

Village of Holly, Michigan

**Financial Report
with Supplemental Information
June 30, 2012**

Village of Holly, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Assets	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Assets	16
Statement of Revenue, Expenses, and Changes in Net Assets	17
Statement of Cash Flows	18-19
Fiduciary Funds:	
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets - Retiree Health Care Fund (Employee Benefits Fund)	21
Component Units:	
Statement of Net Assets	22
Statement of Activities	23
Notes to Financial Statements	24-44
Required Supplemental Information	45
Budgetary Comparison Schedule - General Fund	46
Note to Required Supplemental Information	47
Other Supplemental Information	48
Nonmajor Governmental Funds:	
Combining Balance Sheet	49-50
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	51-52

Independent Auditor's Report

To the Village Council
Village of Holly, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, its 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, 2012, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Holly, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, its major fund, and the aggregate remaining fund information of the Village of Holly, Michigan as of June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the budgetary comparison schedules, 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.

To the Village Council
Village of Holly, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Holly, Michigan's basic financial statements. The accompanying 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Morse, PLLC

December 20, 2012

Village of Holly, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Holly, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Village's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets 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 us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village'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.

Governmental Activities

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

	2010	2011	2012	Change	Percent Change
Revenue					
Program revenue:					
Charges for services	\$ 454,020	\$ 465,220	\$ 731,771	\$ 266,551	57%
Operating grants	638,448	712,981	464,926	(248,055)	-35%
Capital grants	18,593	107,900	32,425	(75,475)	-70%
General revenue:					
Property taxes	1,899,542	1,448,300	1,311,017	(137,283)	-9%
State-shared revenue	526,625	520,239	525,014	4,775	1%
Investment income	8,792	5,182	6,733	1,551	30%
Other revenue	82,059	74,441	92,695	18,254	25%
Total revenue	3,628,079	3,334,263	3,164,581	(169,682)	-5%
Program Expenses					
General government	455,504	591,030	635,073	44,043	7%
Public safety	2,037,220	1,868,670	1,935,910	67,240	4%
Public works	1,018,634	1,117,658	917,625	(200,033)	-18%
Community and economic development	270,605	334,628	98,971	(235,657)	-70%
Recreation and cultural	55,448	67,126	77,778	10,652	16%
Interest on long-term debt	618	5,222	1,071	(4,151)	-79%
Total expenses	3,838,029	3,984,334	3,666,428	(317,906)	-8%
Change in Net Assets	\$ (209,950)	\$ (650,071)	\$ (501,847)	\$ 148,224	-23%

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities (Continued)

The Village's total governmental revenue decreased by \$169,682 due primarily to a decrease in the federal grant revenue in the current year. Expenses decreased by \$317,906 during the year, due primarily to decreases in public works and community and economic development expenses. There was also a decline in expenditures related to grant revenue.

	2010	2011	2012	Change	Percent Change
Other assets	\$ 1,850,565	\$ 1,662,467	\$ 1,418,184	\$ (244,283)	-15%
Capital assets	<u>4,766,493</u>	<u>4,417,058</u>	<u>3,982,242</u>	<u>(434,816)</u>	-10%
Total assets	<u>6,617,058</u>	<u>6,079,525</u>	<u>5,400,426</u>	<u>(679,099)</u>	-11%
Current liabilities	273,756	311,190	313,424	2,234	1%
Non current liabilities	<u>212,832</u>	<u>287,936</u>	<u>108,450</u>	<u>(179,486)</u>	-62%
Total liabilities	<u>486,588</u>	<u>599,126</u>	<u>421,874</u>	<u>(177,252)</u>	-30%
Net assets:					
Invested in capital assets, net of related debt	4,553,661	4,260,622	3,873,792	(386,830)	-9%
Restricted	235,276	227,720	280,344	52,624	23%
Unrestricted	<u>1,341,533</u>	<u>992,057</u>	<u>824,416</u>	<u>(167,641)</u>	-17%
Total net assets	<u>\$ 6,130,470</u>	<u>\$ 5,480,399</u>	<u>\$ 4,978,552</u>	<u>\$ (501,847)</u>	-9%

Total governmental net assets decreased by 9 percent from a year ago - from \$5,480,399 to \$4,978,552. Unrestricted net assets - that portion of net assets that can be used to finance day-to-day operations - decreased by \$167,641 for governmental activities. This represents a decrease of approximately 17 percent. The current level of unrestricted net assets for our governmental activities stands at \$824,416 or 23 percent of governmental activity expenses.

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

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

	Business-Type Activities				Percent
	2010	2011	2012	Change	Change
Operating revenue	\$ 2,245,788	\$ 2,335,376	\$ 2,403,198	\$ 67,822	3%
Operating expenses, other than depreciation	1,316,594	1,308,318	1,578,277	269,959	21%
Depreciation	995,947	985,019	981,063	(3,956)	0%
Operating income (loss)	(66,753)	42,039	(156,142)	(198,181)	-471%
Nonoperating Revenue (Expenses)					
Debt service charges	410,548	492,733	1,514,473	1,021,740	207%
Investment income	3,327	3,163	8,963	5,800	183%
Interest expense	(814,253)	(799,344)	(750,130)	49,214	-6%
Cell tower leases	39,909	38,554	43,449	4,895	13%
Capital contributions	33,756	13,843	3,216	(10,627)	-77%
Change in Net Assets	\$ (393,466)	\$ (209,012)	\$ 663,829	\$ 872,841	-418%
	2010	2011	2012	Change	Percent
					Change
Other assets	\$ 1,932,576	\$ 1,828,301	\$ 2,538,165	\$ 709,864	39%
Capital assets	35,489,554	34,543,669	33,587,924	(955,745)	-3%
Total assets	37,422,130	36,371,970	36,126,089	(245,881)	-1%
Current liabilities	215,974	226,874	217,753	(9,121)	-4%
Long-term liabilities	18,377,018	17,524,970	16,624,381	(900,589)	-5%
Total liabilities	18,592,992	17,751,844	16,842,134	(909,710)	-5%
Net assets:					
Invested in capital assets,					
net of related debt	17,350,724	17,254,182	17,201,517	(52,665)	0%
Restricted	1,047,594	1,049,879	1,085,599	35,720	3%
Unrestricted	430,820	316,065	996,839	680,774	215%
Total net assets	\$ 18,829,138	\$ 18,620,126	\$ 19,283,955	\$ 663,829	4%

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities (Continued)

The Village's business-type activities consist of the Water and Sewer Funds. We provide water to residents from the Village wells and sewage treatment through a Village-owned and operated sewage treatment plant. The net assets of business-type activities increased 4 percent from a year ago - increasing from \$18,620,126 to \$19,283,955. Unrestricted net assets - that portion of net assets that can be used to finance day-to-day operations - increased by \$680,774 or 215 percent. The current level of unrestricted net assets stands at \$996,839 or about 30 percent of annual expenses. Debt service charges increased 207 percent from a year ago - increasing from \$492,733 to \$1,514,473, due primarily to increased debt service fee for water and sewer which are charged per meter now instead of billed based on account.

The Village's Funds

Our analysis of the Village's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village's major funds for 2012 include the General Fund, which includes services of the general government - i.e., the Village Council, manager, clerk-treasurer, public safety (police and fire), public works - community and economic development, provide services for planning and zoning, community development, senior transportation, and parks and recreation. Public safety makes up 62 percent of the total General Fund expenditures.

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the total governmental fund activity, on a modified accrual basis

	Governmental Funds				Percent Change
	2010	2011	2012	Change	
Revenue					
Property taxes	\$ 1,912,069	\$ 1,448,953	\$ 1,311,017	\$ (137,936)	-10%
Charges for services	655,064	563,380	777,516	214,136	38%
Licenses and permits	108,174	105,903	83,635	(22,268)	-21%
State-shared revenues	522,510	520,789	622,035	101,246	19%
Act 51 funding	321,736	326,491	342,985	16,494	5%
Federal, state, and local grants	308,012	440,647	76,498	(364,149)	-83%
Fines and forfeitures	63,078	51,677	29,142	(22,535)	-44%
Investment income	8,306	5,182	6,733	1,551	30%
Special assessments	311,678	312,407	276,770	(35,637)	-11%
Other	10,098	45,779	78,505	32,726	71%
Total revenue	4,220,725	3,821,208	3,604,836	(216,372)	-6%
Expenditures					
Current:					
General government	633,802	582,206	780,473	198,267	34%
Public safety	2,012,067	1,769,470	1,831,449	61,979	4%
Public works	1,136,239	1,119,436	922,237	(197,199)	-18%
Health and welfare	26,123	23,969	24,394	425	2%
Community and economic development	244,860	310,685	80,832	(229,853)	-74%
Recreation and culture	49,670	68,440	44,518	(23,922)	-35%
Capital outlay	118,774	114,981	31,373	(83,608)	-73%
Total expenditures	4,221,535	3,989,187	3,715,276	(273,911)	-7%
Excess of Expenditures Over Revenue	(810)	(167,979)	(110,440)	57,539	-34%
Other Financing Sources -					
Transfers - Net	-	-	76,192	76,192	100%
Net Change in Fund Balances	(810)	(167,979)	(34,248)	133,731	-80%
Fund Balances - Beginning of year	1,394,167	1,393,357	1,225,378	(167,979)	-12%
Fund Balances - End of year	<u>\$ 1,393,357</u>	<u>\$ 1,225,378</u>	<u>\$ 1,191,130</u>	<u>\$ (34,248)</u>	-3%

Village of Holly, Michigan

Management's Discussion and Analysis (Continued)

The federal grants decreased during the year of \$364,149. The majority of those grants have been used for community and economic development activities related to the neighborhood stabilization grant which caused the expenditures in that category to also decline in the current year of \$229,853. Property tax revenue continues to decline due to continued decline in taxable values. Public works expenditures declined \$197,199 related primarily to a decrease in full-time wages. Other major funds are the Water and Sewer Funds, which are categorized as enterprise or business funds. These funds operate on revenue they receive from the customers (users) of the water and sewer systems.

