
Village of Holly, Michigan

**Financial Report
with Supplemental Information
June 30, 2019**

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Independent Auditor's Report

To the Village Council
Village of Holly, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2019 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, 2019 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.

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 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 25, 2019

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			
	2018	2019	Change	Percent Change
Assets				
Current and other assets:				
Cash and investments	\$ 2,381,093	\$ 1,852,736	\$ (528,357)	(22.2)
Receivables	174,344	207,743	33,399	19.2
Capital assets	2,845,594	2,963,974	118,380	4.2
Total assets	5,401,031	5,024,453	(376,578)	(7.0)
Deferred Outflows of Resources	290,233	641,116	350,883	120.9
Liabilities				
Current liabilities	199,001	123,160	(75,841)	(38.1)
Noncurrent liabilities:				
Due within one year	111,089	127,967	16,878	15.2
Due in more than one year:				
Net pension liability	4,119,327	4,818,565	699,238	17.0
Net OPEB liability	202,034	135,813	(66,221)	(32.8)
Total liabilities	4,631,451	5,205,505	574,054	12.4
Deferred Inflows of Resources	94,714	11,776	(82,938)	(87.6)
Net Position				
Net investment in capital assets	2,845,594	2,963,974	118,380	4.2
Restricted	458,466	573,438	114,972	25.1
Unrestricted	(2,338,961)	(3,089,124)	(750,163)	32.1
Total net position	\$ 965,099	\$ 448,288	\$ (516,811)	(53.6)

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

	Business-type Activities			
	2018	2019	Change	Percent Change
Assets				
Current and other assets	\$ 5,263,428	\$ 5,931,806	\$ 668,378	12.7
Capital assets	28,593,548	27,942,368	(651,180)	(2.3)
Total assets	33,856,976	33,874,174	17,198	0.1
Deferred Outflows of Resources	441,864	634,389	192,525	43.6
Liabilities				
Current liabilities	275,674	378,589	102,915	37.3
Noncurrent liabilities	12,884,160	12,177,285	(706,875)	(5.5)
Total liabilities	13,159,834	12,555,874	(603,960)	(4.6)
Deferred Inflows of Resources	63,143	7,851	(55,292)	(87.6)
Net Position				
Net investment in capital assets	18,856,368	19,297,401	441,033	2.3
Restricted	795,414	-	(795,414)	(100.0)
Unrestricted	1,424,081	2,647,437	1,223,356	85.9
Total net position	<u>\$ 21,075,863</u>	<u>\$ 21,944,838</u>	<u>\$ 868,975</u>	4.1

Total governmental net position decreased by 53.6 percent from a year ago, from \$965,099 to \$448,288. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, decreased by \$750,163 for governmental activities. This represents a decrease of approximately 32.1 percent. The current level of unrestricted net position for our governmental activities stands at \$(3,089,124), or (71.0) 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 sewage treatment plant owned and operated by the Village. The net position of business-type activities increased by 4.1 percent from a year ago, increasing from \$21,075,863 to \$21,944,838. Unrestricted net position, the portion of net position that can be used to finance day-to-day operations, increased by \$1,223,356 or 85.9 percent. The current level of unrestricted net position stands at \$2,647,437 or about 72.1 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			
	2018	2019	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	\$ 570,883	\$ 714,738	\$ 143,855	25.2
Operating grants	660,394	656,640	(3,754)	(0.6)
Capital grants	295,206	72,156	(223,050)	(75.6)
General revenue:				
Property taxes	1,373,591	1,400,038	26,447	1.9
State-shared revenue	610,148	633,059	22,911	3.8
Investment earnings	62,159	18,530	(43,629)	(70.2)
Other revenue	491,632	337,996	(153,636)	(31.3)
Total revenue	4,064,013	3,833,157	(230,856)	(5.7)
Expenses				
General government	433,950	484,012	50,062	11.5
Public safety	2,232,639	2,216,194	(16,445)	(0.7)
Public works	1,377,294	1,484,106	106,812	7.8
Community and economic development	111,477	103,138	(8,339)	(7.5)
Recreation and culture	71,584	62,518	(9,066)	(12.7)
Total expenses	4,226,944	4,349,968	123,024	2.9
Change in Net Position	(162,931)	(516,811)	(353,880)	217.2
Net Position - Beginning of year	1,128,030	965,099	(162,931)	(14.4)
Net Position - End of year	<u>\$ 965,099</u>	<u>\$ 448,288</u>	<u>\$ (516,811)</u>	(53.6)

	Business-type Activities			
	2018	2019	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	\$ 4,092,578	\$ 4,123,155	\$ 30,577	0.7
Capital grants	249,490	342,368	92,878	37.2
General revenue	54,427	74,245	19,818	36.4
Total revenue	4,396,495	4,539,768	143,273	3.3
Expenses				
Sewer Fund	2,115,552	2,344,487	228,935	10.8
Water Fund	1,285,711	1,306,484	20,773	1.6
Community Center	16,396	19,822	3,426	20.9
Total expenses	3,417,659	3,670,793	253,134	7.4
Change in Net Position	978,836	868,975	(109,861)	(11.2)
Net Position - Beginning of year, as adjusted	20,097,027	21,075,863	978,836	4.9
Net Position - End of year	<u>\$ 21,075,863</u>	<u>\$ 21,944,838</u>	<u>\$ 868,975</u>	4.1

The Village's total governmental revenue decreased by \$230,856, primarily due to the fact that, in 2018, the Village received a one-time grant for the fire department. Expenses increased by \$123,024 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 \$143,273 due to an increase in charges for services and capital grants. Total expenses increased \$253,134 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 2019 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 64.6 percent of the total General Fund expenditures.

The fund balance of the General Fund decreased by \$511,804 during the year. This decrease is directly related to the increase in capital expenditures related to the construction of the Village's new fire station and other public safety capital related items.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account various revenue and expenditure changes. The budget for capital outlay was increased from \$141,685 to \$506,818 during the year to account for the expenditures related to the construction of the Village's new fire station.

