
Village of Holly, Michigan

**Financial Report
with Supplemental Information
June 30, 2018**

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet to the Statement of Net Position	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Position	14
Statement of Revenue, Expenses, and Changes in Net Position	15
Statement of Cash Flows	16-17
Fiduciary Funds:	
Statement of Fiduciary Net Position	18
Statement of Changes in Fiduciary Net Position	19
Component Units:	
Statement of Net Position	20
Statement of Activities	21
Notes to Financial Statements	22-44
Required Supplemental Information	45
Budgetary Comparison Schedule - General Fund	46
Budgetary Comparison Schedule - Major Special Revenue Fund	47
Schedule of Changes in the Net Pension Liability and Related Ratios	48
Schedule of Pension Contributions	49
Schedule of Changes in the Net OPEB Liability and Related Ratios	50
Schedule of OPEB Contributions	51
Schedule of OPEB Investment Returns	52
Note to Required Supplemental Information	53
Other Supplemental Information	54
Nonmajor Governmental Funds:	
Combining Balance Sheet	55
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	56

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, business-type activities, the aggregate discretely presented component units, each 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, 2018, and the related notes to the financial statements, which collectively comprise 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Holly, Michigan as of June 30, 2018 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 13, during the year ended June 30, 2018, the Village adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to the employees of governmental employers. Our opinion is not modified with respect to this matter.

To the Village Council
Village of Holly, Michigan

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplemental information, 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 an opinion 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

November 19, 2018

Our discussion and analysis provided here are intended to serve as an introduction to Village's basic financial statements. The Village's basic financial statements consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes supplemental information intended to furnish additional detail to support the basic financial statements themselves.

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 as a whole and present a longer-term view of the Village'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 the reader 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's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village's Net Position

	Governmental Activities			Percent Change
	2017	2018	Change	
Assets				
Other assets	\$ 2,604,652	\$ 2,555,437	\$ (49,215)	(1.9)
Capital assets	2,834,360	2,845,594	11,234	0.4
Total assets	5,439,012	5,401,031	(37,981)	(0.7)
Deferred Outflows of Resources	517,990	290,233	(227,757)	(44.0)
Liabilities				
Current liabilities	294,420	199,001	(95,419)	(32.4)
Noncurrent liabilities	4,764,481	4,432,450	(332,031)	(7.0)
Total liabilities	5,058,901	4,631,451	(427,450)	(8.4)
Deferred Inflows of Resources	-	94,714	94,714	-
Net Position				
Net investment in capital assets	2,834,360	2,845,594	11,234	0.4
Restricted	328,558	458,466	129,908	39.5
Unrestricted	(2,264,817)	(2,338,961)	(74,144)	3.3
Total net position	\$ 898,101	\$ 965,099	\$ 66,998	7.5

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

	Business-type Activities			Percent Change
	2017	2018	Change	
Assets				
Other assets	\$ 4,612,613	\$ 5,263,428	\$ 650,815	14.1
Capital assets	29,177,433	28,593,548	(583,885)	(2.0)
Total assets	33,790,046	33,856,976	66,930	0.2
Deferred Outflows of Resources	635,100	441,864	(193,236)	(30.4)
Liabilities				
Current liabilities	274,380	275,674	1,294	0.5
Noncurrent liabilities	14,101,258	12,884,160	(1,217,098)	(8.6)
Total liabilities	14,375,638	13,159,834	(1,215,804)	(8.5)
Deferred Inflows of Resources	-	63,143	63,143	-
Net Position				
Net investment in capital assets	18,272,655	18,856,368	583,713	3.2
Restricted	752,000	795,414	43,414	5.8
Unrestricted	1,024,853	1,424,081	399,228	39.0
Total net position	<u>\$ 20,049,508</u>	<u>\$ 21,075,863</u>	<u>\$ 1,026,355</u>	5.1

Total governmental net position increased by 7.5 percent from a year ago, from \$898,101 to \$965,099. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$74,144 for governmental activities. This represents a decrease of approximately 3.3 percent. The current level of unrestricted net position for our governmental activities stands at \$(2,338,961), or (55.3) percent of governmental activity expenses.

The Village's business-type activities consist of the Water Fund and Sewer Fund. 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 by 5.1 percent from a year ago, increasing from \$20,049,508 to \$21,075,863. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, increased by \$399,228 or 39.0 percent. The current level of unrestricted net position stands at \$1,424,081 or about 30.0 percent of annual expenses, including depreciation and interest expenses.

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

Village's Changes in Net Position

	Governmental Activities			Percent Change
	2017	2018	Change	
Revenue				
Program revenue:				
Charges for services	\$ 960,849	\$ 847,583	\$ (113,266)	(11.8)
Operating grants	537,217	660,394	123,177	22.9
Capital grants	5,751	295,206	289,455	5,033.1
General revenue:				
Property taxes	1,348,586	1,373,591	25,005	1.9
State-shared revenue	617,994	610,148	(7,846)	(1.3)
Investment earnings	6,508	62,159	55,651	855.1
Other revenue	145,614	214,932	69,318	47.6
Total revenue	3,622,519	4,064,013	441,494	12.2
Expenses				
General government	485,422	433,950	(51,472)	(10.6)
Public safety	1,971,844	2,232,639	260,795	13.2
Public works	1,291,600	1,377,294	85,694	6.6
Community and economic development	105,783	111,477	5,694	5.4
Recreation and culture	63,574	71,584	8,010	12.6
Total expenses	3,918,223	4,226,944	308,721	7.9
Change in Net Position	(295,704)	(162,931)	132,773	(44.9)
Net Position - Beginning of year *	1,193,805	1,128,030	(65,775)	(5.5)
Net Position - End of year	\$ 898,101	\$ 965,099	\$ 66,998	7.5
Business-type Activities				
	2017	2018	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	\$ 3,975,442	\$ 4,092,578	\$ 117,136	2.9
Capital grants	113,501	249,490	135,989	119.8
General revenue	38,225	54,427	16,202	42.4
Total revenue	4,127,168	4,396,495	269,327	6.5
Expenses				
Sewer Fund	2,035,332	2,115,552	80,220	3.9
Water Fund	1,304,927	1,285,711	(19,216)	(1.5)
Community Center	15,408	16,396	988	6.4
Total expenses	3,355,667	3,417,659	61,992	1.8
Change in Net Position	771,501	978,836	207,335	26.9
Net Position - Beginning of year *	19,278,007	20,097,027	819,020	4.2
Net Position - End of year	\$ 20,049,508	\$ 21,075,863	\$ 1,026,355	5.1

*Beginning of year net position as of June 30, 2018, in the financial statements that follow, has been restated to retrospectively include the net OPEB liability, as required under the implementation of GASB 75, effective June 30, 2018. The same change has not been made in management's discussion and analysis for the 2017 year. See Note 13 for additional details.

The Village's total governmental revenue increased by \$441,494 due primarily to an increase in grant revenue and the fact that the Village was paid in full for the outstanding land contract from the former village offices. Expenses increased by \$308,721 during the year due primarily to increases in public safety for costs related to the Village Dispatch unit.

The Village's business-type activities consist of the Water Fund and Sewer Fund. Total revenue for the Village's business-type activities increased by \$269,327 due to an increase in charges for services and capital grants. Total expenses increased \$61,992 from the prior year primarily due to grant related expenditures.