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account various minor expenditures and revenue changes. Reductions in revenue and increases in some expenditures netted a decrease in the fund balance of \$34,502.

Capital Asset and Debt Administration

During 2012, the Village invested approximately \$16,000 in governmental capital assets, which included the purchase of additional equipment mainly funded by a federal capital grant.

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

Additional information regarding the Village's long-term debt can be found in Note 8 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Local Economy

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

The Village and the DDA are working together to bring businesses to the downtown area that are attractive to our local residents as well as visitors. With the reduction in taxable values of approximately \$9,108,660 for this fiscal year, priorities were made to continue to provide services to the Village residents.

Contacting the Village's Management

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

Village of Holly, Michigan

Statement of Net Assets June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 1,049,198	\$ 543,863	\$ 1,593,061	\$ 68,061
Receivables (Note 4)	249,380	632,125	881,505	574
Inventory	-	30,434	30,434	-
Prepaid expenses and other assets	47,910	19,802	67,712	210
Restricted assets (Note 9)	-	1,309,379	1,309,379	-
OPEB asset (Note 13)	7,448	2,562	10,010	-
Due from fiduciary fund - Retiree Health	64,248	-	64,248	-
Capital assets (Note 5):				
Assets not subject to depreciation	198,000	50,000	248,000	-
Assets subject to depreciation	3,784,242	33,537,924	37,322,166	-
Total assets	5,400,426	36,126,089	41,526,515	68,845
Liabilities				
Accounts payable	56,133	18,898	75,031	896
Due to other governmental units	82,582	-	82,582	-
Accrued liabilities and other	43,334	198,855	242,189	615
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 8)	131,375	14,194	145,569	-
Capital leases (Note 7)	-	64,167	64,167	-
Current portion of long-term debt (Note 8)	66,366	976,796	1,043,162	-
Due in more than one year:				
Capital leases (Note 7)	-	292,913	292,913	-
Long-term debt (Note 8)	42,084	15,276,311	15,318,395	-
Total liabilities	421,874	16,842,134	17,264,008	1,511
Net Assets				
Invested in capital assets - Net of related debt	3,873,792	17,201,517	21,075,309	-
Restricted for:				
Streets and highways	226,835	-	226,835	-
Federal grants	27,008	-	27,008	-
Lake treatment	3,399	-	3,399	-
Rubbish	23,102	-	23,102	-
Bond reserve	-	1,085,599	1,085,599	-
Unrestricted	824,416	996,839	1,821,255	67,334
Total net assets	\$ 4,978,552	\$ 19,283,955	\$ 24,262,507	\$ 67,334

Village of Holly, Michigan

Functions/Programs	Expenses	Program Revenue		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 635,073	\$ 197,171	\$ 925	\$ -
Public safety:				
Police	1,559,700	63,724	5,466	-
Building inspections and related	77,578	-	-	-
Fire	298,632	2,627	-	-
Public works:				
Streets	565,197	-	359,539	14,216
Rubbish disposal	300,195	274,400	-	-
Other public works activities	26,571	80,627	-	2,370
Cemetery	15,791	-	-	-
Trees	9,871	-	-	-
Community and economic development:				
Redevelopment and housing	25,570	-	62,676	15,839
Planning, zoning, and related	48,693	94,379	-	-
Senior transportation	24,708	18,843	36,320	-
Parks and recreation	77,778	-	-	-
Interest on long-term debt	1,071	-	-	-
Total governmental activities	3,666,428	731,771	464,926	32,425
Business-type activities:				
Sewer Fund	1,992,524	2,165,457	-	-
Water Fund	1,316,946	1,795,663	-	3,216
Total business-type activities	3,309,470	3,961,120	-	3,216
Total primary government	<u>\$ 6,975,898</u>	<u>\$ 4,692,891</u>	<u>\$ 464,926</u>	<u>\$ 35,641</u>
Component unit - DDA	<u>\$ 109,511</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Investment income				
Cable franchise fees				
Other miscellaneous income				
Total general revenue				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2012

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit - DDA
\$ (436,977)	\$ -	\$ (436,977)	\$ -
(1,490,510)	-	(1,490,510)	-
(77,578)	-	(77,578)	-
(296,005)	-	(296,005)	-
(191,442)	-	(191,442)	-
(25,795)	-	(25,795)	-
56,426	-	56,426	-
(15,791)	-	(15,791)	-
(9,871)	-	(9,871)	-
52,945	-	52,945	-
45,686	-	45,686	-
30,455	-	30,455	-
(77,778)	-	(77,778)	-
(1,071)	-	(1,071)	-
(2,437,306)	-	(2,437,306)	-
-	172,933	172,933	-
-	481,933	481,933	-
-	654,866	654,866	-
(2,437,306)	654,866	(1,782,440)	-
-	-	-	(109,511)
1,311,017	-	1,311,017	109,018
525,014	-	525,014	-
6,733	8,963	15,696	434
67,310	-	67,310	5,441
25,385	-	25,385	-
1,935,459	8,963	1,944,422	114,893
(501,847)	663,829	161,982	5,382
5,480,399	18,620,126	24,100,525	61,952
\$ 4,978,552	\$ 19,283,955	\$ 24,262,507	\$ 67,334

Village of Holly, Michigan

Governmental Funds Balance Sheet June 30, 2012

	General Fund	Nonmajor Funds	Total
Assets			
Cash and cash equivalents	\$ 614,796	\$ 498,650	\$ 1,113,446
Receivables:			
Delinquent taxes	82	-	82
Special assessments receivable	15,524	11,091	26,615
Other	21,498	-	21,498
Due from other governmental units	85,461	115,724	201,185
Due from other funds	7,550	-	7,550
Prepaid expenses and other assets	44,378	3,532	47,910
Total assets	<u>\$ 789,289</u>	<u>\$ 628,997</u>	<u>\$ 1,418,286</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 54,662	\$ 1,471	\$ 56,133
Due to other governmental units	-	82,582	82,582
Due to other funds	-	7,550	7,550
Accrued payroll and related liabilities	40,653	356	41,009
Deferred revenue (Note 4)	15,524	24,358	39,882
Total liabilities	110,839	116,317	227,156
Fund Balances			
Nonspendable - Prepaids	44,378	3,532	47,910
Restricted:			
Roads	-	226,835	226,835
Rubbish	-	23,102	23,102
Other restricted	-	11,926	11,926
Committed - Cemetery care	175,441	-	175,441
Assigned:			
Tri party	34,779	-	34,779
Sidewalks	138,658	-	138,658
Roads	-	190,205	190,205
Mill pond	100,000	-	100,000
Capital improvements	185,194	-	185,194
Senior transportation	-	62,957	62,957
Unassigned	-	(5,877)	(5,877)
Total fund balances	<u>678,450</u>	<u>512,680</u>	<u>1,191,130</u>
Total liabilities and fund balances	<u>\$ 789,289</u>	<u>\$ 628,997</u>	<u>\$ 1,418,286</u>

Village of Holly, Michigan

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **June 30, 2012**

Fund Balance Reported in Governmental Funds	\$ 1,191,130
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,982,242
Net OPEB asset	7,448
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	24,043
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds	15,839
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(108,450)
Accrued interest is not due and payable in the current period and is not reported in the funds	(2,325)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(131,375)
Net Assets of Governmental Activities	<u>\$ 4,978,552</u>

Village of Holly, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2012

	General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	\$ 1,311,017	\$ -	\$ 1,311,017
Licenses and permits	83,635	-	83,635
Federal grants	-	71,701	71,701
State-shared revenue and grants	626,832	342,985	969,817
Charges for services	773,648	3,868	777,516
Fines and forfeitures	29,142	-	29,142
Investment income	4,685	2,048	6,733
Other revenue:			
Special assessments	-	276,770	276,770
NSP program income	-	43,849	43,849
Other miscellaneous income	34,656	-	34,656
Total revenue	2,863,615	741,221	3,604,836
Expenditures			
Current:			
General government:			
Village Council	6,304	-	6,304
Village manager	215,674	-	215,674
Clerk treasurer	155,046	-	155,046
Buildings and grounds	125,181	-	125,181
Attorney	26,982	-	26,982
Data processing	3,066	-	3,066
Other	248,220	-	248,220
Public safety:			
Police	1,169,794	-	1,169,794
Dispatch	327,104	-	327,104
Fire	257,773	-	257,773
Building inspections and related	76,778	-	76,778
Public works:			
Streets	-	337,088	337,088
Rubbish disposal	-	300,195	300,195
Other public works activities	244,018	-	244,018
Cemetery	31,065	-	31,065
Lake maintenance	-	9,871	9,871
Senior transportation	-	24,394	24,394
Community and economic development:			
Redevelopment and housing	6,569	25,570	32,139
Planning, zoning, and related	4,844	43,849	48,693
Parks and recreation	44,518	-	44,518
Capital outlay	31,373	-	31,373
Total expenditures	2,974,309	740,967	3,715,276
Excess of Revenue (Under) Over Expenditures	(110,694)	254	(110,440)
Other Financing Sources -			
Transfers in (Note 6)	76,192	-	76,192
Net Change in Fund Balances	(34,502)	254	(34,248)
Fund Balances - Beginning of year	712,952	512,426	1,225,378
Fund Balances - End of year	<u>\$ 678,450</u>	<u>\$ 512,680</u>	<u>\$ 1,191,130</u>

