Village of Holly, Michigan

Financial Report
with Supplemental Information
June 30, 2013

Village of Holly, Michigan

Contents

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Independent Auditor's Report

To the Village Council
Village of Holly, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the Village of Holly, Michigan (the "Village") as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Village of Holly, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Village Council
Village of Holly, Michigan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of the Village of Holly, Michigan as of June 30, 2013 and the respective changes in its financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the major fund 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.

Plante & Moran, PLLC

December 12, 2013

Our discussion and analysis of the Village of Holly, Michigan's (the "Village") financial performance provides an overview of the Village of Holly's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Village's financial statements.

Using this Annual Report

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

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

Governmental Activities

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

	2012	2013	Change	Percent Change
Revenue				
Program revenue:				
Charges for services	$ 731,771	$ 748,213	$ 16,442	2%
Operating grants	480,765	511,505	30,740	6%
Capital grants	16,586	5,853	(10,733)	-65%
General revenue:				
Property taxes	1,311,017	1,267,639	(43,378)	-3%
State-shared revenue	525,014	542,427	17,413	3%
Investment income	6,733	5,220	(1,513)	-22%
Other revenue	92,695	114,498	21,803	24%
Total revenue	3,164,581	3,195,355	30,774	1%
Program Expenses				
General government	635,073	500,590	(134,483)	-21%
Public safety	1,935,910	1,896,982	(38,928)	-2%
Public works	917,625	1,185,748	268,123	29%
Community and economic development	98,971	57,528	(41,443)	-42%
Recreation and cultural	77,778	35,039	(42,739)	-55%
Interest on long-term debt	1,071	765	(306)	-29%
Total expenses	3,666,428	3,676,652	10,224	0%
Change in Net Position	**$ (501,847)**	**$ (481,297)**	**$ 20,550**	-4%

The Village's total governmental revenue increased by $30,774 due primarily to an increase in the federal grant revenue in the current year. Expenses increased by $10,224 during the year due primarily to increases in public works for administration costs and rubbish collection costs.

	2012	2013	Change	Percent Change
Assets				
Other assets	$ 1,418,184	$ 1,401,234	$ (16,950)	-1%
Capital assets	3,982,242	3,547,392	(434,850)	-11%
Total assets	5,400,426	4,948,626	(451,800)	-8%
Liabilities				
Current liabilities	182,049	89,015	(93,034)	-51%
Noncurrent liabilities	239,825	362,356	122,531	51%
Total liabilities	421,874	451,371	29,497	7%
Net Position				
Net investment in capital assets	3,873,792	3,505,308	(368,484)	-10%
Restricted	280,344	299,735	19,391	7%
Unrestricted	824,416	692,212	(132,204)	-16%
Total net position	**$ 4,978,552**	**$ 4,497,255**	**$ (481,297)**	-10%

Total governmental net position decreased by 10 percent from a year ago - from $4,978,552 to $4,497,255. Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - decreased by $132,204 for governmental activities. This represents a decrease of approximately 16 percent. The current level of unrestricted net position for our governmental activities stands at $692,212 or 19 percent of governmental activity expenses.

Business-type Activities

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

	2012	2013	Change	Percent Change
Operating revenue	$ 2,403,198	$ 2,227,397	$ (175,801)	-7%
Operating expenses - Other than depreciation	1,578,277	1,537,674	(40,603)	-3%
Depreciation	981,063	974,896	(6,167)	-1%
Operating Loss	(156,142)	(285,173)	(129,031)	83%
Nonoperating revenue (expenses):				
Debt service charges	1,514,473	1,603,755	89,282	6%
Investment income	8,963	14,481	5,518	62%
Interest expense	(750,130)	(703,905)	46,225	-6%
Cell tower leases	43,449	42,315	(1,134)	-3%
Capital contributions	3,216	4,676	1,460	45%
Change in Net Position	**$ 663,829**	**$ 676,149**	**$ 12,320**	2%