Financial Analysis of Individual Funds

Our analysis of the Village's funds begins on page 10, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village's major funds for 2018 include the General Fund and Major Streets Fund. The General Fund includes services of the general government, i.e., the Village Council, manager, clerk-treasurer - public safety (police and fire), public works, and community and economic development, and provides services for planning and zoning, senior transportation, and parks and recreation. Public safety makes up 53 percent of the total General Fund expenditures.

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 \$127,855.

Capital Assets and Debt Administration

During 2018, the Village had various infrastructure projects, and the majority of the governmental activities capital asset purchases of \$405,000 were related to the various equipment purchases, road repairs, and emergency vehicles.

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 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Downtown Development Authority (the "DDA") and the Holly Chamber of Commerce have a working partnership agreement to promote the Village of Holly, Michigan 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. Taxable values in the DDA district remained unchanged from the prior year, and priorities were made to continue to provide services to village residents.

Requests for Further Information

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, 2018

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments	\$ 2,381,093	\$ 3,779,956	\$ 6,161,049	\$ 113,886
Receivables	261,226	570,742	831,968	190
Internal balances	(86,882)	86,882	-	-
Inventory	-	30,434	30,434	-
Restricted assets	-	795,414	795,414	-
Land held for resale	-	-	-	62,538
Capital assets:				
Assets not subject to depreciation	349,665	236,153	585,818	-
Assets subject to depreciation - Net	2,495,929	28,357,395	30,853,324	-
Total assets	5,401,031	33,856,976	39,258,007	176,614
Deferred Outflows of Resources				
Deferred charges on bond refunding	-	248,381	248,381	-
Deferred pension costs	279,727	186,479	466,206	-
Deferred OPEB costs	10,506	7,004	17,510	-
Total deferred outflows of resources	290,233	441,864	732,097	-
Liabilities				
Accounts payable	152,785	86,796	239,581	955
Accrued liabilities and other	46,216	188,878	235,094	1,519
Noncurrent liabilities:				
Due within one year:				
Compensated absences	111,089	17,692	128,781	-
Current portion of long-term debt	-	274,586	274,586	2,449
Due in more than one year:				
Current portion of long-term debt - Funded by noncurrent assets	-	795,414	795,414	-
Net pension liability	4,119,327	2,746,213	6,865,540	-
Net OPEB liability	202,034	134,694	336,728	-
Long-term debt	-	8,915,561	8,915,561	53,989
Total liabilities	4,631,451	13,159,834	17,791,285	58,912
Deferred Inflows of Resources - Pension deferred inflows	94,714	63,143	157,857	-
Net Position				
Net investment in capital assets	2,845,594	18,856,368	21,701,962	-
Restricted:				
Streets and highways	368,388	-	368,388	-
Lake improvement	5,529	-	5,529	-
Rubbish	84,549	-	84,549	-
Bond reserve	-	795,414	795,414	-
Unrestricted	(2,338,961)	1,424,081	(914,880)	117,702
Total net position	\$ 965,099	\$ 21,075,863	\$ 22,040,962	\$ 117,702

Village of Holly, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 433,950	\$ 280,643	\$ 625	\$ -
Public safety:				
Police	1,431,343	49,315	1,970	-
Fire	566,258	-	-	288,816
Dispatch	157,164	-	-	-
Building inspections and related	77,874	72,378	-	-
Public works:				
Streets	725,626	-	615,470	-
Other public works activities	306,994	32,693	-	6,390
Rubbish disposal	331,517	342,736	-	-
Cemetery	7,557	26,750	-	-
Lake maintenance	5,600	-	-	-
Community and economic development	111,477	43,068	42,329	-
Recreation and culture	71,584	-	-	-
Total governmental activities	4,226,944	847,583	660,394	295,206
Business-type activities:				
Sewer Fund	2,115,552	2,483,951	-	156,020
Water Fund	1,285,711	1,587,570	-	93,470
Community Center	16,396	21,057	-	-
Total business-type activities	3,417,659	4,092,578	-	249,490
Total primary government	\$ 7,644,603	\$ 4,940,161	\$ 660,394	\$ 544,696
Component units	\$ 88,153	\$ -	\$ -	\$ -

General revenue:
 Property taxes
 Unrestricted state-shared revenue:
 State-shared revenue
 Unrestricted investment income
 Cable franchise fees
 Other miscellaneous income
 Total general revenue

Change in Net Position

Net Position - Beginning of year, as restated (Note 13)

Net Position - End of year

Statement of Activities

Year Ended June 30, 2018

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (152,682)	\$ -	\$ (152,682)	\$ -
(1,380,058)	-	(1,380,058)	-
(277,442)	-	(277,442)	-
(157,164)	-	(157,164)	-
(5,496)	-	(5,496)	-
(110,156)	-	(110,156)	-
(267,911)	-	(267,911)	-
11,219	-	11,219	-
19,193	-	19,193	-
(5,600)	-	(5,600)	-
(26,080)	-	(26,080)	-
(71,584)	-	(71,584)	-
(2,423,761)	-	(2,423,761)	-
-	524,419	524,419	-
-	395,329	395,329	-
-	4,661	4,661	-
-	924,409	924,409	-
(2,423,761)	924,409	(1,499,352)	-
-	-	-	(88,153)
1,373,591	-	1,373,591	116,330
610,148	-	610,148	-
62,159	54,427	116,586	-
87,229	-	87,229	-
127,703	-	127,703	11,220
2,260,830	54,427	2,315,257	127,550
(162,931)	978,836	815,905	39,397
1,128,030	20,097,027	21,225,057	78,305
\$ 965,099	\$ 21,075,863	\$ 22,040,962	\$ 117,702

Village of Holly, Michigan

Governmental Funds Balance Sheet

June 30, 2018

	General Fund	Major Streets Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 1,794,687	\$ 419,086	\$ 167,320	\$ 2,381,093
Receivables:				
Property taxes receivable	82	-	-	82
Special assessments receivable	1,552	-	3,735	5,287
Other receivables	27,304	-	-	27,304
Due from other governments	133,096	65,528	29,929	228,553
	<u>\$ 1,956,721</u>	<u>\$ 484,614</u>	<u>\$ 200,984</u>	<u>\$ 2,642,319</u>
Total assets				
Liabilities				
Accounts payable	\$ 101,469	\$ 24,435	\$ 26,881	\$ 152,785
Advances from other funds (Note 7)	86,882	-	-	86,882
Accrued liabilities and other	43,381	809	2,026	46,216
	<u>231,732</u>	<u>25,244</u>	<u>28,907</u>	<u>285,883</u>
Total liabilities				
Deferred Inflows of Resources - Unavailable revenue	1,436	-	1,240	2,676
	<u>233,168</u>	<u>25,244</u>	<u>30,147</u>	<u>288,559</u>
Total liabilities and deferred inflows of resources				
Fund Balances				
Restricted:				
Roads	-	346,928	21,460	368,388
Lake improvement	-	-	4,289	4,289
Solid waste	-	-	84,549	84,549
Committed - Cemetery care	144,225	-	-	144,225
Assigned:				
Tri party	34,779	-	-	34,779
Sidewalks	145,370	-	-	145,370
Roads	-	112,442	-	112,442
Mill pond	200,000	-	-	200,000
Capital improvements	358,001	-	-	358,001
Senior transportation	-	-	60,539	60,539
Unassigned	841,178	-	-	841,178
	<u>1,723,553</u>	<u>459,370</u>	<u>170,837</u>	<u>2,353,760</u>
Total fund balances				
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,956,721</u>	<u>\$ 484,614</u>	<u>\$ 200,984</u>	<u>\$ 2,642,319</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2018