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

Village of Holly, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ (34,248)

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	16,019
Depreciation expense	(343,452)

Revenue is recorded in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end	(105,883)
---	-----------

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	58,666
---	--------

Decrease in the obligation of contracts payables are recorded when incurred in the statement of activities	120,820
--	---------

Increases 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	(5,095)
--	---------

Decrease in the asset for other postemployment benefits are recorded when earned in the statement of activities	(27,962)
---	----------

Internal Service Fund is included as part of governmental activities	<u>(180,712)</u>
--	------------------

Change in Net Assets of Governmental Activities \$ (501,847)

Village of Holly, Michigan

Proprietary Funds Statement of Net Assets June 30, 2012

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 3)	\$ 78,417	\$ 465,446	\$ 543,863	\$ -
Receivables (Note 4)	355,122	277,003	632,125	-
Inventory	30,434	-	30,434	-
Prepaid expenses and other assets	10,988	8,814	19,802	-
Total current assets	474,961	751,263	1,226,224	-
Noncurrent assets:				
Restricted assets (Note 9)	558,099	751,280	1,309,379	-
OPEB asset	1,634	928	2,562	-
Capital assets (Note 5)	22,427,813	11,160,111	33,587,924	-
Total noncurrent assets	22,987,546	11,912,319	34,899,865	-
Total assets	23,462,507	12,663,582	36,126,089	-
Liabilities				
Current liabilities:				
Accounts payable	6,139	12,759	18,898	-
Accrued liabilities and other:				
Accrued salaries and wages	2,035	1,002	3,037	-
Accrued interest payable	114,372	77,765	192,137	-
Customer deposits	-	3,681	3,681	-
Compensated absences	11,845	2,349	14,194	-
Capital leases - Due within one year (Note 7)	32,083	32,084	64,167	-
Current portion of long-term debt - Due within one year (Note 8)	553,398	423,398	976,796	-
Total current liabilities	719,872	553,038	1,272,910	-
Noncurrent liabilities:				
Capital leases - Due in more than one year (Note 7)	146,457	146,456	292,913	-
Long-term debt - Due in more than one year (Note 8)	9,442,914	5,833,397	15,276,311	-
Total noncurrent liabilities	9,589,371	5,979,853	15,569,224	-
Total liabilities	10,309,243	6,532,891	16,842,134	-
Net Assets				
Invested in capital assets - Net of related debt	12,252,961	4,948,556	17,201,517	-
Restricted for bond reserve	558,099	527,500	1,085,599	-
Unrestricted	342,204	654,635	996,839	-
Total net assets	\$ 13,153,264	\$ 6,130,691	\$ 19,283,955	\$ -

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

Village of Holly, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2012

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Operating Revenue				
Sale of water	\$ -	\$ 1,045,190	\$ 1,045,190	\$ -
Sewage disposal charges	1,220,619	-	1,220,619	-
Other sales to customers	12,400	9,525	21,925	-
Interest and penalty charges	55,047	41,449	96,496	-
Recoveries	-	2,987	2,987	-
Charges to other funds	-	15,981	15,981	-
Total operating revenue	1,288,066	1,115,132	2,403,198	-
Operating Expenses				
Water treatment and transmission	-	665,962	665,962	-
Wastewater treatment	433,023	-	433,023	-
Water collection system	370,892	-	370,892	-
Billing and administrative costs	54,150	54,250	108,400	-
Depreciation	685,662	295,401	981,063	102,583
Total operating expenses	1,543,727	1,015,613	2,559,340	102,583
Operating (Loss) Income	(255,661)	99,519	(156,142)	(102,583)
Nonoperating Revenue (Expenses)				
Investment income	736	8,227	8,963	80
Interest expense	(448,797)	(301,333)	(750,130)	(2,017)
Other nonoperating expenses	-	-	-	(188,587)
Debt service charges	877,391	637,082	1,514,473	-
Cell tower leases	-	43,449	43,449	-
Total nonoperating revenue (expenses)	429,330	387,425	816,755	(190,524)
(Loss) Income - Before contributions	173,669	486,944	660,613	(293,107)
Capital Grants	-	3,216	3,216	-
Transfers Out	-	-	-	(76,192)
Change in Net Assets	173,669	490,160	663,829	(369,299)
Net Assets - Beginning of year	12,979,595	5,640,531	18,620,126	369,299
Net Assets - End of year	\$ 13,153,264	\$ 6,130,691	\$ 19,283,955	\$ -

Village of Holly, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2012

	Enterprise Funds			Governmental Activities
	Sewer Fund	Water Fund	Total	Proprietary Internal Service Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,193,572	\$ 992,846	\$ 2,186,418	\$ -
Receipts from interfund services and reimbursements	-	15,981	15,981	(76,192)
Payments to suppliers	(378,558)	(266,310)	(644,868)	(7,762)
Payments to employees	(224,465)	(186,983)	(411,448)	-
Internal activity - Payments to other funds	(259,453)	(283,765)	(543,218)	-
Other payments	3,833	2,185	6,018	-
Net cash provided by (used in) operating activities	334,929	273,954	608,883	(83,954)
Cash Flows from Noncapital Financing Activities				
Repayments of loans made to other funds	-	147,840	147,840	-
Repayments of loans from other funds	(147,840)	-	(147,840)	-
Cash Flows from Noncapital Financing Activities - Cell tower leases	-	43,449	43,449	-
Net cash (used in) provided by noncapital financing activities	(147,840)	191,289	43,449	-
Cash Flows from Capital and Related Financing Activities				
Receipt of capital grants	-	3,216	3,216	-
Purchase of capital assets	(15,125)	(10,193)	(25,318)	214,295
Principal and interest paid on capital debt	(971,655)	(688,175)	(1,659,830)	(53,062)
Debt service charge	877,391	637,082	1,514,473	-
Net cash (used in) provided by capital and related financing activities	(109,389)	(58,070)	(167,459)	161,233
Cash Flows from Investing Activities - Interest received on investment	736	8,227	8,963	80
Net Increase in Cash and Cash Equivalents	78,436	415,400	493,836	77,359
Cash and Cash Equivalents - Beginning of year	558,080	801,326	1,359,406	111,228
Cash and Cash Equivalents - End of year	<u>\$ 636,516</u>	<u>\$ 1,216,726</u>	<u>\$ 1,853,242</u>	<u>\$ 188,587</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 78,417	\$ 465,446	\$ 543,863	\$ -
Restricted cash	558,099	751,280	1,309,379	-
Total cash and cash equivalents	<u>\$ 636,516</u>	<u>\$ 1,216,726</u>	<u>\$ 1,853,242</u>	<u>\$ -</u>

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

Village of Holly, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2012

	Enterprise Funds			Governmental Activities
				Proprietary Internal Service Fund
	Sewer Fund	Water Fund	Total	
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities				
Operating (loss) income	\$ (255,661)	\$ 99,519	\$ (156,142)	\$ (178,775)
Adjustments to reconcile operating (loss) income to net cash from operating activities:				
Depreciation	685,662	295,401	981,063	102,583
Changes in assets and liabilities:				
Receivables	(94,494)	(106,305)	(200,799)	-
Inventories	1,117	-	1,117	-
Prepaid and other assets	(10,988)	(8,814)	(19,802)	-
Accounts payable	4,720	7,685	12,405	(7,762)
Accrued and other liabilities	740	(15,717)	(14,977)	-
Net change in OPEB asset	3,833	2,185	6,018	-
Net cash provided by (used in) operating activities	<u>\$ 334,929</u>	<u>\$ 273,954</u>	<u>\$ 608,883</u>	<u>\$ (83,954)</u>

Village of Holly, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2012

	Retiree Health Care Fund (Employee Benefits Fund)	Agency Funds
Assets		
Cash and cash equivalents	\$ 5,069	\$ 155,510
Mutual funds	145,000	-
Certificates of deposit	330,610	-
Total assets	480,679	<u>\$ 155,510</u>
Liabilities		
Due to primary government	64,248	\$ -
Cash and bond deposits	-	111,665
Other miscellaneous liabilities	-	43,845
Total liabilities	64,248	<u>\$ 155,510</u>
Net Assets Held in Trust for Retiree Health Care Benefits	<u>\$ 416,431</u>	

Village of Holly, Michigan

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets - Retiree Health Care** **Fund (Employee Benefits Fund)** **Year Ended June 30, 2012**

	Retiree Health Care Fund (Employee Benefits Fund)
Additions	
Investment income:	
Interest and dividends	\$ 2,952
Net decrease in fair value of investments	(55,461)
Contributions - Employee	<u>21,193</u>
Total additions	(31,316)
Deductions	
Benefit payments	60,310
Administrative expenses	<u>2,405</u>
Total deductions	<u>62,715</u>
Net Increase in Net Assets Held in Trust	(94,031)
Net Assets Held in Trust for Retiree Health Care Benefits - Beginning of year	<u>510,462</u>
Net Assets Held in Trust for Retiree Health Care Benefits - End of year	<u>\$ 416,431</u>

Village of Holly, Michigan

Component Units Statement of Net Assets June 30, 2012

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 56,996	\$ 11,065	\$ 68,061
Property tax receivable	574	-	574
Prepaid expenses and other assets	210	-	210
Total assets	57,780	11,065	68,845
Liabilities			
Accounts payable	896	-	896
Accrued liabilities and other	615	-	615
Total liabilities	1,511	-	1,511
Net Assets	\$ 56,269	\$ 11,065	\$ 67,334