Capital Assets and Debt Administration

During 2019, 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 7 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 and 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, 2019

	Primary Government			Component Units
	Governmental Activities	Business- type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,852,736	\$ 5,282,813	\$ 7,135,549	\$ 154,156
Receivables	278,293	548,009	826,302	166
Internal balances (Note 6)	(70,550)	70,550	-	-
Inventory	-	30,434	30,434	-
Capital assets:				
Assets not subject to depreciation (Note 5)	349,665	236,153	585,818	-
Assets subject to depreciation - Net (Note 5)	2,614,309	27,706,215	30,320,524	13,250
Total assets	5,024,453	33,874,174	38,898,627	167,572
Deferred Outflows of Resources				
Deferred charges on bond refunding (Note 7)	-	206,984	206,984	-
Deferred pension costs (Note 9)	634,504	422,997	1,057,501	-
Deferred OPEB costs (Note 10)	6,612	4,408	11,020	-
Total deferred outflows of resources	641,116	634,389	1,275,505	-
Liabilities				
Accounts payable	61,431	210,490	271,921	3,627
Accrued liabilities and other	61,729	168,099	229,828	1,520
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 7)	127,967	22,389	150,356	-
Current portion of long-term debt	-	384,575	384,575	-
Due in more than one year:				
Current portion of long-term debt - Funded by noncurrent assets (Note 7)	-	775,425	775,425	-
Net pension liability (Note 9)	4,818,565	3,212,377	8,030,942	-
Net OPEB liability (Note 10)	135,813	90,568	226,381	-
Long-term debt (Note 7)	-	7,691,951	7,691,951	-
Total liabilities	5,205,505	12,555,874	17,761,379	5,147
Deferred Inflows of Resources - Pension deferred inflows	11,776	7,851	19,627	-
Net Position				
Net investment in capital assets	2,963,974	19,297,401	22,261,375	13,250
Restricted:				
Streets and highways	477,156	-	477,156	-
Lake improvement	5,524	-	5,524	-
Rubbish	90,758	-	90,758	-
Unrestricted	(3,089,124)	2,647,437	(441,687)	149,175
Total net position	<u>\$ 448,288</u>	<u>\$ 21,944,838</u>	<u>\$ 22,393,126</u>	<u>\$ 162,425</u>

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	\$ 484,012	\$ 2,020	\$ 725	\$ -
Public safety:				
Police	1,388,229	81,657	2,893	-
Fire	585,593	108,196	-	-
Dispatch	125,917	-	-	-
Building inspections and related	116,455	90,502	-	-
Public works:				
Streets	782,466	-	585,611	66,561
Other public works activities	358,712	22,726	-	5,595
Rubbish disposal	328,501	334,620	-	-
Cemetery	8,827	26,875	-	-
Lake maintenance	5,600	-	-	-
Community and economic development	103,138	48,142	67,411	-
Recreation and culture	62,518	-	-	-
Total governmental activities	4,349,968	714,738	656,640	72,156
Business-type activities:				
Sewer Fund	2,344,487	2,504,570	-	263,231
Water Fund	1,306,484	1,594,503	-	79,137
Community Center	19,822	24,082	-	-
Total business-type activities	3,670,793	4,123,155	-	342,368
Total primary government	\$ 8,020,761	\$ 4,837,893	\$ 656,640	\$ 414,524
Component units	\$ 115,950	\$ -	\$ -	\$ -

General revenue:

Property taxes
 Unrestricted state-shared revenue
 Unrestricted investment income
 Cable franchise fees
 Gain on sale of capital assets
 Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Statement of Activities

Year Ended June 30, 2019

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (481,267)	\$ -	\$ (481,267)	\$ -
(1,303,679)	-	(1,303,679)	-
(477,397)	-	(477,397)	-
(125,917)	-	(125,917)	-
(25,953)	-	(25,953)	-
(130,294)	-	(130,294)	-
(330,391)	-	(330,391)	-
6,119	-	6,119	-
18,048	-	18,048	-
(5,600)	-	(5,600)	-
12,415	-	12,415	-
(62,518)	-	(62,518)	-
(2,906,434)	-	(2,906,434)	-
-	423,314	423,314	-
-	367,156	367,156	-
-	4,260	4,260	-
-	794,730	794,730	-
(2,906,434)	794,730	(2,111,704)	-
-	-	-	(115,950)
1,400,038	-	1,400,038	150,793
633,059	-	633,059	-
18,530	74,245	92,775	-
88,618	-	88,618	-
2,620	-	2,620	-
246,758	-	246,758	9,880
2,389,623	74,245	2,463,868	160,673
(516,811)	868,975	352,164	44,723
965,099	21,075,863	22,040,962	117,702
\$ 448,288	\$ 21,944,838	\$ 22,393,126	\$ 162,425

Village of Holly, Michigan

Governmental Funds Balance Sheet

June 30, 2019

	General Fund	Major Streets Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 1,229,239	\$ 470,356	\$ 153,141	\$ 1,852,736
Receivables:				
Property taxes receivable	82	-	-	82
Special assessments receivable	1,552	-	3,736	5,288
Other receivables	27,386	-	-	27,386
Due from other governments	141,233	71,119	33,185	245,537
	<u>\$ 1,399,492</u>	<u>\$ 541,475</u>	<u>\$ 190,062</u>	<u>\$ 2,131,029</u>
Total assets				
Liabilities				
Accounts payable	\$ 58,281	\$ 808	\$ 2,342	\$ 61,431
Advances from other funds (Note 6)	70,550	-	-	70,550
Accrued liabilities and other	57,476	1,070	3,183	61,729
	<u>186,307</u>	<u>1,878</u>	<u>5,525</u>	<u>193,710</u>
Total liabilities				
Deferred Inflows of Resources - Unavailable revenue	1,436	-	1,240	2,676
	<u>187,743</u>	<u>1,878</u>	<u>6,765</u>	<u>196,386</u>
Total liabilities and deferred inflows of resources				
Fund Balances				
Restricted:				
Roads	-	427,155	50,001	477,156
Lake improvement	-	-	4,284	4,284
Solid waste	-	-	90,758	90,758
Committed - Cemetery care	143,225	-	-	143,225
Assigned:				
Tri party	34,779	-	-	34,779
Sidewalks	145,370	-	-	145,370
Roads	-	112,442	-	112,442
Mill pond	150,000	-	-	150,000
Senior transportation	-	-	38,254	38,254
Unassigned	738,375	-	-	738,375
	<u>1,211,749</u>	<u>539,597</u>	<u>183,297</u>	<u>1,934,643</u>
Total fund balances				
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,399,492</u>	<u>\$ 541,475</u>	<u>\$ 190,062</u>	<u>\$ 2,131,029</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2019