Fund Balances Reported in Governmental Funds	\$ 2,353,760
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	2,845,594
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	2,676
Some employee fringe benefits 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:	
Employee compensated absences	(111,089)
Pension benefits	(3,839,600)
Retiree healthcare benefits	(191,528)
Land contract sale recognized on the installment method, revenue is unearned	(94,714)
Net Position of Governmental Activities	<u><u>\$ 965,099</u></u>

Village of Holly, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2018

	General Fund	Major Streets Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 1,373,591	\$ -	\$ -	\$ 1,373,591
Special assessments	488	-	348,638	349,126
Intergovernmental:				
Federal grants	302,384	26,545	47,595	376,524
State-shared revenue and grants	616,458	383,068	187,023	1,186,549
Charges for services	592,459	-	10,616	603,075
Fines and forfeitures	9,069	-	-	9,069
Licenses and permits	96,623	-	-	96,623
Investment income	60,334	1,767	58	62,159
Other revenue:				
Local donations	-	1,506	-	1,506
Miscellaneous income	316,820	-	-	316,820
Total revenue	3,368,226	412,886	593,930	4,375,042
Expenditures				
Current services:				
General government	523,898	-	-	523,898
Public safety:				
Police	1,206,249	-	-	1,206,249
Fire	308,528	-	-	308,528
Dispatch	157,164	-	-	157,164
Building inspections and related	77,874	-	-	77,874
Public works:				
Streets	-	144,151	184,455	328,606
Other public works activities	286,737	-	5,600	292,337
Rubbish disposal	-	-	331,517	331,517
Cemetery	27,108	-	-	27,108
Winter maintenance	-	82,272	-	82,272
Traffic services	-	29,334	-	29,334
Administration	-	39,613	-	39,613
Tree maintenance	-	20,589	-	20,589
Senior transportation	-	-	60,313	60,313
Community and economic development	51,164	-	-	51,164
Recreation and culture	42,384	-	-	42,384
Capital outlay	559,265	-	-	559,265
Total expenditures	3,240,371	315,959	581,885	4,138,215
Excess of Net Revenue Over Expenditures	127,855	96,927	12,045	236,827
Fund Balances - Beginning of year	1,595,698	362,443	158,792	2,116,933
Fund Balances - End of year	<u>\$ 1,723,553</u>	<u>\$ 459,370</u>	<u>\$ 170,837</u>	<u>\$ 2,353,760</u>

Village of Holly, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2018

Net Change in Fund Balance Reported in Governmental Funds	\$ 236,827
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	404,843
Depreciation expense	(393,609)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	(190,623)
Changes 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	(12,201)
Change in the liability for other postemployment benefits is recorded when earned in the statement of activities	4,971
Change in the net pension liability and related deferred inflows and outflows are recorded when incurred in the statement of activities	(213,139)
Change in Net Position of Governmental Activities	<u>\$ (162,931)</u>

Village of Holly, Michigan

Proprietary Funds Statement of Net Position

June 30, 2018

	Enterprise Funds			Total Enterprise Funds
	Sewer Fund	Water Fund	Nonmajor Enterprise - Community Center	
Assets				
Current assets: (Note 3)				
Cash and cash equivalents	\$ 1,305,172	\$ 2,466,336	\$ 8,448	\$ 3,779,956
Receivables:				
Other receivables	340,175	228,317	-	568,492
Due from other governments	2,250	-	-	2,250
Inventory	30,434	-	-	30,434
Total current assets	1,678,031	2,694,653	8,448	4,381,132
Noncurrent assets:				
Restricted assets	430,414	365,000	-	795,414
Advances to other funds	-	86,882	-	86,882
Capital assets:				
Assets not subject to depreciation (Note 5)	232,477	3,676	-	236,153
Assets subject to depreciation - Net (Note 5)	18,589,680	9,767,715	-	28,357,395
Total noncurrent assets	19,252,571	10,223,273	-	29,475,844
Total assets	20,930,602	12,917,926	8,448	33,856,976
Deferred Outflows of Resources				
Deferred charges on bond refunding (Note 8)	110,240	138,141	-	248,381
Deferred pension costs (Note 10)	107,228	79,251	-	186,479
Deferred OPEB costs (Note 11)	4,027	2,977	-	7,004
Total deferred outflows of resources	221,495	220,369	-	441,864
Liabilities				
Current liabilities:				
Accounts payable	19,789	67,007	-	86,796
Accrued liabilities and other	123,571	65,307	-	188,878
Compensated absences (Note 8)	12,439	5,253	-	17,692
Current portion of long-term debt (Note 8)	239,586	35,000	-	274,586
Total current liabilities	395,385	172,567	-	567,952
Noncurrent liabilities:				
Current portion of long-term debt - Funded by noncurrent assets	430,414	365,000	-	795,414
Net pension liability (Note 10)	1,579,070	1,167,143	-	2,746,213
Net OPEB liability (Note 11)	77,443	57,251	-	134,694
Long-term debt (Note 8)	5,552,631	3,362,930	-	8,915,561
Total noncurrent liabilities	7,639,558	4,952,324	-	12,591,882
Total liabilities	8,034,943	5,124,891	-	13,159,834
Deferred Inflows of Resources - Pension deferred inflows				
	36,307	26,836	-	63,143
Net Position				
Net investment in capital assets	12,709,766	6,146,602	-	18,856,368
Restricted - Bond reserve	430,414	365,000	-	795,414
Unrestricted	(59,333)	1,474,966	8,448	1,424,081
Total net position	\$ 13,080,847	\$ 7,986,568	\$ 8,448	\$ 21,075,863

Village of Holly, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position

Year Ended June 30, 2018

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise - Community Center	Total Enterprise Funds
Operating Revenue				
Sale of water	\$ -	\$ 1,012,581	\$ -	\$ 1,012,581
Sewage disposal charges	1,540,759	-	-	1,540,759
Interest and penalty charges	45,701	28,144	-	73,845
Recoveries	865	11,347	-	12,212
Sales and rentals	-	-	21,057	21,057
Charges to other funds	-	9,570	-	9,570
Total operating revenue	1,587,325	1,061,642	21,057	2,670,024
Operating Expenses				
Water treatment and transmission	-	802,362	-	802,362
Wastewater treatment	848,188	-	-	848,188
Water collection system	348,034	-	-	348,034
Other operation and maintenance	-	-	16,396	16,396
Billing and administrative costs	57,713	59,536	-	117,249
Depreciation	678,080	301,394	-	979,474
Total operating expenses	1,932,015	1,163,292	16,396	3,111,703
Operating (Loss) Income	(344,690)	(101,650)	4,661	(441,679)
Nonoperating Revenue (Expense)				
Investment income	6,135	48,262	30	54,427
Interest expense	(183,537)	(122,419)	-	(305,956)
Debt service charge	896,626	504,940	-	1,401,566
Cell tower leases	-	20,988	-	20,988
Total nonoperating revenue	719,224	451,771	30	1,171,025
Income - Before capital contributions	374,534	350,121	4,691	729,346
Capital Contributions				
Capital grants	39,020	3,305	-	42,325
Tap-in fees	117,000	90,165	-	207,165
Total capital contributions	156,020	93,470	-	249,490
Change in Net Position	530,554	443,591	4,691	978,836
Net Position - Beginning of year, as restated (Note 13)	12,550,293	7,542,977	3,757	20,097,027
Net Position - End of year	\$ 13,080,847	\$ 7,986,568	\$ 8,448	\$ 21,075,863