Village of Holly, Michigan

Component Units Statement of Activities Year Ended June 30, 2012

	Expenses	Net (Expense) Revenue and Changes in Net Assets		
		Downtown Development Authority	Economic Development Corporation	Total
Functions/Programs				
Downtown Development Authority	\$ 109,511	\$ (109,511)	\$ -	\$ (109,511)
Economic Development Corporation	-	-	-	-
Total component units	<u>\$ 109,511</u>			
General revenue:				
Property taxes		109,018	-	109,018
Investment income		389	45	434
Other miscellaneous income		5,441	-	5,441
Total general revenue		<u>114,848</u>	<u>45</u>	<u>114,893</u>
Change in Net Assets		5,337	45	5,382
Net Assets - Beginning of year		<u>50,932</u>	<u>11,020</u>	<u>61,952</u>
Net Assets - End of year		<u>\$ 56,269</u>	<u>\$ 11,065</u>	<u>\$ 67,334</u>

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of the Village of Holly, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Holly:

Reporting Entity

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

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (the "DDA" or, the "Authority") 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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note I - Nature of Business and Significant Accounting Policies (Continued)

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 who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Note I - Nature of Business and Significant Accounting Policies (Continued)

The Village reports the following major governmental fund:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary 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 activity related to water distribution.

Additionally, the Village reports the following internal service and fiduciary activities:

The Motor Pool Fund accounts for the activity related to Village-owned vehicles, machinery, and equipment that are used by other departments of the Village.

The Other Employee Benefits Trust Fund accounts for the accumulation of resources for future payment of retiree healthcare costs.

The Agency Fund accounts for deposits received by the Village that will ultimately be returned to customers, developers, and others once the terms of the deposit arrangement have been satisfied. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

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

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Village's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the Village's policy to spend funds in this order: committed, assigned, and unassigned.

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary 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.

Property Tax Revenue

Property taxes are assessed as of December 31; the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through September 30 with the final collection date of February 28.

The Village's 2011 tax is levied and collectible on December 1, 2011 and is recognized as revenue in the year ended June 30, 2012, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2011 taxable valuation of the Village totaled \$104 million (a portion of which is abated and a portion of which is captured by the DDA). Taxes were levied as follows:

<u>Purpose</u>	<u>Millage Rate</u>	<u>Revenue</u>
General operating	13.5244	\$ 1,311,017

Assets, Liabilities, and Net Assets or Equity

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

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

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

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note I - Nature of Business and Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for bond reserve. These amounts have been classified as restricted assets. Unspent bond proceeds of the Enterprise Funds are required to be set aside for construction. These amounts have also been classified as restricted assets.

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

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

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

Roads and sidewalks	15 to 20 years
Water and sewer distribution systems	30 to 75 years
Water and sewer treatment facilities	30 to 50 years
Buildings and building improvements	25 to 50 years
Office furnishings and equipment	4 to 20 years
Vehicles	5 years

Note 1 - Nature of Business and 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. Compensated sick leave may accumulate to a maximum of 160 hours for department heads and 480 hours for police union employees and teamster employees. Department heads having more than 160 hours at the end of the fiscal year will be paid for half of the hours in excess of 160 and at their current hourly wage. Police union employees and teamster employees having more than 480 hours at the end of the fiscal year will be paid half of the hours in excess of 480 and at their current hourly wage. Upon termination while in good standing, one-half of all unused sick days will be paid back to the employee at the earned rate. Department heads and police union/teamster employees must have a minimum of 160 and 480 hours, respectively, in their sick bank to qualify for this benefit. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. In prior years, the governmental fund that has liquidated compensated absences has typically been the General Fund.

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

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

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Fund Equity

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 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 Council
- Unassigned: All other amounts, available for any purpose

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 expenditures during the period. Actual results could differ from those estimates.

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. The Village accounts for its construction code activities within the General Fund.

Shortfall at July 1, 2011	\$ (289,203)
Current year permit revenue	37,724
Related expenses - Direct costs	<u>76,731</u>
Current year shortfall	<u>(39,007)</u>
Cumulative shortfall at June 30, 2012	<u>\$ (328,210)</u>

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Fund Deficits - As of June 30, 2012, the Lake Improvement Fund and the Community Development Block Grant Fund had fund deficits. The deferred revenue in the fund due to funds being unavailable as of June 30, 2012 caused the deficits.

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 local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

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

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

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$1,026,366 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 3 - Deposits and Investments (Continued)

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

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

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

Investment	Fair Value	Rating	Rating Organization
MBIA CLASS mutual fund	\$ 2,592	AAAm	S&P
Pooled Investments #77866	451,690	N/A	N/A
Pooled Investments #77865	1,402,538	N/A	N/A

Note 4 - Receivables and Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds Unavailable
Special assessments	\$ 24,043
Grant revenue	15,839
Total	<u>\$ 39,882</u>

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets

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

	Balance July 1, 2011	Additions	Disposals	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated - Land	\$ 198,000	\$ -	\$ -	\$ 198,000
Capital assets being depreciated:				
Roads and sidewalks	9,507,471	-	-	9,507,471
Buildings and improvements	1,677,195	-	-	1,677,195
Office furnishings and equipment	718,361	16,019	-	734,380
Vehicles	1,355,510	-	-	1,355,510
Subtotal	13,258,537	16,019	-	13,274,556
Accumulated depreciation:				
Roads and sidewalks	6,978,737	234,900	-	7,213,637
Buildings and improvements	724,200	42,250	-	766,450
Office furnishings and equipment	405,314	44,886	-	450,200
Vehicles	931,228	128,799	-	1,060,027
Subtotal	9,039,479	450,835	-	9,490,314
Net capital assets being depreciated	4,219,058	(434,816)	-	3,784,242
Net capital assets	<u>\$ 4,417,058</u>	<u>\$ (434,816)</u>	<u>\$ -</u>	<u>\$ 3,982,242</u>
Business-type Activities				
Capital assets not being depreciated - Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Capital assets being depreciated:				
Water and sewer distribution system	46,417,270	-	-	46,417,270
Equipment and vehicles	1,245,714	25,318	-	1,271,032
Subtotal	47,662,984	25,318	-	47,688,302
Accumulated depreciation:				
Water and sewer distribution system	12,549,418	915,795	-	13,465,213
Equipment and vehicles	619,897	65,268	-	685,165
Subtotal	13,169,315	981,063	-	14,150,378
Net capital assets being depreciated	34,493,669	(955,745)	-	33,537,924
Net capital assets	<u>\$34,543,669</u>	<u>\$ (955,745)</u>	<u>\$ -</u>	<u>\$ 33,587,924</u>

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 5 - Capital Assets (Continued)

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

Governmental activities:	
General government	\$ 19,728
Public safety	70,526
Public works	255,762
Recreation and culture	2,236
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>102,583</u>
Total governmental activities	<u>\$ 450,835</u>
Business-type activities:	
Water	\$ 295,401
Sewer	<u>685,662</u>
Total business-type activities	<u>\$ 981,063</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Other governmental funds	<u>\$ 7,550</u>

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

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Other governmental funds	<u>\$ 76,192</u>

The transfers from the Motor Pool Fund to the General Fund represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 7 - Leases

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

<u>Years Ending June 30</u>	<u>Amount</u>
2013	\$ 79,800
2014	79,800
2015	79,800
2016	79,800
2017	79,800
2018	<u>5,222</u>
Total minimum lease payments	404,222
Less amount representing interest	<u>(47,142)</u>
Present value	<u>\$ 357,080</u>

Note 8 - Long-term Debt

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

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

The Village has the following long-term debt outstanding as of June 30, 2012:

Description	Amount
Governmental Activities:	
General obligations:	
HVAC unit for Village office, with interest of 4.0%, maturing in February 2014	\$ 72,063
Contracts payable due June 2014	10,680
Installment purchase of police vehicles, with interest of 4.0%, maturing in April 2013	25,707
Total governmental activities debt	<u>\$ 108,450</u>
Business-type Activities:	
General obligations:	
2006 General Obligation Limited Tax Bond, with interest from 4% to 4.375%, maturing in 2025	\$ 4,700,000
Contracts payable due June 2014	13,590
Subtotal	<u>4,713,590</u>
Revenue bonds:	
1991 Water Revenue Bond, with interest of 5.113%, maturing in 2014	310,000
1999 Water Supply Revenue Bonds Act 94, with interest of 2.5%, maturing in 2019	665,000
2004 Wastewater System Revenue Bond, with interest from 3.5% to 4.85%, maturing in 2025	5,350,000
2006 Water System Revenue Bond, with interest from 4% to 5.5%, maturing in 2027	5,275,000
Total revenue bonds	<u>11,600,000</u>
Total business-type activity debt	<u>\$ 16,313,590</u>

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Installment purchases	\$ 156,436	\$ -	\$ 58,666	\$ 97,770	\$ 61,026
Contracts payable	131,500	10,680	131,500	10,680	5,340
Accumulated compensated absences	126,280	131,375	126,280	131,375	131,375
Total governmental activities	<u>\$ 414,216</u>	<u>\$ 142,055</u>	<u>\$ 316,446</u>	<u>\$ 239,825</u>	<u>\$ 197,741</u>
Business-type Activities					
General obligation bonds	\$ 4,950,000	\$ -	\$ 250,000	\$ 4,700,000	\$ 250,000
Revenue bonds	12,210,000	-	610,000	11,600,000	720,000
Less deferred amounts - issuance cost	(65,138)	-	(4,655)	(60,483)	-
Contracts payable	-	20,386	6,796	13,590	6,796
Total business-type activities	17,094,862	20,386	862,141	16,253,107	976,796
Accumulated compensated absences	11,703	2,491	-	14,194	14,194
Accumulated compensated absences	<u>\$ 17,106,565</u>	<u>\$ 22,877</u>	<u>\$ 862,141</u>	<u>\$ 16,267,301</u>	<u>\$ 990,990</u>