Fund Balances Reported in Governmental Funds	\$ 1,934,643
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	2,963,974
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 fund	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	(127,967)
Pension benefits (net of any deferred inflows and outflows)	(4,195,837)
Retiree healthcare benefits (net of any deferred inflows and outflows)	(129,201)
Net Position of Governmental Activities	<u>\$ 448,288</u>

Village of Holly, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2019

	General Fund	Major Streets Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Property taxes	\$ 1,400,038	\$ -	\$ -	\$ 1,400,038
Special assessments	-	-	340,215	340,215
Intergovernmental:				
Federal grants	34,828	9,472	43,055	87,355
State-shared revenue and grants	639,396	415,212	218,016	1,272,624
Charges for services	587,640	-	11,160	598,800
Fines and forfeitures	9,652	-	-	9,652
Licenses and permits	109,459	-	-	109,459
Investment income	16,155	2,280	95	18,530
Other revenue:				
Local donations	-	1,470	-	1,470
Miscellaneous income	119,210	-	90	119,300
Total revenue	2,916,378	428,434	612,631	3,957,443
Expenditures				
Current services:				
General government	473,289	-	-	473,289
Public safety:				
Police	1,199,291	-	-	1,199,291
Fire	512,133	-	-	512,133
Dispatch	125,917	-	-	125,917
Building inspections and related	116,455	-	-	116,455
Public works:				
Streets	-	200,320	199,042	399,362
Other public works activities	381,496	-	5,600	387,096
Rubbish disposal	-	-	328,501	328,501
Cemetery	13,984	-	-	13,984
Winter maintenance	-	66,381	-	66,381
Traffic services	-	29,653	-	29,653
Administration	-	38,436	-	38,436
Tree maintenance	-	13,417	-	13,417
Senior transportation	-	-	67,028	67,028
Community and economic development	37,110	-	-	37,110
Recreation and culture	46,702	-	-	46,702
Capital outlay	521,805	-	-	521,805
Total expenditures	3,428,182	348,207	600,171	4,376,560
Excess of Revenue (Under) Over Expenditures	(511,804)	80,227	12,460	(419,117)
Fund Balances - Beginning of year	1,723,553	459,370	170,837	2,353,760
Fund Balances - End of year	<u>\$ 1,211,749</u>	<u>\$ 539,597</u>	<u>\$ 183,297</u>	<u>\$ 1,934,643</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, 2019

Net Change in Fund Balances Reported in Governmental Funds	\$ (419,117)
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	536,657
Depreciation expense	(416,397)
Net book value of assets disposed of	(1,880)
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	(16,878)
Change in the liability for other postemployment benefits is recorded when earned in the statement of activities	62,327
Change in the net pension liability and related deferred inflows and outflows are recorded when incurred in the statement of activities	(261,523)
Change in Net Position of Governmental Activities	<u><u>\$ (516,811)</u></u>

Village of Holly, Michigan

Proprietary Funds Statement of Net Position

June 30, 2019

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund - Community Center	Total Enterprise Funds
Assets				
Current assets:				
Cash and investments	\$ 2,099,184	\$ 3,170,862	\$ 12,767	\$ 5,282,813
Receivables:				
Other receivables	322,081	200,159	-	522,240
Due from other governments	24,750	1,019	-	25,769
Inventory	30,434	-	-	30,434
Total current assets	2,476,449	3,372,040	12,767	5,861,256
Noncurrent assets:				
Advances to other funds	-	70,550	-	70,550
Capital assets:				
Assets not subject to depreciation	232,477	3,676	-	236,153
Assets subject to depreciation - Net	18,163,082	9,543,133	-	27,706,215
Total noncurrent assets	18,395,559	9,617,359	-	28,012,918
Total assets	20,872,008	12,989,399	12,767	33,874,174
Deferred Outflows of Resources				
Deferred charges on bond refunding	91,867	115,117	-	206,984
Deferred pension costs	243,226	179,771	-	422,997
Deferred OPEB costs	2,535	1,873	-	4,408
Total deferred outflows of resources	337,628	296,761	-	634,389
Liabilities				
Current liabilities:				
Accounts payable	163,558	46,932	-	210,490
Accrued liabilities and other	108,830	59,269	-	168,099
Compensated absences	16,995	5,394	-	22,389
Current portion of long-term debt	264,575	120,000	-	384,575
Total current liabilities	553,958	231,595	-	785,553
Noncurrent liabilities:				
Current portion of long-term debt - Funded by noncurrent assets	450,425	325,000	-	775,425
Net pension liability	1,847,118	1,365,259	-	3,212,377
Net OPEB liability	52,078	38,490	-	90,568
Long-term debt	4,788,137	2,903,814	-	7,691,951
Total noncurrent liabilities	7,137,758	4,632,563	-	11,770,321
Deferred Inflows of Resources - Pension deferred inflows	4,514	3,337	-	7,851
Net Position				
Net investment in capital assets	12,984,289	6,313,112	-	19,297,401
Unrestricted	529,117	2,105,553	12,767	2,647,437
Total net position	<u>\$ 13,513,406</u>	<u>\$ 8,418,665</u>	<u>\$ 12,767</u>	<u>\$ 21,944,838</u>