Village of Holly, Michigan

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2018

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise - Community Center	Total
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,599,763	\$ 1,056,455	\$ 21,057	\$ 2,677,275
Receipts from interfund services and reimbursements	-	25,411	-	25,411
Payments to suppliers	(528,352)	(255,868)	(5,207)	(789,427)
Payments to employees and fringes	(171,722)	(515,149)	(12,228)	(699,099)
Payments to other funds	(91,783)	(44,034)	-	(135,817)
Other payments	(2,250)	-	-	(2,250)
Net cash and cash equivalents provided by operating activities	805,656	266,815	3,622	1,076,093
Cash Flows from Noncapital Financing Activities - Cell tower lease	-	20,988	-	20,988
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	39,020	3,305	-	42,325
Tap-in fees	117,000	90,165	-	207,165
Purchase of capital assets	(206,193)	(141,877)	-	(348,070)
Principal and interest paid on capital debt	(1,290,289)	(482,978)	-	(1,773,267)
Debt service charge	896,626	504,940	-	1,401,566
Net cash and cash equivalents used in capital and related financing activities	(443,836)	(26,445)	-	(470,281)
Cash Flows Provided by Investing Activities - Interest received on investments	6,135	48,262	30	54,427
Net Increase in Cash and Cash Equivalents	367,955	309,620	3,652	681,227
Cash and Cash Equivalents - Beginning of year	1,367,631	2,521,716	4,796	3,894,143
Cash and Cash Equivalents - End of year	\$ 1,735,586	\$ 2,831,336	\$ 8,448	\$ 4,575,370
Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,305,172	\$ 2,466,336	\$ 8,448	\$ 3,779,956
Restricted cash	430,414	365,000	-	795,414
Total cash and cash equivalents	\$ 1,735,586	\$ 2,831,336	\$ 8,448	\$ 4,575,370

Village of Holly, Michigan

**Proprietary Funds
Statement of Cash Flows (Continued)**

Year Ended June 30, 2018

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise - Community Center	Total
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (344,690)	\$ (101,650)	\$ 4,661	\$ (441,679)
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation and amortization	678,080	301,394	-	979,474
Changes in assets and liabilities:				
Accrued and other liabilities	10,188	4,383	-	14,571
Due to and from other funds	-	15,841	-	15,841
Accrued liabilities and other	492,838	(24,245)	-	468,593
Accounts payable	(30,760)	71,092	(1,039)	39,293
Total adjustments	<u>1,150,346</u>	<u>368,465</u>	<u>(1,039)</u>	<u>1,517,772</u>
Net cash and cash equivalents provided by operating activities	<u><u>\$ 805,656</u></u>	<u><u>\$ 266,815</u></u>	<u><u>\$ 3,622</u></u>	<u><u>\$ 1,076,093</u></u>

Village of Holly, Michigan

Fiduciary Funds Statement of Fiduciary Net Position

June 30, 2018

	Retiree Health Care Fund (Employee Benefits Fund)	Agency Fund
Assets		
Cash and cash equivalents	\$ 63,466	\$ 200,466
Investments:		
Certificates of deposit	33,500	-
Mutual funds	283,729	-
Total assets	380,695	<u><u>\$ 200,466</u></u>
Liabilities		
Accounts payable	2,013	\$ -
Refundable deposits, bonds, etc.	-	138,938
Other miscellaneous liabilities	-	61,528
Total liabilities	2,013	<u><u>\$ 200,466</u></u>
Net Position Held in Trust for Retiree Healthcare Benefits	<u><u>\$ 378,682</u></u>	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2018

	<u>Retiree Health Care Fund (Employee Benefits Fund)</u>
Additions	
Investment loss - Net decrease in fair value of investments	\$ (3,632)
Contributions:	
Employer contributions	89,224
Employee contributions	<u>8,042</u>
Total contributions	<u>97,266</u>
Total additions	93,634
Deductions	
Benefit payments	22,362
Administrative expenses	<u>10</u>
Total deductions	<u>22,372</u>
Net Increase in Net Position Held in Trust	71,262
Net Position Held in Trust for Retiree Healthcare Benefits - Beginning of year	<u>307,420</u>
Net Position Held in Trust for Retiree Healthcare Benefits - End of year	<u><u>\$ 378,682</u></u>

Village of Holly, Michigan

Component Units Statement of Net Position

June 30, 2018

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents	\$ 113,821	\$ 65	\$ 113,886
Receivables - Property taxes receivable	190	-	190
Land held for resale	62,538	-	62,538
Total assets	176,549	65	176,614
Liabilities			
Accounts payable	955	-	955
Accrued liabilities and other	1,519	-	1,519
Noncurrent liabilities:			
Due within one year	2,449	-	2,449
Due in more than one year	53,989	-	53,989
Total liabilities	58,912	-	58,912
Net Position - Unrestricted	\$ 117,637	\$ 65	\$ 117,702

Village of Holly, Michigan

Component Units Statement of Activities

Year Ended June 30, 2018

	Expenses	Net (Expense) Revenue and Changes in Net Position		
		Downtown Development Authority	Economic Development Corporation	Total
Functions/Programs				
Downtown Development Authority	\$ 88,153	\$ (88,153)	\$ -	\$ (88,153)
Economic Development Corporation	-	-	-	-
Total component units	\$ 88,153	(88,153)	-	(88,153)
General revenue:				
Property taxes		116,330	-	116,330
Other miscellaneous income		11,220	-	11,220
Total general revenue		127,550	-	127,550
Change in Net Position		39,397	-	39,397
Net Position - Beginning of year		78,240	65	78,305
Net Position - End of year		\$ 117,637	\$ 65	\$ 117,702

Note 1 - Significant Accounting Policies

Reporting Entity

The Village of Holly, Michigan (the "Village") 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. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

Discretely Presented Component Units

Downtown Development Authority

The Downtown Development Authority (the "Authority" or the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to 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 to 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. There is currently no activity in the EDC.

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. The following is a summary of the significant accounting policies used by the Village:

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, as applicable. 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 revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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, unrestricted intergovernmental receipts, and other items not properly included among program revenue are reported instead as general revenue.

As a general rule, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule occur when there are charges between the Village's water and sewer functions and various other functions. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Note 1 - Significant Accounting Policies (Continued)

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, if any, 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 it spends certain resources; separate funds allow the Village to show the particular expenditures for which specific revenue is used. The various funds are aggregated into three broad fund types:

Governmental Funds

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

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.
- The Major Streets Fund - The Major Streets Fund accounts for repairs and maintenance of major streets in the Village that are financed primarily through state-shared revenue and miscellaneous local sources.

Proprietary Funds

Proprietary funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the Village). 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

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 healthcare 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. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

Note 1 - Significant Accounting Policies (Continued)

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 and internal service 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.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In the 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 government 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.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is 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 and Cash Equivalents

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

Investments are reported at fair value or estimated fair value.

Note 1 - Significant Accounting Policies (Continued)

Inventories and Prepaid Items

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. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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 acquisition value at the date of donation.

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

Capital Asset Class	Lives
Roads and sidewalks	15 - 20
Water and sewer distribution systems	30 - 75
Water and sewer treatment facilities	30 - 50
Buildings and 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 lives 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 obligations.

Land Held for Resale

Land held for sale includes land costs and is stated at the lower of cost or fair market value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position 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 will not be recognized as an outflow of resources until then.