Total interest expense for the year was \$750,017. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Year Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2013	\$ 66,366	\$ 3,561	\$ 69,927	\$ 976,796	\$ 697,663	\$ 1,674,459
2014	42,084	1,106	43,190	1,036,794	658,208	1,695,002
2015	-	-	-	1,045,000	613,913	1,658,913
2016	-	-	-	1,005,000	575,969	1,580,969
2017	-	-	-	1,035,000	535,438	1,570,438
2018-2022	-	-	-	5,565,000	2,008,526	7,573,526
2023-2027	-	-	-	5,650,000	648,150	6,298,150
Total	<u>\$ 108,450</u>	<u>\$ 4,667</u>	<u>\$ 113,117</u>	<u>\$ 16,313,590</u>	<u>\$ 5,737,867</u>	<u>\$ 22,051,457</u>

Revenue Pledged - The Village has pledged substantially all revenue of the Water Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water plant. The bonds are payable solely from the net revenue of the water system. The remaining principal and interest to be paid on the revenue bonds total \$8,629,653. During the current year, net revenue of the water system was \$1,106,894 compared to the annual debt requirements of \$654,959.

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 8 - Long-term Debt (Continued)

The Village has pledged substantially all revenue of the Sewer Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the wastewater plant. The bonds are payable solely from the net revenue of the sewer system. The remaining principal and interest to be paid on the revenue bonds total \$7,224,463. During the current year, net revenue of the sewer system was \$1,308,128 compared to the annual debt requirements of \$938,200.

Note 9 - Restricted Assets

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

	Business-type Activities
Unspent bond proceeds and related interest	\$ 223,780
Revenue bond restrictions - Bond reserve	1,085,599
Total restricted net assets	<u>\$ 1,309,379</u>

Note 10 - 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 11 - Defined Benefit Pension Plan

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

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

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 11 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2012, the Village's annual pension cost of \$293,775 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year attributable to inflation and 0 percent to 8.4 percent attributable to seniority/merit, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 27 years.

Three-year trend information

	Fiscal Year Ended June 30		
	2012	2011	2010
Annual pension cost (APC)	\$ 293,775	\$ 269,286	\$ 266,319
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2011	2010	2009
Actuarial value of assets	\$ 7,385,644	\$ 7,532,241	\$ 7,559,796
Actuarial accrued liability (AAL)			
(entry age)	\$ 12,187,273	\$ 11,836,411	\$ 11,081,772
Unfunded AAL (UAAL)	\$ 4,801,629	\$ 4,304,170	\$ 3,521,976
Funded ratio	60.6 %	63.6 %	68.2 %
Covered payroll	\$ 970,678	\$ 954,753	\$ 1,163,999
UAAL as a percentage of covered payroll	494.7 %	450.8 %	302.6 %

Note 12 - Defined Contribution Pension Plan

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

The Village provides pension benefits for all employees at least 18 years of age, with starting dates on or after July 1, 2006, as well as the Village manager. Payroll costs of all employees and plan participants amounted to \$554,803 in fiscal year 2012. During the current year, the General Fund, Building Inspections Fund, and DDA General Fund contributed the Village's portion of the pension cost, amounting to \$33,078, which is 5 to 10 percent of eligible wages. Employees made required and voluntary contributions to the plan during the current year. The plan is administered by the Village treasurer/clerk. Investments are made through ICMA and AXA, which hold the assets of the plan within a trust. As a result, the plan assets are not reflected on the financial statements since the Village has no fiduciary or administrative responsibility for the plan. It is the policy of the Village to pay the pension costs as accrued.

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

Note 13 - Other Postemployment Benefits

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

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

Funding Policy - The collective bargaining agreements require a contribution of 35 percent per month of the premium from all retired employees or their spouses currently participating in the plan. In the current year, the Village contributed \$0 into a prefunded retiree healthcare fund, which is reported in this financial statement as an Other Employee Benefit Trust Fund type.

Village of Holly, Michigan

Notes to Financial Statements June 30, 2012

Note 13 - Other Postemployment Benefits (Continued)

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

Annual required contribution (recommended)	\$ 31,183
Interest on the prior year's net OPEB obligation	(2,486)
Less adjustment to the annual required contribution	<u>2,721</u>
Annual OPEB cost	31,418
Amounts contributed:	
Payments of current premiums	-
Advance funding	<u>-</u>
Decrease in net OPEB asset	31,418
OPEB asset - Beginning of year	<u>(41,428)</u>
OPEB asset - End of year	<u>\$ (10,010)</u>

Employer contributions and annual OPEB cost data for the year ended June 30, 2012 are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Annual OPEB Contributions	Net OPEB Prepaid
6/30/10	12/31/07	\$ -	\$ 38,359	\$ 38,359
6/30/11	12/31/07	-	-	41,428
6/30/12	6/30/12	31,183	-	10,010

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/07	\$ 582,694	\$ 478,775	\$ (103,919)	121.7	\$ 1,319,010	-
6/30/12	535,592	395,134	(140,458)	135.5	1,351,769	(10.4)

Note 13 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The following simplifying assumptions were made:

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

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

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

Healthcare Cost Trend Rate - The expected rate increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare and Medicaid Services. A rate of 7.3 percent initially, reduced to an ultimate rate of 6.8 percent after six years, was used.

Health Insurance Premiums - 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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

Note 13 - Other Postemployment Benefits (Continued)

Based on the historical and expected returns of the Village's short-term investment portfolio, a discount rate of 4.5 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 10 years.

Note 14 - Upcoming Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity Omnibus*. This pronouncement, which is an amendment to Statement No. 14 and Statement 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement also clarifies the reporting of equity interests in legally separate organizations. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the Village's 2012-2013 fiscal year.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates into GASB literature certain accounting and financial reporting guidance issued on or before November 30, 1989 that is included in FASB statements and interpretations, APB opinions, and accounting research bulletins of the AICPA Committee on Accounting Procedure. The Village is currently evaluating the impact this standard will have on the financial statements when adopted during the Village's 2012-2013 fiscal year.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The statement will be effective for the Village's 2012-2013 fiscal year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Once implemented, this statement will impact the format and reporting of the balance sheet at the government-wide level and also at the fund level.

Note 14 - Upcoming Accounting Pronouncements (Continued)

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the Village for the year ending June 30, 2014.

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

Note 15 - Commitments

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

- July 1, 2012 through June 30, 2013 at \$11.32 per month per unit
- July 1, 2013 through June 30, 2014 at \$11.77 per month per unit

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

Required Supplemental Information

Village of Holly, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2012

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 1,466,450	\$ 1,310,590	\$ 1,311,017	\$ 427
Licenses and permits	75,538	101,048	83,635	(17,413)
Federal grants	24,700	25,000	-	(25,000)
State-shared revenue and grants	415,581	481,719	626,832	145,113
Charges for services	867,481	749,155	773,648	24,493
Fines and forfeitures	56,100	32,650	29,142	(3,508)
Investment income	3,000	4,500	4,089	(411)
Other revenue - Other miscellaneous income	45,575	27,693	22,425	(5,268)
Total revenue	2,954,425	2,732,355	2,850,788	118,433
Expenditures - Current				
General government:				
Village Council	6,922	6,304	6,304	-
Village manager	121,644	218,495	215,674	2,821
Clerk/Treasurer	255,369	158,474	155,046	3,428
Buildings and grounds	131,974	128,156	125,181	2,975
Attorney	30,100	24,410	26,982	(2,572)
Data processing	1,950	7,307	3,066	4,241
Other	126,626	254,409	248,220	6,189
Total general government	674,585	797,555	780,473	17,082
Public safety:				
Police	1,207,932	1,152,228	1,169,794	(17,566)
Dispatch	256,400	316,721	327,104	(10,383)
Fire	243,699	255,355	257,773	(2,418)
Building inspections and related	67,434	75,298	76,731	(1,433)
Total public safety	1,775,465	1,799,602	1,831,402	(31,800)
Public works:				
Other public works activities	450,053	246,307	244,018	2,289
Cemetery	69,209	30,517	31,065	(548)
Total public works	519,262	276,824	275,083	1,741
Community and economic development -				
Planning, zoning, and related	4,520	3,567	4,844	(1,277)
Recreation and culture	107,748	36,593	39,861	(3,268)
Capital outlay	35,100	21,617	31,123	(9,506)
Total expenditures	3,116,680	2,935,758	2,962,786	(27,028)
Excess of Expenditures Over Revenues	(162,255)	(203,403)	(111,998)	91,405
Other Financing Sources (Uses)				
Transfers in	-	154,958	76,192	(78,766)
Transfers out	(35,834)	-	-	-
Net Change in Fund Balance	(198,089)	(48,445)	(35,806)	12,639
Fund Balance - Beginning of year	400,157	400,157	400,157	-
Fund Balance - End of year	<u>\$ 202,068</u>	<u>\$ 351,712</u>	<u>\$ 364,351</u>	<u>\$ 12,639</u>

See Note to Required Supplemental
Information.