Village of Holly, Michigan

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

Year Ended June 30, 2019

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund - Community Center	Total Enterprise Funds
Operating Revenue				
Sale of water	\$ -	\$ 1,008,791	\$ -	\$ 1,008,791
Sewage disposal charges	1,538,609	-	-	1,538,609
Interest and penalty charges	51,248	30,796	-	82,044
Recoveries	8,642	12,924	-	21,566
Sales and rentals	-	-	24,082	24,082
Charges to other funds	-	10,630	-	10,630
Total operating revenue	1,598,499	1,063,141	24,082	2,685,722
Operating Expenses				
Water treatment and transmission	-	800,886	-	800,886
Wastewater treatment	913,977	-	-	913,977
Water collection system	523,970	-	-	523,970
Other operation and maintenance	-	-	19,822	19,822
Billing and administrative costs	59,223	60,951	-	120,174
Depreciation	689,038	331,673	-	1,020,711
Total operating expenses	2,186,208	1,193,510	19,822	3,399,540
Operating (Loss) Income	(587,709)	(130,369)	4,260	(713,818)
Nonoperating Revenue (Expense)				
Investment income	9,245	64,941	59	74,245
Interest expense	(158,279)	(112,974)	-	(271,253)
Debt service charge	906,071	510,374	-	1,416,445
Cell tower leases	-	20,988	-	20,988
Total nonoperating revenue	757,037	483,329	59	1,240,425
Income - Before capital contributions	169,328	352,960	4,319	526,607
Capital Contributions				
Capital grants	163,231	4,137	-	167,368
Tap-in fees	100,000	75,000	-	175,000
Total capital contributions	263,231	79,137	-	342,368
Change in Net Position	432,559	432,097	4,319	868,975
Net Position - Beginning of year	13,080,847	7,986,568	8,448	21,075,863
Net Position - End of year	\$ 13,513,406	\$ 8,418,665	\$ 12,767	\$ 21,944,838

Village of Holly, Michigan

Proprietary Funds Statement of Cash Flows

Year Ended June 30, 2019

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund - Community Center	Total Enterprise Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,616,593	\$ 1,080,669	\$ 24,082	\$ 2,721,344
Payments to suppliers	(547,272)	(313,491)	(4,951)	(865,714)
Payments to employees and fringes	(637,603)	(468,245)	(14,871)	(1,120,719)
Payments to other funds	(83,702)	(17,584)	-	(101,286)
Other payments	(22,500)	(1,019)	-	(23,519)
Net cash and cash equivalents provided by operating activities	325,516	280,330	4,260	610,106
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	163,231	4,137	-	167,368
Tap-in fees	100,000	75,000	-	175,000
Purchase of capital assets	(262,440)	(107,091)	-	(369,531)
Principal and interest paid on capital debt	(878,025)	(509,153)	-	(1,387,178)
Debt service charge	906,071	510,374	-	1,416,445
Net cash and cash equivalents provided by (used in) capital and related financing activities	28,837	(26,733)	-	2,104
Cash Flows Provided by Investing Activities - Interest received on investments	9,245	64,941	59	74,245
Net Increase in Cash and Cash Equivalents	363,598	339,526	4,319	707,443
Cash and Cash Equivalents - Beginning of year	1,735,586	2,831,336	8,448	4,575,370
Cash and Cash Equivalents - End of year	<u>\$ 2,099,184</u>	<u>\$ 3,170,862</u>	<u>\$ 12,767</u>	<u>\$ 5,282,813</u>
Classification of Cash and Cash Equivalents				
Cash and investments	\$ 2,099,184	\$ 3,170,862	\$ 12,767	\$ 5,282,813
Total cash and cash equivalents	<u>\$ 2,099,184</u>	<u>\$ 3,170,862</u>	<u>\$ 12,767</u>	<u>\$ 5,282,813</u>

Village of Holly, Michigan

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

Year Ended June 30, 2019

	Enterprise Funds			
	Sewer Fund	Water Fund	Nonmajor Enterprise Fund - Community Center	Total Enterprise Funds
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (587,709)	\$ (130,369)	\$ 4,260	\$ (713,818)
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	689,038	331,673	-	1,020,711
Changes in assets and liabilities:				
Receivables	(4,406)	27,139	-	22,733
Due to and from other funds	-	16,332	-	16,332
Accrued liabilities and other	84,824	55,630	-	140,454
Accounts payable	143,769	(20,075)	-	123,694
Total adjustments	913,225	410,699	-	1,323,924
Net cash and cash equivalents provided by operating activities	<u>\$ 325,516</u>	<u>\$ 280,330</u>	<u>\$ 4,260</u>	<u>\$ 610,106</u>

Village of Holly, Michigan

Fiduciary Funds Statement of Fiduciary Net Position

June 30, 2019

	Retiree Health Care Fund (Employee Benefits Fund)	Agency Fund
Assets		
Cash and cash equivalents	\$ 34,258	\$ 211,924
Investments:		
Certificates of deposit	39,000	-
Mutual funds	326,784	-
Total assets	400,042	<u><u>\$ 211,924</u></u>
Liabilities		
Accounts payable	1,892	\$ -
Refundable deposits, bonds, etc.	-	145,482
Other miscellaneous liabilities	-	66,442
Total liabilities	1,892	<u><u>\$ 211,924</u></u>
Net Position Held in Trust for Retiree Healthcare Benefits	<u><u>\$ 398,150</u></u>	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2019

	Retiree Health Care Fund (Employee Benefits Fund)
Additions	
Investment income - Net increase in fair value of investments	\$ 19,347
Contributions:	
Employer contributions	17,378
Employee contributions	9,192
Total contributions	<u>26,570</u>
Total additions	45,917
Deductions - Benefit payments	<u>26,449</u>
Net Increase in Net Position Held in Trust	19,468
Net Position Held in Trust for Retiree Healthcare Benefits - Beginning of year	<u>378,682</u>
Net Position Held in Trust for Retiree Healthcare Benefits - End of year	<u><u>\$ 398,150</u></u>

Village of Holly, Michigan

Component Units Statement of Net Position

June 30, 2019

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and investments	\$ 154,156	\$ -	\$ 154,156
Receivables - Property taxes receivable	166	-	166
Capital assets - Net	13,250	-	13,250
Total assets	167,572	-	167,572
Liabilities			
Accounts payable	3,627	-	3,627
Accrued liabilities and other	1,520	-	1,520
Total liabilities	5,147	-	5,147
Net Position - Unrestricted	\$ 162,425	\$ -	\$ 162,425

Village of Holly, Michigan

Component Units Statement of Activities

Year Ended June 30, 2019

	Expenses	Net (Expense) Revenue and Changes in Net Position		
		Downtown Development Authority	Economic Development Corporation	Total
Functions/Programs				
Downtown Development Authority	\$ 115,885	\$ (115,885)	\$ -	\$ (115,885)
Economic Development Corporation	65	-	(65)	(65)
Total component units	\$ 115,950	(115,885)	(65)	(115,950)
General revenue:				
Property taxes		150,793	-	150,793
Other miscellaneous income		9,880	-	9,880
Total general revenue		160,673	-	160,673
Change in Net Position		44,788	(65)	44,723
Net Position - Beginning of year		117,637	65	117,702
Net Position - End of year		\$ 162,425	\$ -	\$ 162,425

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) 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.