Note 1 - Significant Accounting Policies (Continued)

At June 30, 2018, the Village reported deferred outflows of resources for payments made to the plan after the measurement date and for changes in assumptions related to economic and demographic factors for governmental activities. See the table in Note 10 related to when amounts related to pensions will be recognized in pension expense. There are deferred outflows reported for the OPEB plan that are detailed out in Note 11. The Village also reported deferred outflows of \$110,240 in the Sewer Fund and \$138,141 in the Water Fund related to deferred charges on the refunding of revenue bonds.

In addition to liabilities, the statement of net position 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 will not be recognized as an inflow of resources (revenue) until that time.

The Village reports deferred inflows of resources related to related to pensions as detailed out in Note 10. The governmental funds report unavailable revenue from delinquent property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The Village has deferred inflows of resources related to delinquent property taxes in the governmental funds for \$2,676.

Net Position Flow Assumption

The Village will sometimes 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 government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. 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

Note 1 - Significant Accounting Policies (Continued)

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 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 2017 property tax revenue was levied and collectible on December 1, 2017 and is recognized as revenue in the year ended June 30, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the Village totaled \$105.2 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 13.0045 mills for operating purposes. This resulted in approximately \$1,374,000 for operations. These amounts are recognized in the respective General Fund financial statements as tax revenue.

Pension

The Village offers a defined benefit pension plan to its employees. The Village records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other Postemployment Benefit Costs

The Village offers retiree healthcare benefits to retirees. The Village records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Village's OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Note 1 - Significant Accounting Policies (Continued)

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 Fund and Sewer Fund, primarily) are used to liquidate the obligation.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water Fund and Sewer Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Adoption of New Accounting Pronouncements

As of June 30, 2018, the Village adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard required the Village to recognize on the face of the financial statements its net OPEB liability. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI).

Upcoming Accounting Pronouncements

In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. 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 the Village's financial statements for the 2018-2019 fiscal year.

Note 1 - Significant Accounting Policies (Continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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 the Village's financial statements for the year ending June 30, 2021.

Note 2 - 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. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2017		\$	(188,409)
Current year permit revenue			71,328
Related expenses - Direct costs	\$	(77,874)	
Current year shortfall			<u>(6,546)</u>
Cumulative shortfall June 30, 2018		\$	<u>(194,955)</u>

Note 3 - 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 law also allows investments outside the state of Michigan when fully insured. 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, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Village has designated three 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 investments are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

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, including component units, had \$2,815,067 of bank deposits (certificates of deposit and 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.

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.

At year end, the Village had the following investments:

Investment	Fair Value	Weighted- average Maturity
Primary Government		
Oakland County Government Investment Pool	\$ 3,846,398	484 days
Investment	Fair Value	Weighted- average Maturity
Fiduciary Funds		
Mutual funds	\$ 283,729	Not available

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 June 30, 2018, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Primary Government			
Oakland County Government Investment Pool	\$ 3,846,398	N/A	N/A
Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Mutual funds	\$ 283,729	N/A	N/A

June 30, 2018

Note 4 - Fair Value Measurements

The Village categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Village's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Village has the following recurring fair value measurements as of June 30, 2018:

- Primary Government - Investment pools of \$3,846,398 are valued using a matrix pricing model (Level 2 inputs).
- Fiduciary Funds - Mutual funds of \$283,729 are valued using quoted prices (Level 1 inputs).

The fair value of the Oakland County Investment Pool at June 30, 2018 was determined primarily based on Level 2 inputs. The Village estimates the fair value of these investments based on the underlying investments held by the investment pool using other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals, as well as the quoted price of the underlying investments.

June 30, 2018

Note 5 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 148,500	\$ -	\$ 201,165	\$ 349,665
Construction in progress	68,670	(68,670)	-	-
Subtotal	217,170	(68,670)	201,165	349,665
Capital assets being depreciated:				
Roads and sidewalks	9,888,660	68,670	22,063	9,979,393
Buildings and improvements	1,592,933	-	20,436	1,613,369
Office furnishings and equipment	785,220	-	161,179	946,399
Vehicles	1,587,858	-	-	1,587,858
Subtotal	13,854,671	68,670	203,678	14,127,019
Accumulated depreciation:				
Roads and sidewalks	8,413,626	-	266,200	8,679,826
Buildings and improvements	875,860	-	44,718	920,578
Office furnishings and equipment	667,188	-	28,979	696,167
Vehicles	1,280,807	-	53,712	1,334,519
Subtotal	11,237,481	-	393,609	11,631,090
Net capital assets being depreciated	2,617,190	68,670	(189,931)	2,495,929
Net governmental activities capital assets	\$ 2,834,360	\$ -	\$ 11,234	\$ 2,845,594

June 30, 2018

Note 5 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2017	Additions	Balance June 30, 2018
Capital assets not being depreciated:			
Land	\$ 50,000	\$ -	\$ 50,000
Construction in progress	30,401	155,752	186,153
Subtotal	80,401	155,752	236,153
Capital assets being depreciated:			
Water and sewer distribution system	46,513,730	15,928	46,529,658
Office furnishings and equipment	1,365,725	223,908	1,589,633
Buildings and improvements	98,665	-	98,665
Subtotal	47,978,120	239,836	48,217,956
Accumulated depreciation:			
Water and sewer distribution system	18,043,410	915,609	18,959,019
Office furnishings and equipment	836,046	61,891	897,937
Buildings and improvements	1,631	1,974	3,605
Subtotal	18,881,087	979,474	19,860,561
Net capital assets being depreciated	29,097,033	(739,638)	28,357,395
Net business-type activity capital assets	<u>\$ 29,177,434</u>	<u>\$ (583,886)</u>	<u>\$ 28,593,548</u>

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

Governmental activities:	
General government	\$ 22,721
Public safety	93,224
Public works	275,572
Recreation and culture	2,092
Total governmental activities	<u>\$ 393,609</u>
Business-type activities:	
Water	\$ 301,394
Sewer	678,080
Total business-type activities	<u>\$ 979,474</u>

Construction Commitments

The Village had the following significant construction commitments at year end:

	Spent to Date	Remaining Commitment
Baird Street Water Station/Pump	<u>\$ 186,153</u>	<u>\$ 12,802</u>

Note 6 - Land Contract Sale and Receivable

In 2014, 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 was to be paid over seven years, and the final payment was to be due in September 2020, due to an extension of the contract that was granted in fiscal year 2017. Title of the property transferred to the buyer on the date of the sale.

During the current year, the buyer paid the remaining balance due of \$289,999 in full. The Village recognized a gain on the sale in the amount of \$99,376 in the current year related to the sale.

Note 7 - Interfund Receivables, Payables, and Transfers

The Village has made the following long-term advances between funds:

Fund Borrowed From	Fund Loaned To	Amount
Water Fund	General Fund	\$ 86,882

The advance from the Water Fund to the General Fund was made in 2017 and will be repaid over seven years. The General Fund will be paying back the money to the Water Fund with an interest rate of 3.75 percent.