Village of Holly, Michigan

Note to Required Supplemental Information Year Ended June 30, 2012

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

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

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

	Total Revenue	Total Expenditures	Excess of Revenue Over (Under) Expenditures	Fund Balance
General Fund:				
Amounts per operating statement	\$ 2,863,615	\$ 2,974,309	\$ (110,694)	\$ 678,450
Municipal Street Fund budgeted separately from the General Fund	(12,827)	(250)	(12,577)	(138,658)
Parks and Recreation Fund budgeted separately from the General Fund	-	(4,657)	4,657	-
Cemetery Endowment Trust Fund budgeted separately from the General Fund	-	(6,569)	6,569	(175,441)
Building Inspection Fund budgeted separately from the General Fund	-	(47)	47	-
Amounts per budget statement	<u>\$ 2,850,788</u>	<u>\$ 2,962,786</u>	<u>\$ (111,998)</u>	<u>\$ 364,351</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Holly did not have significant budget overruns.

Other Supplemental Information

Village of Holly, Michigan

	Special Revenue Funds		
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund
Assets			
Cash and investments	\$ 298,905	\$ 62,515	\$ -
Receivables:			
Special assessments receivable	-	-	10,949
Due from other governmental units	41,019	15,844	-
Prepaid expenses and other assets	96	76	-
Total assets	\$ 340,020	\$ 78,435	\$ 10,949
Liabilities and Fund Balances (Deficit)			
Liabilities			
Accounts payable	\$ 647	\$ 596	\$ -
Due to other governmental units	-	-	-
Due to other funds	-	-	7,550
Accrued liabilities and other	-	-	-
Deferred revenue	-	-	8,519
Total liabilities	647	596	16,069
Fund Balances (Deficit)			
Nonspendable - Prepaids	96	76	-
Restricted:			
Roads	226,835	-	-
Rubbish	-	-	-
Other restricted	-	-	-
Assigned:			
Roads	112,442	77,763	-
Senior transportation	-	-	-
Unassigned	-	-	(5,120)
Total fund balances (deficit)	339,373	77,839	(5,120)
Total liabilities and fund balances (deficit)	\$ 340,020	\$ 78,435	\$ 10,949

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012

Special Revenue Funds			
Solid Waste Fund	Community Development Block Grant Fund	Holly Area Transportation Fund	Total Nonmajor Governmental Funds
\$ 22,960	\$ 38,823	\$ 75,447	\$ 498,650
142	-	-	11,091
-	58,861	-	115,724
-	-	3,360	3,532
\$ 23,102	\$ 97,684	\$ 78,807	\$ 628,997
\$ -	\$ 20	\$ 208	\$ 1,471
-	82,582	-	82,582
-	-	-	7,550
-	-	356	356
-	15,839	-	24,358
-	98,441	564	116,317
-	-	3,360	3,532
-	-	-	226,835
23,102	-	-	23,102
-	-	11,926	11,926
-	-	-	190,205
-	-	62,957	62,957
-	(757)	-	(5,877)
23,102	(757)	78,243	512,680
\$ 23,102	\$ 97,684	\$ 78,807	\$ 628,997

Village of Holly, Michigan

	Special Revenue Funds		
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund
Revenue			
Federal grants	\$ 8,277	\$ 8,277	\$ -
State-shared revenue and grants	247,309	95,676	-
Charges for services	-	-	-
Investment income	1,259	335	-
Other revenue:			
Special assessments	-	-	2,370
NSP program income	-	-	-
Total revenue	256,845	104,288	2,370
Expenditures - Current			
Public works	193,937	143,152	9,871
Health and welfare	-	-	-
Community and economic development	-	-	-
Total expenditures	193,937	143,152	9,871
Net Change in Fund Balances	62,908	(38,864)	(7,501)
Fund Balances - Beginning of year	276,465	116,703	2,381
Fund Balances (Deficit) - End of year	\$ 339,373	\$ 77,839	\$ (5,120)

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in
Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

Special Revenue Funds			Total Nonmajor Governmental Funds
Solid Waste Fund	Community Development Block Grant Fund	Holly Area Transportation Fund	
\$ -	\$ 18,827	\$ 36,320	\$ 71,701
-	-	-	342,985
-	-	3,868	3,868
455	-	-	2,049
274,400	-	-	276,770
-	43,849	-	43,849
274,855	62,676	40,188	741,222
300,195	-	-	647,155
-	-	24,394	24,394
-	69,419	-	69,419
300,195	69,419	24,394	740,968
(25,340)	(6,743)	15,794	254
48,442	5,986	62,449	512,426
\$ 23,102	\$ (757)	\$ 78,243	\$ 512,680

December 20, 2012

To the Village Council
Village of Holly, Michigan

We have audited the financial statements of the Village of Holly, Michigan (the "Village") as of and for the year ended June 30, 2012 and have issued our report thereon dated December 20, 2012. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Communications Required Under SAS 115

Section II - Communications Required Under SAS 114

Section III - Other Recommendations

Section IV - Legislative and Informational Items

Section I includes any deficiencies we observed in the government's accounting principles or internal control that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the government's accounting policies and internal control.

Section II includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the Village Council of the Village of Holly, Michigan.

Section III presents recommendations related to internal control and procedures noted during our current year audit. These comments are offered in the interest of helping the government in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

Section IV contains updated legislative and informational items that we believe will be of interest to you.

We would like to take this opportunity to thank the government's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the Village Council and management of the Village of Holly, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

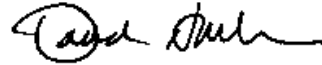
To the Village Council
Village of Holly, Michigan

December 20, 2012

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd Harburn, CPA

Section I - Communications Required Under SAS 115

In planning and performing our audit of the financial statements of the Village of Holly, Michigan (the "Village") as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the government's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the government's internal control. Accordingly, we do not express an opinion on the effectiveness of the government's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in the government's internal control to be material weaknesses:

Account Reconciliations/Year-end Procedures - Accounting tasks such as periodic reconciliations play a key role in ensuring the accuracy of accounting data included in the financial statements. The process for the year-end closing of the books can be a difficult and trying process. In the process of performing our audit, we noted that there was a certain lack of review and reconciliation in many areas of the accounting function specifically with the general ledger and the subledgers. Accounting tasks such as monthly reconciliations, cross-checks, and reviews of the general ledger balances (compared to support) are vital in proving the accuracy of accounting data and financial information that comprise interim and year-end financial statements. We strongly suggest that the Village continue to establish effective review and reconciliation policies and procedures as a customary part of the accounting process. We recommend that particular attention be given to reconciling the following:

- **Accrual Adjustments** - We provided significant assistance in identifying and posting accrual adjustments to the accounting records during this year's audit. A total of over 50 adjustments (which include both accruals and also adjustments to correct misstatements) were proposed by Plante & Moran, PLLC and were posted by the Village. Accruals represent any adjustments other than cash that impact the accounting records (state-shared revenue, due to other governments, property taxes, deferred revenue, special assessments, capital assets, and debt). This deficiency is repeated from the prior year's audit.

- **Fund Balance/Net Assets** - The current year fund balance per the trial balance should agree to the ending fund balance on the prior year audited financial statements for each fund. We recommend the Village implement procedures to verify the balances are in agreement - first, after the audit adjustments are posted and once again at year end while preparing for the audit to ensure that adjustments have not been posted in error to fund balances during the year. During the course of our audit, we noted that the fund balances/net assets of several of the funds did not agree to the prior year audited financial statements, and adjustments were required. This deficiency is repeated from the prior year's audit.
- **Customer Receivables/Revenue** - We noted that the prior year's unbilled accounts receivable balance in the Water and Sewer Funds was reversed in the wrong period. We recommend that procedures be implemented to periodically verify that accounts receivable general ledger accounts are clearing out (i.e., prior balance is reversed in the next fiscal year). We also noted that the sewer and water aged accounts receivable balance created by the billing system was not reconciled on a regular basis to the balance per the general ledger system. We recommend that a monthly reconciliation be performed and reviewed to ensure that the aging and the general ledger are in agreement. This deficiency is repeated from the prior year's audit.
- **Reconciliation of Pooled Cash Fund** - We noted that the pooled fund cash fund was not properly reconciled to the cash balance at year end. The correction resulted in adjustments to cash and expense accounts in various funds. The pooled cash reconciliations should be performed and reviewed throughout the year to ensure that there are no variances between cash balances between the pooled cash fund and the Village's participating funds.

Segregation of Duties - As noted in the prior years, there continues to be a lack of segregation of duties that exists related to the following areas:

The clerk/treasurer is the only employee who has the ability to make adjustments to the utility billing system. This is not an entirely reliable control since the clerk/treasurer also has occasional responsibility for collecting cash from customers. In addition, the other clerks who collect cash receipts from customers on a regular basis all have access to the general ledger system to post manual adjustments.

The accounts payable clerk is a check signer, inputs invoices into the accounts payable program, can make adjustments to the general ledger system, and can create new vendors in the system. The Village has implemented a policy that requires a signed vendor approval form prior to set-up of a new vendor; however, we also recommend that the accounts payable clerk's access to make journal entries be removed. In addition, someone independent of the accounting function should review cancelled checks for unusual vendors and signatures. It is our understanding that the Village manager reviewed bank statements and cancelled checks throughout the year.