June 30, 2019

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 and state gas and weight tax revenue 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, totaling \$775,425, have been classified as restricted assets in the current year.

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 \$5,000 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 “other financing sources,” 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, 2019, 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 9 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 in Note 10. The Village also reported deferred outflows of \$91,867 in the Sewer Fund and \$115,117 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 pensions, as detailed in Note 9. 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 2018 property tax revenue was levied and collectible on December 1, 2018 and is recognized as revenue in the year ended June 30, 2019 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2018 taxable valuation of the Village totaled \$111.2 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 12.6832 mills for operating purposes. This resulted in approximately \$1,400,000 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. The General Fund and Water and Sewer funds are generally used to liquidate the pension obligation.

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 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. The General Fund and Water and Sewer funds are generally used to liquidate the OPEB obligation.

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.

Upcoming Accounting Pronouncements

In January 2017, the Governmental Accounting Standards Board issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. 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, 2020.

In June 2017, the Governmental Accounting Standards Board issued 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 1 - Significant Accounting Policies (Continued)

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the Village's financial statements for the June 30, 2021 fiscal year.

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:

Cumulative shortfall at July 1, 2018	\$ (194,955)
Current year permit revenue	88,627
Related expenses - Direct costs	<u>(116,455)</u>
Current year shortfall	<u>(27,828)</u>
Cumulative shortfall June 30, 2019	<u><u>\$ (222,783)</u></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 that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that 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 \$2,953,088 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	\$ 3,920,161	260 days
Investment	Fair Value	Weighted-average Maturity
Fiduciary Funds		
Mutual funds	\$ 326,784	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, 2019, 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	\$ 3,920,161	N/A	N/A
Investment	Fair Value	Rating	Rating Organization
Fiduciary Funds			
Mutual funds	\$ 326,784	N/A	N/A

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, 2019:

- Primary Government - Investment pools of \$3,920,161 are valued using a matrix pricing model (Level 2 inputs).
- Fiduciary Funds - Mutual funds of \$326,784 are valued using quoted prices (Level 1 inputs).

The fair value of the Oakland County Investment Pool at June 30, 2019 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.

Note 5 - Capital Assets

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

Governmental Activities

	Balance July 1, 2018	Additions	Disposals and Adjustments	Balance June 30, 2019
Capital assets not being depreciated - Land	\$ 349,665	\$ -	\$ -	\$ 349,665
Capital assets being depreciated:				
Roads and sidewalks	9,979,393	-	-	9,979,393
Buildings and improvements	1,613,369	397,075	-	2,010,444
Office furnishings and equipment	946,399	12,786	-	959,185
Vehicles	1,587,858	126,796	(28,200)	1,686,454
Subtotal	14,127,019	536,657	(28,200)	14,635,476
Accumulated depreciation:				
Roads and sidewalks	8,679,826	265,198	-	8,945,024
Buildings and improvements	920,578	45,374	-	965,952
Office furnishings and equipment	696,167	42,543	-	738,710
Vehicles	1,334,519	63,282	(26,320)	1,371,481
Subtotal	11,631,090	416,397	(26,320)	12,021,167
Net capital assets being depreciated	2,495,929	120,260	(1,880)	2,614,309
Net governmental activities capital assets	<u>\$ 2,845,594</u>	<u>\$ 120,260</u>	<u>\$ (1,880)</u>	<u>\$ 2,963,974</u>

June 30, 2019

Note 5 - Capital Assets (Continued)

Business-type Activities

	Balance July 1, 2018	Additions	Balance June 30, 2019
Capital assets not being depreciated:			
Land	\$ 50,000	\$ -	\$ 50,000
Construction in progress	186,153	-	186,153
Subtotal	236,153	-	236,153
Capital assets being depreciated:			
Water and sewer distribution system	46,529,658	-	46,529,658
Office furnishings and equipment	1,589,634	369,531	1,959,165
Buildings and improvements	98,664	-	98,664
Subtotal	48,217,956	369,531	48,587,487
Accumulated depreciation:			
Water and sewer distribution system	18,959,019	916,949	19,875,968
Buildings and improvements	897,937	101,788	999,725
Buildings and improvements	3,605	1,974	5,579
Subtotal	19,860,561	1,020,711	20,881,272
Net capital assets being depreciated	28,357,395	(651,180)	27,706,215
Net business-type activities capital assets	<u>\$ 28,593,548</u>	<u>\$ (651,180)</u>	<u>\$ 27,942,368</u>

Capital asset activity for the Village's component unit for the years ended June 30, 2019 was as follows:

Component Unit

	Balance July 1, 2018	Additions	Balance June 30, 2019
Capital assets being depreciated - Office furnishings and equipment	\$ -	\$ 13,250	\$ 13,250

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

Governmental activities:		
General government		\$ 29,158
Public safety		102,903
Public works		282,234
Recreation and culture		2,102
Total governmental activities		<u>\$ 416,397</u>
Business-type activities:		
Water		\$ 331,673
Sewer		689,038
Total business-type activities		<u>\$ 1,020,711</u>

June 30, 2019

Note 6 - 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	\$ 70,550

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 3.10 percent.