Note 8 - 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 when issued. County contractual agreements and installment purchase agreements are also general obligations of the Village when issued. Special assessment bonds provide for capital improvements that benefit specific properties and will be repaid from amounts levied against those properties that benefited 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 re-assessment of the Village) are received. The Village does not currently have any general obligation, county contractual agreements, installment purchase agreements, or special assessment bonds. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	\$ 98,888	\$ 80,757	\$ (68,556)	\$ 111,089	\$ 111,089

June 30, 2018

Note 8 - Long-term Debt (Continued)

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds and contracts payable:					
General obligation bonds	\$ 3,095,000	\$ -	\$ (295,000)	\$ 2,800,000	\$ 400,000
Revenue bonds	7,520,000	-	(750,000)	6,770,000	670,000
Unamortized bond premium on refunding series 2014 bond	104,999	-	(14,116)	90,883	-
Unamortized bond premium on refunding series 2014 bond	364,172	-	(39,494)	324,678	-
Total principal outstanding	11,084,171	-	(1,098,610)	9,985,561	1,070,000
Total bonds and contracts payable	11,084,171	-	(1,098,610)	9,985,561	1,070,000
Compensated absences	12,457	18,585	(13,350)	17,692	17,692
Total business-type activities long-term debt	<u>\$ 11,096,628</u>	<u>\$ 18,585</u>	<u>\$ (1,111,960)</u>	<u>\$ 10,003,253</u>	<u>\$ 1,087,692</u>

Component Unit

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Installment Purchase					
Loan - 610 Saginaw	\$ 58,834	\$ -	\$ (2,396)	\$ 56,438	\$ 2,449

Debt Service Requirements to Maturity

Total interest expense for the year was approximately \$355,000 for business-type activities. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 1,070,000	\$ 325,728	\$ 1,395,728	\$ 2,449	\$ 1,569	\$ 4,018
2020	1,175,000	292,978	1,467,978	2,518	1,500	4,018
2021	1,075,000	221,140	1,296,140	2,590	1,428	4,018
2022	1,110,000	182,039	1,292,039	48,881	691	49,572
2023	1,095,000	139,900	1,234,900	-	-	-
2024-2028	4,045,000	282,719	4,327,719	-	-	-
Total	<u>\$ 9,570,000</u>	<u>\$ 1,444,504</u>	<u>\$ 11,014,504</u>	<u>\$ 56,438</u>	<u>\$ 5,188</u>	<u>\$ 61,626</u>

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 \$4,216,580. During the current year, net revenue of the water system was \$199,744 compared to the annual debt requirements of \$517,978.

Note 8 - Long-term Debt (Continued)

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 \$3,591,950. During the current year, net revenue of the sewer system was \$333,390 compared to the annual debt requirements of \$456,300.

Note 9 - 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 10 - Pension Plan

Plan Description

The Village participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees' Retirement System of Michigan (MERS) that covers all employees of the Village. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board. MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Benefits Provided

Municipal Employees' Retirement System of Michigan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

The MERS plan covers Department of Public Works (DPW)/clerical, departments heads, police, and dispatch employees.

Retirement benefits for DPW/clerical and police/dispatch employees hired prior to July 1, 2006, as well as department heads, are calculated as 2.5 percent of the employee's final five-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at 55 with 25 years of service. A reduced early retirement at 50 with 15 years of service is also available. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

Retirement benefits for employees hired after July 1, 2006 are calculated as 1.5 percent of the employee's final five-year average salary times the employee's years of service. Normal retirement age is 60 with early retirement at 55 with 25 years of service. A reduced early retirement at 50 with 15 years of service is also available. The vesting period is 10 years. Employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date for DPW/clerical and police/dispatch employees hired prior to July 1, 2006, as well as department heads. The annual adjustments are 2.5 percent, noncompounding.

Note 10 - Pension Plan (Continued)

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the Village Council, generally after negotiations of these terms with the affected unions. Police and fire employees' benefit terms may be subject to binding arbitration in certain circumstances.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	December 31, 2017
Inactive plan members or beneficiaries currently receiving benefits	35
Inactive plan members entitled to but not yet receiving benefits	8
Active plan members	<u>22</u>
Total employees covered by MERS	<u><u>65</u></u>

Contributions

Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended June 30, 2018, the Village's average contribution rate was 21.05 percent, 47.39 percent, and 54.23 percent of annual pay for department heads, DPW/clerical employees, and police officers and command employees, respectively.

Net Pension Liability

The Village has chosen to use the December 31 measurement date as its measurement date for the net pension liability. The June 30, 2018 fiscal year end reported net pension liability was determined using a measure of the total pension liability and the pension net position as of the December 31, 2017 measurement date. The December 31, 2017 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 13,924,151	\$ 6,858,874	\$ 7,065,277
Changes for the year:			
Service cost	150,929	-	150,929
Interest	1,082,606	-	1,082,606
Differences between expected and actual experience	(58,880)	-	(58,880)
Contributions - Employer	-	508,093	(508,093)
Net investment income	-	880,274	(880,274)
Benefit payments, including refunds	(934,072)	(934,072)	-
Administrative expenses	-	(13,975)	13,975
Net changes	<u>240,583</u>	<u>440,320</u>	<u>(199,737)</u>
Balance at December 31, 2017	<u>\$ 14,164,734</u>	<u>\$ 7,299,194</u>	<u>\$ 6,865,540</u>

Note 10 - Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Village recognized pension expense of \$922,107.

At June 30, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,772	\$ (39,253)
Changes in assumptions	170,108	-
Net difference between projected and actual earnings on pension plan investments	-	(118,604)
Changes in proportionate share, or difference between amount contributed and proportionate share of contributions	283,326	-
Total	<u>\$ 466,206</u>	<u>\$ (157,857)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note: that employer contributions of \$283,326 made subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending June 30	Amount
2019	\$ 208,400
2020	2
2021	(113,547)
2022	(69,832)
Total	<u>\$ 25,023</u>

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.5 percent; assumed salary increases of 3.8 percent; an investment rate of return (net of investment expenses) of 7.75 percent; and the RP-2014 mortality tables.

The actuarial assumptions used in the December 31, 2017 actuarial valuation date valuation were based on the results of an actuarial experience study for the period 2009-2013.

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 10 - Pension Plan (Continued)

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2017, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	5.50

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Village, calculated using the discount rate of 8.0 percent, as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the Village	\$ 8,438,435	\$ 6,865,540	\$ 5,536,706

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 11 - Other Postemployment Benefit Plan

Plan Description

The Village provides retiree healthcare benefits to eligible pre-Medicare retired employees and their spouses, with a 50 or 35 percent contribution required from the retirees. Currently, the plan has 25 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.

Note 11 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

The Plan provides medical and prescription drug benefits for retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. Retirees receiving benefits are required to contribute 35 or 50 percent of the monthly premiums to the Plan.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

Date of member count	June 30, 2018
Inactive plan members or beneficiaries currently receiving benefits	2
Active plan members	<u>23</u>
Total plan members	<u><u>25</u></u>

Contributions

Retiree healthcare costs are paid by the Village on a "pay-as-you-go" basis. The Village has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended June 30, 2018, the Village made payments for postemployment health benefit premiums of \$22,362.