Outstanding Tax Appeals and Chargebacks - Annually, any delinquent real property taxes that are unpaid as of March 1 are purchased by Oakland County for subsequent collection. The County remits 100 percent of the Village's share of delinquent real property taxes to the Village in May or June of each year. If the County is unable to collect the full amount from the taxpayer, it bills back (charges back) the unpaid delinquent taxes to the Village and other tax-collecting units as applicable. These charge-backs represent an expense (or reduction of revenue) to the Village, and are typically charged back to the Village three years after the initial tax collection period. Due to the current economic environment, the volume of charge-backs has become larger. The Village also has a number of property tax appeals pending before the Board of Review and Michigan Tax Tribunal. Depending on the final outcome of these cases, the Village may be required to refund property taxes that have previously been collected and recognized as revenue in the General Fund.

The Village normally does not record a fund liability (in the General Fund) each year for the estimated charge-backs related to non-payment by the taxpayer or reductions in taxes related to pending tax appeals because, as until recently, the amount has generally not been significant or material to the financial statements. The amount of estimated charge-backs at June 30, 2011 was calculated by Plante & Moran, PLLC and an adjustment was proposed but not posted by the Village. The adjustment is significant but not material to the financial statements taken as a whole.

In order to properly state property tax revenue, Village management should, at a minimum, have a process in place to calculate the estimated liability and consider recording it in the General Fund for the probable estimate of charge-backs due to Oakland County and probable losses on pending tax appeals.

Overall Monitoring - The Village Council is responsible for overseeing the strategic direction and obligations related to the accountability of the municipality, including overseeing the Village's financial reporting. We understand through discussions with management and per review of board minutes that Council only receives budget to actual reports. As a result of not receiving and reviewing balance sheet information, Council cannot ascertain as to whether the interim financial information is balanced, complete, and accurate. We recommend that Council be provided with a balance sheet along with budget to actual reports on a regular basis.

Section II - Communications Required Under SAS 114

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 24, 2012, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the Village of Holly. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 22, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Holly are described in Note I to the financial statements.

We noted no transactions entered into by the government during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the computation of the net other postemployment benefit asset and the estimated liability related to open Michigan tax tribunal cases.

Management's estimates of the net other postemployment benefits asset and the estimated liability related to open Michigan tax tribunal cases are based on actuarial valuation and probability of settlement. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We are required to inform those charged with governance of any serious difficulties encountered in dealing with management related to the performance of the audit.

As part of our audit process, we attempt to provide (in advance of the scheduled audit fieldwork) what we believe to be a comprehensive listing of all of the items we will need to document our testing as required by generally accepted auditing standards. As the audit proceeds, almost assuredly, there are instances when there is additional information that is needed (based on the results of the audit procedures we apply or analytics that we perform) to support the balances that management represents to be accurate. When additional supporting documentation was requested during fieldwork for the audit of the Village, the engagement team often received significant initial resistance and, at times, unwarranted and unprofessional treatment from the treasurer. While we understand the Village has had a reduction in staff over the past year which causes the same work to be distributed among fewer people and increases stress, the audit firm is only attempting to efficiently complete the responsibilities they have been charged to do. It is important for management to work with the audit firm so that the firm can complete on-site fieldwork timely so that further disruption of the Village employees' daily work is minimized.

Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, other than the adjustments described in Section I - Communications Required under SAS 115.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section III - Other Recommendations

During our audit, we noted areas where we believe there are opportunities for the Village to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below.

Fund Balance

The Village currently has a process in place that includes a review and reconciliation of the draft of the financial statements to the Village's general ledger. We suggest that the Village implement an additional process, which consists of agreeing the final audited financial statements to the fund balance/net assets per the Village's general ledger after all audit adjustments are posted. This additional process can help to ensure that all entries have been posted and that fund balance/net assets in the Village's general ledger agrees to the final audited financial statements submitted to the State of Michigan.

Debt Covenant Analysis

The Village failed to meet the revenue bond covenant in the Sewer Fund for the current year. The Village has not met its debt covenant in the last three years. We recommend that the Village continue to review sewer rates annually to determine whether they provide the required revenue under the bond agreements, as well as perform an annual review of the debt covenants to ensure that they are met.

Section IV - Legislative and Informational Items

Budgetary Stress

The Village has been navigating through some rough waters. Specifically:

- Property taxes have declined due to decreases in taxable value. After decades of relatively dependable inflationary increases, taxable value dropped 14 percent in 2010 and 8 percent in 2011. The 2012 taxable value is not yet completed, but is currently projected at 5 percent lower next year, subject to the final Board of Review and Michigan Tax Tribunal changes.
- State-shared revenue experienced a steady decline since 2001, as the State used it to balance its own budget. With the onset of the governor's Economic Vitality Incentive Program (EVIP), 2011 saw an additional 1/3 reduction in what was previously the statutory portion of revenue sharing;
- Building permits, interest income and all revenue have dropped off the charts.

As a result, the Village's revenue for 2012 was much lower than it was just three years ago. In reaction to this revenue decline, the Village has:

- Reduced staffing levels
- Modified its health care benefit provisions to current employees

We would like to commend the Village for the actions taken to date. These are difficult decisions to make, since any cuts impact employees as well as service levels that residents had come to expect. Unfortunately, the taxable value continues to decline, and we anticipate that additional cost reductions will become necessary in the 2013 budget.

Revenue Sharing

The State budget has been passed and with it comes some tweaks to revenue sharing. One major change is moving 20 percent of the County revenue sharing to an incentive program. Total revenue sharing as compared to 2011-2012 is as follows:

	2012-2013	2011-2012 (as of 2/2012)	% change
Constitutional portion	\$ 725,496,300	\$ 697,500,500	+4%
EVIP **	225,000,000	210,000,000	+7%
County revenue sharing	104,480,000	115,000,000	
County incentive (EVIP-like)**	26,120,000	-	+13%
Grants *	15,000,000	5,000,000	
Total	<u>\$ 1,096,096,300</u>	<u>\$ 1,027,500,000</u>	

The EVIP, county incentive, and grants include significant one-time boilerplate appropriations of \$7.5m, \$2.5m, and \$10m, respectively.

- * Includes school districts and ISDs in 2012-2013, but only if not already receiving a grant from the State School Aid Fund. Also, funds can only be used for combining operations with a city, village, township, or county.
- ** In order to receive funds for EVIP and the county incentive program, the following requirements must be met:

Category 1 - Accountability and Transparency - Due Date was October 1, 2012

- Produce a Citizens Guide, including recognition of unfunded liabilities
- Produce a Performance Dashboard
- Publish a projected budget report - Include current and succeeding year debt service payments, and assumptions used

Category 2 - Consolidation of Services - Due Date February 1, 2013

- Produce a consolidation plan
- If first time, include past endeavors and associated cost savings
- Must include one new initiative with savings estimate and timeline
- If no new initiatives identified, must address why it is not feasible to enter into any new consolidation efforts
- If second time, report on progress of prior plan, including barriers

Category 3 - Employee Compensation - Due Date June 1, 2013

Key point - This section has three options.

Option 1 - Modified compensation plan

- New hires that are eligible for retirement plans must be put in plans that cap employer contributions at 10 percent of base salary if eligible for Social Security or 16.2 percent if not.
- For defined benefit plans, maximum multipliers are as follows:

Eligible for Social Security?	Provided with Retiree Healthcare?	Maximum Multiplier
Yes	Yes	1.5%
Yes	No	2.25%
No	Yes	2.25%
No	No	3.00%

- For defined benefit plans, final average compensation shall use a minimum of three years and shall not include more than 240 hours of paid leave. Overtime hours shall not be included.
- Healthcare premium costs for new hires shall include a minimum 20 percent employee share or employer's share shall be cost competitive with new state preferred provider organization health plan on a per-employee basis.

Option 2 - Compliance with PA 152 OF 2011 - Publicly Funded Health Insurance Contribution Act - Certify compliance with the new Act that requires hard caps, or alternately 80 percent/20 percent cost sharing. This includes the opt-out provision.

Option 3 - Certify that no medical benefits are offered

Payment Timing has Changed

For all except counties, the way that payments are distributed has changed. In 2011-2012, a portion of the payment for each of the three categories was paid on each of the six payment dates throughout the year. Now there are only two payment dates for each of the three categories, such that each local unit will not receive payment associated with each category until the due date, and then the payment will be split between the following two months. The following is an example:

	Prior methodology			New methodology		
	Category			Category		
	1	2	3	1	2	3
October 31, 2012	10,000	10,000	10,000	30,000		
December 31, 2012	10,000	10,000	10,000	30,000		
February 28, 2013	10,000	10,000	10,000		30,000	
April 30, 2013	10,000	10,000	10,000		30,000	
June 30, 2013	10,000	10,000	10,000			30,000
August 31, 2013	10,000	10,000	10,000			30,000
Total	60,000	60,000	60,000	60,000	60,000	60,000

If a local unit fails to meet the initial certification timeline, there is still an opportunity to get the second of the two payments if the unit certified prior to the first month of the second distribution. For example, if you miss the October 1, 2012 deadline, a certification prior to December 1, 2012 will allow you to receive the second normally scheduled payment, but not the first.

Assistance - Detailed guidance is scheduled to be provided by the Department of Treasury by October 1, 2012.

Healthcare Limitations

PA 152 of 2011, the Publicly Funded Health Insurance Contribution Act, was signed into law by the governor in late September 2011. This new law requires all public employers to place hard caps on the amounts they contribute toward healthcare with an option to elect an 80 percent contribution cap rather than a hard cap. There is also an option for a “local unit” to opt out entirely. Please note that local unit has a different definition than public employer. Not all public employers are deemed to be local units.