Note 7 - 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 reassessment of the Village) are received. The Village does not currently have any 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 - Direct borrowings and direct placements - Loan - 610 Saginaw:	\$ 111,089	\$ 94,615	\$ (77,737)	\$ 127,967	\$ 127,967

June 30, 2019

Note 7 - Long-term Debt (Continued)

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - Loan - 610 Saginaw:					
Long-term debt:					
General obligation	\$ 2,800,000	\$ -	\$ (340,000)	\$ 2,460,000	\$ 335,000
Revenue bonds	6,770,000	-	(740,000)	6,030,000	825,000
Total debt principal outstanding	9,570,000	-	(1,080,000)	8,490,000	1,160,000
Unamortized bond premium on refunding series 2014 bond	112,930	-	(14,116)	98,814	-
Unamortized bond premium on refunding series 2014 bond	302,631	-	(39,494)	263,137	-
Compensated absences	17,692	24,053	(19,356)	22,389	22,389
Total business-type activities long-term debt	<u>\$ 10,003,253</u>	<u>\$ 24,053</u>	<u>\$ (1,152,966)</u>	<u>\$ 8,874,340</u>	<u>\$ 1,182,389</u>

The Village has no direct borrowings or direct placements of debt.

Component Unit

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable - Direct borrowings and direct placements - Loan - 610 Saginaw:	\$ 56,438	\$ -	\$ (56,438)	-	-

Revenue Bonds

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets and to pay debt service. Business-type activities utilize revenue bonds to finance the water and sewer system. 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 \$3,707,428. During the current year, net revenue of the water system was \$201,304, compared to the annual debt requirements of \$509,153.

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 \$3,152,975. During the current year, net revenue of the sewer system was \$101,329 compared to the annual debt requirements of \$438,975.

Note 7 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Business-type Activities		
	Long-term Debt		
	Principal	Interest	Total
2020	\$ 1,160,000	\$ 278,303	\$ 1,716,606
2021	1,060,000	246,378	1,552,756
2022	1,090,000	211,328	1,512,656
2023	1,075,000	173,901	1,422,802
2024	1,185,000	133,750	1,452,500
2025-2029	2,920,000	137,819	6,115,638
Total	<u>\$ 8,490,000</u>	<u>\$ 1,181,479</u>	<u>\$ 13,772,958</u>

Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), 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 9 - 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, MI 48917.

Benefits Provided

The 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.

Note 9 - Pension Plan (Continued)

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.

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, 2018
Inactive plan members or beneficiaries currently receiving benefits	35
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	24
Total employees covered by MERS	68

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, 2019, the Village's average contribution rate was 21.22 percent, 49.99 percent, and 50.10 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, 2019 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, 2018 measurement date. The December 31, 2018 measurement date total pension liability was determined by an actuarial valuation performed as of that date.

Note 9 - Pension Plan (Continued)

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, 2017	\$ 14,164,734	\$ 7,299,194	\$ 6,865,540
Changes for the year:			
Service cost	175,024	-	175,024
Interest	1,100,938	-	1,100,938
Changes in benefits	(9,870)	-	(9,870)
Differences between expected and actual experience	251,499	-	251,499
Contributions - Employer	-	633,522	(633,522)
Contributions - Employee	-	6,337	(6,337)
Net investment loss	-	(273,847)	273,847
Benefit payments, including refunds	(981,026)	(981,026)	-
Administrative expenses	-	(13,823)	13,823
Net changes	536,565	(628,837)	1,165,402
Balance at December 31, 2018	<u>\$ 14,701,299</u>	<u>\$ 6,670,357</u>	<u>\$ 8,030,942</u>

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

For the year ended June 30, 2019, the Village recognized pension expense of \$1,162,100.

At June 30, 2019, 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	\$ 170,359	\$ (19,627)
Net difference between projected and actual earnings on pension plan investments	511,115	-
Employer contributions to the plan subsequent to the measurement date	376,027	-
Total	<u>\$ 1,057,501</u>	<u>\$ (19,627)</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 \$376,027 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
2020	\$ 252,553
2021	139,002
2022	101,577
2023	168,715
Total	<u>\$ 661,847</u>

Note 9 - Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2018 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 8 percent; and the RP-2014 mortality tables.

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 the 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.

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, 2018, 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 %	6.15 %
Global fixed income	18.50	1.26
Real assets	13.50	7.22
Diversifying strategies	12.50	5.00

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	\$ 9,640,672	\$ 8,030,942	\$ 6,667,058

Note 9 - Pension Plan (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued financial report. 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 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 10 - 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 28 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.

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, 2019
Inactive plan members or beneficiaries currently receiving benefits	3
Active plan members	<u>25</u>
Total plan members	<u><u>28</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, 2019, the Village made payments for postemployment health benefit premiums of \$25,570.

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, 2019 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, 2019 measurement date. The June 30, 2019 measurement date total OPEB liability was determined by an actuarial valuation performed as of that date.

Note 10 - Other Postemployment Benefit Plan (Continued)

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, 2018	\$ 715,410	\$ 378,682	\$ 336,728
Changes for the year:			
Service cost	30,067	-	30,067
Interest	33,614	-	33,614
Changes in benefits	(146,998)	-	(146,998)
Differences between expected and actual experience	(764)	-	(764)
Changes in assumptions	18,772	-	18,772
Contributions - Employer	-	19,695	(19,695)
Contributions - Employee	-	5,875	(5,875)
Net investment income	-	20,627	(20,627)
Benefit payments, including refunds	(25,570)	(25,570)	-
Administrative expenses	-	(1,159)	1,159
Net changes	(90,879)	19,468	(110,347)
Balance at June 30, 2019	\$ 624,531	\$ 398,150	\$ 226,381

The plan's fiduciary net position represents 63.7 percent of the total OPEB liability.

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

For the year ended June 30, 2019, the Village recognized OPEB expense of \$(82,939).

At June 30, 2019, 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	\$ 11,020	\$ -

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
2020	\$ 3,849
2021	3,849
2022	3,849
2023	(527)
Total	\$ 11,020

June 30, 2019

Note 10 - Other Postemployment Benefit Plan (Continued)

Actuarial Assumptions

The total OPEB liability was determined by utilizing the alternative measurement method as of June 30, 2019, 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

The June 30, 2019 mortality rates were based on the RP-2014 Mortality Tables projected back to 2006 base year using Projection Scale MP-2014 with generational projection using Projection Scale MP-2018. The June 30, 2018 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.

Healthcare Cost Trend Rate

The expected rate of increase in healthcare insurance premiums was based on rates published by the state treasurer for the use under Michigan Public Act 202. A rate of 8.5 percent initially, reduced to an ultimate rate of 4.5 percent after 15 years, was used.