Net OPEB Liability

The Village has chosen to use the June 30 measurement date as its measurement date for the net OPEB liability. The June 30, 2018 fiscal year end reported net OPEB liability was determined using a measure of the total OPEB liability and the OPEB net position as of the June 30, 2017 measurement date. The June 30, 2017 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Changes in the net OPEB liability during the measurement year were as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability	Plan Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 711,834	\$ 384,337	\$ 327,497
Changes for the year:			
Service cost	28,704	-	28,704
Interest	33,793	-	33,793
Differences between expected and actual experience	(36,559)	-	(36,559)
Contributions - Employer	-	14,320	(14,320)
Contributions - Employee	-	8,042	(8,042)
Net investment loss	-	(3,632)	3,632
Benefit payments, including refunds	(22,362)	(22,362)	-
Administrative expenses	-	(10)	10
Miscellaneous other charges	-	(2,013)	2,013
Net changes	<u>3,576</u>	<u>(5,655)</u>	<u>9,231</u>
Balance at June 30, 2018	<u><u>\$ 715,410</u></u>	<u><u>\$ 378,682</u></u>	<u><u>\$ 336,728</u></u>

The plan's fiduciary net position represents 52.9 percent of the total OPEB liability.

Note 11 - Other Postemployment Benefit Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Village recognized OPEB expense of \$6,089.

At June 30, 2018, the Village reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 17,510	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30	Amount
2019	\$ 4,377
2020	4,377
2021	4,378
2022	4,378
Total	<u>\$ 17,510</u>

Actuarial Assumptions

The total OPEB liability was determined by utilizing the alternative measurement method as of June 30, 2018, using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Expected Point in Time at Which Benefit Payments Will Begin to be Made

Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 59 or at the first subsequent year in which the member would qualify for benefits.

Marital Status and Dependency Status

Active employees and retirees covered under the terms of the OPEB plan who currently have spouses are assumed to be married to those spouses at retirement; those without spouses at the calculation date are assumed to be single at and throughout retirement.

Mortality

Mortality rates were based on the RP2000 Mortality Table for Males and Females projected 10 years.

Turnover

Nongroup-specific age-based turnover data from GASB Statement No. 75 was 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 purposes of allocating to periods the present value of total benefits to be paid.

Note 11 - Other Postemployment Benefit Plan (Continued)

Healthcare Cost Trend Rate

The expected rate of increase in healthcare insurance premiums was based on Getzen. A rate of 8.0 percent initially, reduced to an ultimate rate of 4.7 percent after 10 years, was used.

Health Insurance Premiums

2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation Rate

An expected long-term inflation assumption of 2.3 percent was used

Payroll Growth Rate

The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Investment Rate of Return

The investment rate of return was assumed to be 4.75 percent, net of OPEB plan investment expense, including inflation.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, and that village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Investment Rate of Return

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return as of the June 30, 2017 measurement date for each major asset class included in the OPEB plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following tables:

Asset Class	Long-term Expected Real Rate of Return
U.S. Cash	0.31 %
U.S. Core Fixed Income	2.14
U.S. Equity Market	4.59

Note 11 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Village, calculated using the discount rate of 4.75 percent, as well as what the Village's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (3.75%)	Current Discount Rate (4.75%)	1 Percent Increase (5.75%)
Net OPEB liability	\$ 401,115	\$ 336,728	\$ 271,382

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability of the Village, calculated using the healthcare cost trend rate of 8.0 percent, as well as what the Village's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Healthcare Cost Trend Rate (8.0%)	1 Percent Increase (9.0%)
Net OPEB liability	\$ 245,942	\$ 336,728	\$ 438,487

Investment Policy

The OPEB plan's policy in regard to the allocation of invested assets is established and may be amended by the OPEB board by a majority vote of its members. It is the policy of the OPEB board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The OPEB plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the OPEB board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Allocation
U.S. cash	0.29 %
U.S. core fixed income	83.37
U.S. equity market	16.34
Total	<u>100.00 %</u>

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was -.95 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 12 - Commitments

The Village has committed to a multi-year refuse collection agreement through June 30, 2023 at the following base rates:

July 1, 2018 through June 30, 2019 at \$13.13 per month per unit

July 1, 2019 through June 30, 2020 at \$13.52 per month per unit

Note 12 - Commitments (Continued)

July 1, 2020 through June 30, 2021 at \$13.92 per month per unit

July 1, 2021 through June 30, 2022 at \$14.34 per month per unit

July 1, 2022 through June 30, 2023 at \$14.77 per month per unit

July 1, 2023 through June 30, 2024 at \$15.21 per month per unit

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

Note 13 - Change in Accounting Principle

During the current year, the Village adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the government-wide statements and proprietary funds now include a liability for the unfunded portion of the Village's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan footnote for further details. This change does not impact the General Fund or any other governmental funds

As a result of implementing this statement, the beginning net position of the governmental activities, business-type activities, and Water Fund and Sewer Fund has been restated as follows

	Net Position		
	As Previously Reported	As Restated	Effect of Change
Governmental activities	\$ 898,101	\$ 1,128,030	\$ 229,929
Business-type activities	20,049,508	20,097,027	47,519
Water Fund	7,519,437	7,542,977	23,540
Sewer Fund	12,526,314	12,550,293	23,979

Required Supplemental Information

Village of Holly, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes - Property taxes	\$ 1,389,663	\$ 1,372,820	\$ 1,373,591	\$ 771
Special assessments	-	-	488	488
Intergovernmental:				
Federal grants	22,000	308,816	302,384	(6,432)
State-shared revenue and grants	599,280	601,375	616,458	15,083
Charges for services	588,700	556,265	592,459	36,194
Fines and forfeitures	16,000	15,000	9,069	(5,931)
Licenses and permits	104,310	104,366	96,623	(7,743)
Investment income	4,000	5,500	60,334	54,834
Other revenue	56,168	242,025	316,820	74,795
Total revenue	2,780,121	3,206,167	3,368,226	162,059
Expenditures				
Current services:				
General government	494,380	446,045	523,898	(77,853)
Public safety	1,825,577	1,803,457	1,749,815	53,642
Public works	294,326	307,680	313,845	(6,165)
Community and economic development	27,150	36,716	51,164	(14,448)
Recreation and culture	42,413	39,818	42,384	(2,566)
Capital outlay	72,383	555,880	559,265	(3,385)
Total expenditures	2,756,229	3,189,596	3,240,371	(50,775)
Excess of Revenue Over Expenditures	23,892	16,571	127,855	111,284
Fund Balance - Beginning of year	1,595,698	1,595,698	1,595,698	-
Fund Balance - End of year	\$ 1,619,590	\$ 1,612,269	\$ 1,723,553	\$ 111,284

Village of Holly, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Major Streets Fund

Year Ended June 30, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 361,374	\$ 391,045	\$ 409,613	\$ 18,568
Investment income - Local donations	1,500	1,500	1,767	267
Other revenue	7,000	-	1,506	1,506
Total revenue	369,874	392,545	412,886	20,341
Expenditures				
Current services -				
Public works:				
Streets	217,283	164,302	144,151	20,151
Winter maintenance	63,431	61,841	82,272	(20,431)
Traffic services	33,781	36,150	29,334	6,816
Administration	35,666	40,135	39,613	522
Tree maintenance	17,431	16,238	20,589	(4,351)
Total expenditures	367,592	318,666	315,959	2,707
Excess of Revenue Over Expenditures	2,282	73,879	96,927	23,048
Special Items	362,443	362,443	-	(362,443)
Net Change in Fund Balance	364,725	436,322	96,927	(339,395)
Fund Balance - Beginning of year	362,443	362,443	362,443	-
Fund Balance - End of year	<u>\$ 727,168</u>	<u>\$ 798,765</u>	<u>\$ 459,370</u>	<u>\$ (339,395)</u>