PA 152 would limit annual costs for medical benefit plans to the following:

- \$5,500 for single coverage
- \$11,000 for individual and spousal coverage
- \$15,000 for family coverage

These limits would apply to “contract years” beginning after January 1, 2012 (although it would not apply to employees covered by a union contract entered into before September 27, 2011 until that contract expired). Current guidance from the Treasury Department defines “contract year” as the one-year period beginning on the date that newly elected or newly renewed coverage begins for a group of persons under a medical benefit plan. (Typically this period begins soon after the close of the annual open enrollment.)

The State recently released the caps for benefit plan coverage years beginning on or after January 1, 2013. The caps were increased in response to the release of the most recent U.S. medical care component CPI data which showed a percentage change of 3.5 percent. The increased caps are as follows:

- \$5,692.50 for single coverage
- \$11,385.00 for individual and spousal coverage
- \$15,525.00 for family coverage

Alternatively, given a majority vote of its governing bodies, a public employer can opt out of the hard cap and into an 80 percent contribution cap. Under this option, public employers would pay no more than 80 percent of the total annual costs for all of the medical benefit plans it offers or contributed to for its employees and elected public officials. This option would require that publicly elected officials would have to pay 20 percent or more of the total annual costs of that plan, but the employee's share of the costs could be allocated as the government sees fit.

This act does contain a complete opt-out provision, but only for local units. It would allow communities to opt-out of these provisions entirely with a 2/3 vote of the governing body.

Failure to comply with the provisions in this act will result in a 10 percent reduction in each EVIP payment for the period of noncompliance. Opting out by a 2/3 vote of the governing body under the provisions of this act is not considered failure to comply.

Personal Property Tax Proposals - As of December 1, 2012

There are a series of personal property tax bills moving through the legislature at this time. Key provisions of the proposals would phase out the industrial portion of the tax over a 10-year period beginning in 2016. Also, businesses with less than \$40,000 in industrial and commercial personal property in any jurisdiction would no longer pay the tax.

As for the impact on local communities, in short, those local governments that would lose at least 2.5 percent of their property tax base as a result of the changes would be eligible to be reimbursed at 80 percent of the revenue the personal property tax currently provides. In addition, local governments would have the option to assess a special assessment (referred to as Essential Services Assessments), not requiring local voter approval, to reimburse police, fire, and ambulance services to ensure they receive 100 percent of the funding that they now get from the personal property tax.

Replacement revenue is proposed to come from dedicating between 1 to 1.5 cents of the 6 cent use tax to a new State authority that would disburse funds to local governments to make up for the lost revenue from the personal property tax. This diversion of the portion of the 6 cent use tax appears to require statewide voter approval to comply with the Headlee Amendment. The State would like this election to coincide with a regularly scheduled statewide election to avoid extra cost to pay for a special election. That could mean that it will not be known until the August 2014 primary or the November 2014 general election whether the replacement revenue is available under these proposals.

When working through upcoming budgets and longer-term projections, please keep these proposals in mind.

Retro-pay Prohibition

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits. Recently, the House Local Government Committee held a second hearing on a new bill introduced this past summer that would amend PA 54 of 2012, the law prohibiting retroactive wage increases, to exempt police officers and firefighters.

Deficit Elimination Plans

The Michigan Department of Treasury issued numbered letter 2012-1 in February 2012 which clarifies when a deficit elimination plan is required and how to quantify the deficit requiring elimination. In addition, it also charges local units with the responsibility to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should no longer be waiting for a letter from the State to file their plans. The plans are now due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue-sharing payments.

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines “acceptable evidence” as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to Treas_MunicipalFinance@michigan.gov or mailed to the Michigan Department of Treasury.

The letter defines a fund deficit, since the law lacks any reference to generally accepted accounting terminology. It states that for governmental funds (not proprietary funds, fiduciary funds, or discretely presented component units) “a plan is necessary to eliminate any “unrestricted fund balance” deficits. Unrestricted fund balance is the sum of the committed, assigned, and unassigned balances.” Determining whether a deficit exists is more challenging for proprietary funds, fiduciary funds, and discretely presented component units and local units will be expected to apply the test that is explained in the letter. We highly recommend that local units review the letter at the following link to ensure that they comply with the requirements: http://www.michigan.gov/treasury/0,1607,7-121-1751_2194_2196---,00.html#2012.

Pension Obligation Bonds and Other Postemployment Benefits Obligation Bonds

Michigan Public Act 329 of 2012 was passed on October 17, 2012 and takes immediate effect. The Act allows communities who meet certain criteria to issue bonds to fund all or a portion of their unfunded pension and Other Post-Employment Benefits (OPEB) liabilities. The bonds are called Pension Obligation Bonds or Other Post-Employment Benefits Obligation Bonds and are collectively referred to as “Benefit Bonds”.

These bonds are subject to federal taxation but are tax exempt by the State of Michigan and must be issued prior to December 31, 2014. The bonds are issued by ordinance or resolution and do not require a vote of the people.

Municipalities must meet all of the following key requirements (the Act also states additional requirements) in order to be eligible to issue benefit bonds:

- Prior to issuance, the municipality must obtain approval from the State Department of Treasury. In addition, the municipality must publish a notice of intent to issue the security.
- Be assigned a credit rating of AA rating or higher by one of the nationally recognized rating agencies (Standards & Poor’s, Moody’s, or Fitch)
- The issued security shall be rated investment grade by a nationally recognized rating agency.
- The property taxes necessary to meet the debt service obligation may not exceed the limit authorized by law.
- Have a legal capacity to issue the obligation as these Bonds are not exempt from legal debt limitations

- Relative to the pension plan, have partial or complete cessation of accruals to a defined benefit plan or closed the defined benefit plan to new or certain existing employee groups and implemented a defined contribution plan (this requirement does not apply to the retiree health care, or OPEB plan)
- The municipality shall covenant with bond holders and the State that it will not, after the issuance of Benefit Bonds and while the Bonds are outstanding, rescind any action taken for the cessation of accruals to a defined benefit plan or complete closure of defined benefit plans for new and existing employees.

In addition, the municipality must prepare a comprehensive financial plan which is to be made available to the public. Each of the following elements must be completed to meet this requirement:

1. An analysis of the current and future obligations of the pension or OPEB plan
2. Evidence that the issuance of the municipal bonds, together with other available revenues, will be sufficient to eliminate the unfunded liability
3. Debt service amortization schedules and a description of the actions required by the municipality to satisfy the debt service payments
4. Certification by the person preparing the plan that it is complete and accurate
5. If the bond proceeds are to be placed in a health care trust fund, the municipality must also put in place a plan in place to mitigate increases in health care costs, such as the implementation of a wellness program.

Bills Being Considered

Prohibition Against Hiring Current Retirees

House Bill 5637, the Jobs Initiative Reform Act, is a bill that has been introduced in the House that prohibits public employers in Michigan from employing an individual who is receiving benefits from the public employer's defined benefit retirement plan, and to provide sanctions.

A public employer shall not directly, or indirectly through a contract with a third party, employ an individual who is receiving retirement benefits from a public employee defined benefit retirement plan of that public employer. This prohibition does not apply if the individual waives his or her right to receive previously accrued retirement benefits from that public employer's defined benefit retirement plan while re-employed by the public employer.

Sanctions would consist of reimbursing the defined benefit retirement plan for retirement benefits that the defined benefit retirement plan paid to the individual during the prohibited employment.

This appears to be an issue only if a retiree is being rehired by the existing employer and would not apply if that retiree seeks employment with a different employer.

PA 314 Pension Changes

Senate Bill 797 and House Bill 5416 make some significant changes to Public Act 314, as follows:

- The legislation utilizes existing asset classes but expands some categories such as foreign equities (from 20 percent to 70 percent), real estate (5-10 percentage points higher), and the “basket clause” (10 percentage points higher than existing limits for all plan sizes)
- Requires fee disclosures by investment service providers
- Establishes uniform transparency standards to allow for benchmarking
- Expands prohibition against payments to providers that make contributions to plan sponsor officials
- Permits local pension boards to self-police, which means they can remove a member who is legally incapacitated, convicted of certain violations, or has committed material breaches of policies
- Imposes limits on dollars spent on training to the lesser of \$12,000 per board trustee or \$150,000. No one trustee can spend more than \$30,000.
- Requires the retention of records for six years

To the Village Council
Village of Holly, Michigan

December 20, 2012

Client: **Village of Holly**
Opinion Unit: **Governmental Activities**
Y/E: **6/30/2012**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	None								
A2									
ESTIMATE ADJUSTMENTS:									
B1	To record potential property tax chargebacks and MTT adjustments			\$ 29,857			\$ (29,857)		\$ (29,857)
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
		\$ -	\$ -	-	\$ -	\$ -	-	\$ -	-
	Total	\$ -	\$ -	\$ 29,857	\$ -	\$ -	\$ (29,857)	\$ -	\$ (29,857)
PASSED DISCLOSURES:									
D1	None								
D2									

Client: **Village of Holly**
Opinion Unit: **General Fund (Major Governmental Fund)**
Y/E: **6/30/2012**

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
KNOWN MISSTATEMENTS:									
A1	None								
A2									
ESTIMATE ADJUSTMENTS:									
B1	To record potential property tax chargebacks and MTT adjustments			\$ 29,857			\$ (29,857)		\$ (29,857)
B2									
IMPLIED ADJUSTMENTS:									
C1	None								
C2									
		\$ -	\$ -	-	\$ -	\$ -	-	\$ -	-
	Total	\$ -	\$ -	\$ 29,857	\$ -	\$ -	\$ (29,857)	\$ -	\$ (29,857)
PASSED DISCLOSURES:									
D1	None								
D2									