Health Insurance Premiums

2019 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.

June 30, 2019

Note 10 - Other Postemployment Benefit Plan (Continued)

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 the 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, 2019 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 table:

Asset Class	Long-term Expected Real Rate of Return
U.S. Cash	0.71 %
U.S. Core Fixed Income	1.83
U.S. Core Bonds	1.82
U.S. Mortgages	1.81
U.S. High Yield Bonds	4.00
Global Bonds	0.48
U.S. Large Caps	4.44
U.S. Equity Market	4.71
Global Equity	5.38
Emerging Markets Equity	8.23
U.S. REITs	5.05
Commodities	2.96

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	\$ 279,866	\$ 226,381	\$ 176,916

June 30, 2019

Note 10 - Other Postemployment Benefit Plan (Continued)

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 8.5 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 (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1 Percent Increase (9.5%)
Net OPEB liability	\$ 165,262	\$ 226,381	\$ 295,940

Benefit Changes

Effective July 1, 2018, the Village no longer offers retirement medical coverage for spouses.

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, 2019:

Asset Class	Target Allocation
U.S. Cash	8.53 %
U.S. Core Fixed Income	45.67
U.S. Core Bonds	2.36
U.S. Mortgages	3.52
U.S. High Yield Bonds	6.61
Global Bonds	0.42
U.S. Large Caps	14.93
U.S. Equity Market	13.84
Global Equity	0.11
Emerging Markets Equity	0.28
U.S. REITs	2.49
Commodities	1.24
Total	100.00 %

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 4.89 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 11 - Commitments

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

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

Required Supplemental Information

Village of Holly, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,392,418	\$ 1,390,497	\$ 1,400,038	\$ 9,541
Intergovernmental:				
Federal grants	190,000	32,919	34,828	1,909
State-shared revenue and grants	415,844	622,065	639,396	17,331
Charges for services	600,750	578,645	587,640	8,995
Fines and forfeitures	13,500	8,500	9,652	1,152
Licenses and permits	106,500	115,681	109,459	(6,222)
Investment income	4,500	5,904	16,155	10,251
Other revenue	7,500	126,750	119,210	(7,540)
Total revenue	2,731,012	2,880,961	2,916,378	35,417
Expenditures				
Current services:				
General government	468,023	437,127	473,289	(36,162)
Public safety	1,962,576	2,000,380	1,953,796	46,584
Public works	311,791	361,171	395,480	(34,309)
Community and economic development	45,000	31,920	37,110	(5,190)
Recreation and culture	40,558	47,627	46,702	925
Capital outlay	141,685	506,818	521,805	(14,987)
Total expenditures	2,969,633	3,385,043	3,428,182	(43,139)
Other Financing Uses - Transfers out	-	(486,081)	-	486,081
Excess of Expenditures Over Revenue	(238,621)	(990,163)	(511,804)	478,359
Fund Balance - Beginning of year	1,723,553	1,723,553	1,723,553	-
Fund Balance - End of year	<u>\$ 1,484,932</u>	<u>\$ 733,390</u>	<u>\$ 1,211,749</u>	<u>\$ 478,359</u>

Village of Holly, Michigan

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

Year Ended June 30, 2019

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Intergovernmental	\$ 387,597	\$ 395,158	\$ 424,684	\$ 29,526
Investment income	1,500	1,700	2,280	580
Other revenue	-	2,000	1,470	(530)
Total revenue	389,097	398,858	428,434	29,576
Expenditures				
Current services -				
Public works:				
Streets	338,084	200,202	200,320	(118)
Winter maintenance	66,290	64,173	66,381	(2,208)
Traffic services	35,805	30,369	29,653	716
Administration	48,600	39,789	38,436	1,353
Tree maintenance	19,547	11,584	13,417	(1,833)
Total expenditures	508,326	346,117	348,207	(2,090)
Excess of Revenue (Under) Over Expenditures	(119,229)	52,741	80,227	27,486
Fund Balance - Beginning of year	459,370	459,370	459,370	-
Fund Balance - End of year	<u>\$ 340,141</u>	<u>\$ 512,111</u>	<u>\$ 539,597</u>	<u>\$ 27,486</u>

Village of Holly, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Based on Measurement Date of December 31

	Last Five Fiscal Years				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 175,024	\$ 150,929	\$ 149,549	\$ 146,181	\$ 158,199
Interest	1,100,938	1,082,606	1,058,227	1,009,586	984,990
Changes in benefit terms	(9,870)	-	-	-	-
Differences between expected and actual experience	251,499	(58,880)	14,767	20,630	-
Changes in assumptions	-	-	-	680,433	-
Benefit payments, including refunds	(981,026)	(934,072)	(902,403)	(834,266)	(843,831)
Net Change in Total Pension Liability	536,565	240,583	320,140	1,022,564	299,358
Total Pension Liability - Beginning of year	14,164,734	13,924,151	13,604,011	12,581,447	12,282,089
Total Pension Liability - End of year	\$ 14,701,299	\$ 14,164,734	\$ 13,924,151	\$ 13,604,011	\$ 12,581,447
Plan Fiduciary Net Position					
Contributions - Employer	\$ 633,522	\$ 508,093	\$ 476,580	\$ 546,242	\$ 580,401
Contributions - Member	6,337	-	-	-	-
Net investment (loss) income	(273,847)	880,274	726,751	(102,696)	424,586
Administrative expenses	(13,823)	(13,975)	(14,366)	(15,059)	(15,553)
Benefit payments, including refunds	(981,026)	(934,072)	(902,403)	(834,266)	(843,831)
Net Change in Plan Fiduciary Net Position	(628,837)	440,320	286,562	(405,779)	145,603
Plan Fiduciary Net Position - Beginning of year	7,299,194	6,858,874	6,572,312	6,978,091	6,832,488
Plan Fiduciary Net Position - End of year	\$ 6,670,357	\$ 7,299,194	\$ 6,858,874	\$ 6,572,312	\$ 6,978,091
Village's Net Pension Liability - Ending	\$ 8,030,942	\$ 6,865,540	\$ 7,065,277	\$ 7,031,699	\$ 5,603,356
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	45.37 %	51.53 %	49.26 %	48.31 %	55.46 %
Covered Payroll	\$ 1,445,146	\$ 1,232,612	\$ 1,233,542	\$ 1,178,050	\$ 1,322,030
Village's Net Pension Liability as a Percentage of Covered Payroll	555.72 %	556.99 %	572.76 %	596.89 %	423.84 %

See note to required supplemental information.

