,240
<b>Fund Balances (Deficit)</b>						
Nonspendable:						
Restricted:						
Roads	341,641	-	-	-	-	341,641
Solid waste	-	-	-	1,792	-	1,792
Senior transportation	-	-	-	-	14,387	14,387
Committed:						
Assigned:						
Roads	112,442	33,551	-	-	-	145,993
Senior transportation	-	-	-	-	76,940	76,940
Unassigned	-	-	(2,829)	-	-	(2,829)
<b>Total fund balances (deficit)</b>	<b>454,083</b>	<b>33,551</b>	<b>(2,829)</b>	<b>1,792</b>	<b>91,327</b>	<b>577,924</b>
<b>Total liabilities, deferred inflows of resources, and fund balances (deficit)</b>	<b>\$ 455,542</b>	<b>\$ 34,618</b>	<b>\$ 3,676</b>	<b>\$ 27,217</b>	<b>\$ 92,715</b>	<b>\$ 613,768</b>

# Village of Holly, Michigan

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Nonmajor Governmental Funds Year Ended June 30, 2014

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
<b>Revenue</b>						
Federal grants	\$ 7,991	\$ 7,991	\$ -	\$ -	\$ 33,319	\$ 49,301
State-shared revenue and grants	258,447	99,911	-	-	-	358,358
Charges for services	-	-	-	-	5,700	5,700
Investment income	2,826	163	-	-	-	2,989
Other revenue	12,005	13,003	7,279	325,416	-	357,703
Total revenue	281,269	121,068	7,279	325,416	39,019	774,051
<b>Expenditures - Current</b>						
Public works	216,886	134,759	5,520	306,197	-	663,362
Senior transportation	-	-	-	-	37,478	37,478
Total expenditures	216,886	134,759	5,520	306,197	37,478	700,840
<b>Net Change in Fund Balances</b>	64,383	(13,691)	1,759	19,219	1,541	73,211
<b>Fund Balances (Deficit) - Beginning of year</b>	389,700	47,242	(4,588)	(17,427)	89,786	504,713
<b>Fund Balances (Deficit) - End of year</b>	<b>\$ 454,083</b>	<b>\$ 33,551</b>	<b>\$ (2,829)</b>	<b>\$ 1,792</b>	<b>\$ 91,327</b>	<b>\$ 577,924</b>