Village of Holly, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios

	Last Four Fiscal Years			
	2018	2017	2016	2015
Total Pension Liability				
Service cost	\$ 150,929	\$ 149,549	\$ 146,181	\$ 158,199
Interest	1,082,606	1,058,227	1,009,586	984,990
Differences between expected and actual experience	(58,880)	14,767	20,630	-
Changes in assumptions	-	-	680,433	-
Benefit payments, including refunds	(934,072)	(902,403)	(834,266)	(843,831)
Net Change in Total Pension Liability	240,583	320,140	1,022,564	299,358
Total Pension Liability - Beginning of year	13,924,151	13,604,011	12,581,447	12,282,089
Total Pension Liability - End of year	\$ 14,164,734	\$ 13,924,151	\$ 13,604,011	\$ 12,581,447
Plan Fiduciary Net Position				
Contributions - Employer	\$ 508,093	\$ 476,580	\$ 546,242	\$ 580,401
Net investment income (loss)	880,274	726,751	(102,696)	424,586
Administrative expenses	(13,975)	(14,366)	(15,059)	(15,553)
Benefit payments, including refunds	(934,072)	(902,403)	(834,266)	(843,831)
Net Change in Plan Fiduciary Net Position	440,320	286,562	(405,779)	145,603
Plan Fiduciary Net Position - Beginning of year	6,858,874	6,572,312	6,978,091	6,832,488
Plan Fiduciary Net Position - End of year	\$ 7,299,194	\$ 6,858,874	\$ 6,572,312	\$ 6,978,091
Village's Net Pension Liability - Ending	\$ 6,865,540	\$ 7,065,277	\$ 7,031,699	\$ 5,603,356
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	51.53 %	49.26 %	48.31 %	55.46 %
Covered Employee Payroll	\$ 1,232,612	\$ 1,233,542	\$ 1,178,050	\$ 1,322,030
Village's Net Pension Liability as a Percentage of Covered Employee Payroll	556.99 %	572.76 %	596.89 %	423.84 %

Village of Holly, Michigan

Required Supplemental Information Schedule of Pension Contributions

**Last Ten Fiscal Years
Years Ended June 30**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 566,882	\$ 459,643	\$ 493,462	\$ 624,340	\$ 472,763	\$ 347,307	\$ 293,775	\$ 269,286	\$ 266,319	\$ 235,060
Contributions in relation to the actuarially determined contribution	566,882	459,643	493,462	624,340	550,379	347,307	293,775	269,286	266,319	235,060
Contribution Excess	\$ -	\$ -	\$ -	\$ -	\$ 77,616	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,232,612	\$ 1,233,542	\$ 1,178,050	\$ 1,322,030	\$ 1,237,915	\$ 918,677	\$ 970,678	\$ 1,163,999	\$ 1,163,999	\$ 1,234,703
Contributions as a Percentage of Covered Employee Payroll	45.99 %	37.26 %	41.89 %	47.23 %	44.46 %	37.81 %	30.26 %	23.13 %	22.88 %	19.04 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for the Village's fiscal year ended June 30, 2018 were determined based on the actuarial valuation as of December 31, 2015. The most recent valuation is as of December 31, 2017.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed basis
Remaining amortization period	24 years
Asset valuation method	Five-year smoothed market
Inflation	2.5 percent
Salary increase	3.75 percent
Investment rate of return	7.75 percent - Net of pension plan investment expense and administrative expense, including inflation
Retirement age	Experience-based table of rates are specific to the type of eligibility condition
Mortality	RP-2014 Mortality Tables of a 50 percent male and 50 percent female blend
Other information	None

Village of Holly, Michigan

Required Supplemental Information Schedule of Changes in the Net OPEB Liability and Related Ratios

	Last Two Fiscal Years	
	2018	2017
Total OPEB Liability		
Service cost	\$ 28,704	\$ 29,037
Interest	33,793	32,519
Differences between expected and actual experience	(36,559)	-
Changes in assumptions	-	(15,736)
Benefit payments, including refunds	(22,362)	(54,555)
Net Change in Total OPEB Liability	3,576	(8,735)
Total OPEB Liability - Beginning of year	711,834	720,569
Total OPEB Liability - End of year	\$ 715,410	\$ 711,834
Plan Fiduciary Net Position		
Contributions - Employer	\$ 14,320	\$ 54,555
Contributions - Active and inactive plan members not yet receiving benefits	8,042	-
Net investment (loss) income	(3,632)	4,421
Administrative expenses	(10)	-
Benefit payments, including refunds	(22,362)	(54,555)
Other	(2,013)	-
Net Change in Plan Fiduciary Net Position	(5,655)	4,421
Plan Fiduciary Net Position - Beginning of year	384,337	379,916
Plan Fiduciary Net Position - End of year	\$ 378,682	\$ 384,337
Net OPEB Liability - Ending	\$ 336,728	\$ 327,497
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	52.93 %	53.99 %
Covered Employee Payroll	\$ 1,257,492	\$ 1,257,492
Net OPEB Liability as a Percentage of Covered Employee Payroll	26.78 %	26.04 %

Village of Holly, Michigan

**Required Supplemental Information
Schedule of OPEB Investment Returns**

	Last Two Fiscal Years Years Ended June 30	
	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	(1.0)%	1.2 %

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 Village 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 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.

Other Supplemental Information

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2018

	Nonmajor Special Revenue Funds				Total
	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
Assets					
Cash and investments	\$ 22,941	\$ 1,853	\$ 84,525	\$ 58,001	\$ 167,320
Receivables:					
Special assessments receivable	-	3,676	59	-	3,735
Due from other governments	25,346	-	-	4,583	29,929
Total assets	\$ 48,287	\$ 5,529	\$ 84,584	\$ 62,584	\$ 200,984
Liabilities					
Accounts payable	\$ 26,317	\$ -	\$ 35	\$ 529	\$ 26,881
Accrued liabilities and other	510	-	-	1,516	2,026
Total liabilities	26,827	-	35	2,045	28,907
Deferred Inflows of Resources - Unavailable revenue	-	1,240	-	-	1,240
Total liabilities and deferred inflows of resources	26,827	1,240	35	2,045	30,147
Fund Balances					
Restricted:					
Roads	21,460	-	-	-	21,460
Lake improvement	-	4,289	-	-	4,289
Solid waste	-	-	84,549	-	84,549
Assigned - Senior transportation	-	-	-	60,539	60,539
Total fund balances	21,460	4,289	84,549	60,539	170,837
Total liabilities, deferred inflows of resources, and fund balances	\$ 48,287	\$ 5,529	\$ 84,584	\$ 62,584	\$ 200,984

Village of Holly, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Year Ended June 30, 2018

	Nonmajor Special Revenue Funds				Total
	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
Revenue					
Special assessments	\$ -	\$ 5,902	\$ 342,736	\$ -	\$ 348,638
Intergovernmental:					
Federal grants	18,834	-	-	28,761	47,595
State-shared revenue and grants	187,023	-	-	-	187,023
Charges for services	-	-	-	10,616	10,616
Investment income	58	-	-	-	58
Total revenue	205,915	5,902	342,736	39,377	593,930
Expenditures					
Current services:					
Public works	184,455	5,600	331,517	-	521,572
Senior transportation	-	-	-	60,313	60,313
Total expenditures	184,455	5,600	331,517	60,313	581,885
Net Change in Fund Balances	21,460	302	11,219	(20,936)	12,045
Fund Balances - Beginning of year	-	3,987	73,330	81,475	158,792
Fund Balances - End of year	\$ 21,460	\$ 4,289	\$ 84,549	\$ 60,539	\$ 170,837