Village of Holly, Michigan

Required Supplemental Information Schedule of Pension Contributions

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Actuarially determined contribution	\$ 633,522	\$ 566,882	\$ 459,643	\$ 493,462	\$ 624,340	\$ 472,763	\$ 347,307	\$ 293,775	\$ 269,286	\$ 266,319
Contributions in relation to the actuarially determined contribution	633,522	566,882	459,643	493,462	624,340	550,379	347,307	293,775	269,286	266,319
Contribution Excess	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 77,616	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 1,233,542	\$ 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
Contributions as a Percentage of Covered Employee Payroll	51.36 %	45.99 %	37.26 %	41.89 %	47.23 %	44.46 %	37.81 %	30.26 %	23.13 %	22.88 %

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, 2019 were determined based on the actuarial valuation as of December 31, 2016. The most recent valuation is as of December 31, 2018.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, closed basis
Remaining amortization period	23 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 that 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 Based on Measurement Date of June 30

	Last Three Fiscal Years		
	2019	2018	2017
Total OPEB Liability			
Service cost	\$ 30,067	\$ 28,704	\$ 29,037
Interest	33,614	33,793	32,519
Changes in benefit terms	(146,998)	-	-
Differences between expected and actual experience	(764)	(36,559)	-
Changes in assumptions	18,772	-	(15,736)
Benefit payments, including refunds	(25,570)	(22,362)	(54,555)
Net Change in Total OPEB Liability	(90,879)	3,576	(8,735)
Total OPEB Liability - Beginning of year	715,410	711,834	720,569
Total OPEB Liability - End of year	\$ 624,531	\$ 715,410	\$ 711,834
Plan Fiduciary Net Position			
Contributions - Employer	\$ 19,695	\$ 14,320	\$ 54,555
Contributions - Active and inactive plan members not yet receiving benefits	5,875	8,042	-
Net investment income (loss)	20,627	(3,632)	4,421
Administrative expenses	-	(10)	-
Benefit payments, including refunds	(25,570)	(22,362)	(54,555)
Other	(1,159)	(2,013)	-
Net Change in Plan Fiduciary Net Position	19,468	(5,655)	4,421
Plan Fiduciary Net Position - Beginning of year	378,682	384,337	379,916
Plan Fiduciary Net Position - End of year	\$ 398,150	\$ 378,682	\$ 384,337
Net OPEB Liability - Ending	\$ 226,381	\$ 336,728	\$ 327,497
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	63.75 %	52.93 %	53.99 %

Village of Holly, Michigan

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

	Last Three Fiscal Years		
	Years Ended June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	4.9 %	(1.0)%	1.2 %

June 30, 2019

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 columns show 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.

Excess of expenditures over appropriations in budgeted funds. During the year, the Village of Holly, Michigan incurred significant expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual	Variance
General Fund:			
General government	\$ 437,127	\$ 473,289	\$ (36,162)
Public works	361,171	395,480	(34,309)
Community and economic development	31,920	37,110	(5,190)
Capital outlay	506,818	521,805	(14,987)
Major Streets Fund:			
Streets	200,202	200,320	(118)
Winter maintenance	64,173	66,381	(2,208)
Tree maintenance	11,584	13,417	(1,833)

Other Supplemental Information

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2019

	Nonmajor Special Revenue Funds				Total
	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
Assets					
Cash and investments	\$ 25,161	\$ 1,847	\$ 90,699	\$ 35,434	\$ 153,141
Receivables:					
Special assessments receivable	-	3,677	59	-	3,736
Due from other governments	27,494	-	-	5,691	33,185
Total assets	<u>\$ 52,655</u>	<u>\$ 5,524</u>	<u>\$ 90,758</u>	<u>\$ 41,125</u>	<u>\$ 190,062</u>
Liabilities					
Accounts payable	\$ 1,233	\$ -	\$ -	\$ 1,109	\$ 2,342
Accrued liabilities and other	1,421	-	-	1,762	3,183
Total liabilities	2,654	-	-	2,871	5,525
Deferred Inflows of Resources - Unavailable revenue					
	-	1,240	-	-	1,240
Total liabilities and deferred inflows of resources	2,654	1,240	-	2,871	6,765
Fund Balances					
Restricted:					
Roads	50,001	-	-	-	50,001
Lake improvement	-	4,284	-	-	4,284
Solid waste	-	-	90,758	-	90,758
Assigned - Senior transportation	-	-	-	38,254	38,254
Total fund balances	50,001	4,284	90,758	38,254	183,297
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 52,655</u>	<u>\$ 5,524</u>	<u>\$ 90,758</u>	<u>\$ 41,125</u>	<u>\$ 190,062</u>

Village of Holly, Michigan

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

Year Ended June 30, 2019

	Nonmajor Special Revenue Funds				Total
	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund	Holly Area Transportation Fund	
Revenue					
Special assessments	\$ -	\$ 5,595	\$ 334,620	\$ -	\$ 340,215
Intergovernmental:					
Federal grants	9,472	-	-	33,583	43,055
State-shared revenue and grants	218,016	-	-	-	218,016
Charges for services	-	-	-	11,160	11,160
Investment income	95	-	-	-	95
Other revenue	-	-	90	-	90
Total revenue	227,583	5,595	334,710	44,743	612,631
Expenditures					
Current services:					
Public works	199,042	5,600	328,501	-	533,143
Senior transportation	-	-	-	67,028	67,028
Total expenditures	199,042	5,600	328,501	67,028	600,171
Net Change in Fund Balances	28,541	(5)	6,209	(22,285)	12,460
Fund Balances - Beginning of year	21,460	4,289	84,549	60,539	170,837
Fund Balances - End of year	\$ 50,001	\$ 4,284	\$ 90,758	\$ 38,254	\$ 183,297