	2012	2013	Change	Percent Change
Assets				
Other assets	$ 2,538,165	$ 3,098,919	$ 560,754	22%
Capital assets	33,587,924	32,706,154	(881,770)	-3%
Total assets	36,126,089	35,805,073	(321,016)	-1%
Liabilities				
Current liabilities	217,753	194,963	(22,790)	-10%
Long-term liabilities	16,624,381	15,650,006	(974,375)	-6%
Total liabilities	16,842,134	15,844,969	(997,165)	-6%
Net Position				
Net investment in capital assets	17,201,517	17,132,771	(68,746)	0%
Restricted	1,085,599	1,534,317	448,718	41%
Unrestricted	996,839	1,293,016	296,177	30%
Total net position	**$ 19,283,955**	**$ 19,960,104**	**$ 676,149**	4%

The Village's business-type activities consist of the Water and Sewer Funds. We provide water to residents from Village wells and sewage treatment through a Village-owned and operated sewage treatment plant. The net position of business-type activities increased 4 percent from a year ago - increasing from $19,283,955 to $19,960,104. Unrestricted net position - the portion of net position that can be used to finance day-to-day operations - increased by $296,177 or 30 percent. The current level of unrestricted net position stands at $1,293,016 or about 40 percent of annual expenses.

Debt service charges increased 6 percent from a year ago, increasing from $1,514,473 to $1,603,755 due primarily to increased debt service fee for water and sewer which is charged per meter instead of billed based on account.

Expenses decreased $92,995 from a year ago primarily due to a decrease in the interest expense for the outstanding debt and a decrease in labor charges.

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 2013 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, provides services for planning and zoning, community development, senior transportation, and parks and recreation. Public safety makes up 67 percent of the total General Fund expenditures.

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

	2012	2013	Change	Percent Change
Revenue				
Property taxes	$ 1,311,017	$ 1,267,639	$ (43,378)	-3%
Charges for services	777,516	552,775	(224,741)	-29%
Licenses and permits	83,635	78,524	(5,111)	-6%
State-shared revenues	622,035	542,427	(79,608)	-13%
Act 51 funding	342,985	347,552	4,567	1%
Federal, state, and local grants	76,498	170,408	93,910	123%
Fines and forfeitures	29,142	37,867	8,725	30%
Investment income	6,733	5,220	(1,513)	-22%
Special assessments	276,770	275,905	(865)	0%
Other	78,505	68,628	(9,877)	-13%
Total revenue	3,604,836	3,346,945	(257,891)	-7%
Expenditures				
Current:				
General government	792,703	516,813	(275,890)	-35%
Public safety	1,831,449	1,688,924	(142,525)	-8%
Public works	922,237	927,401	5,164	1%
Health and welfare	24,394	30,691	6,297	26%
Community and economic development	80,832	25,007	(55,825)	-69%
Recreation and culture	44,518	17,225	(27,293)	-61%
Capital outlay	19,143	12,009	(7,134)	-37%
Debt service	-	27,876	27,876	0%
Total expenditures	3,715,276	3,245,946	(469,330)	-13%
Excess of Expenditures (Under) Over Revenue	(110,440)	100,999	211,439	-191%
Other Financing Sources -				
Transfers - Net	76,192	-	(76,192)	100%
Net Change in Fund Balances	(34,248)	100,999	135,247	-395%
Fund Balances - Beginning of year	1,225,378	1,191,130	(34,248)	-12%
Fund Balances - End of year	**$ 1,191,130**	**$ 1,292,129**	**$ 100,999**	8%

The federal grants increased during the year by $93,910. The majority of those grants have been used for community and economic development activities related to the neighborhood stabilization grant.

Property tax revenue continues to decline due to continued decline in taxable values. Charges for services decreased by $224,741 in the current year, primarily due to a decrease in labor charges that were charged by the General Fund. State-shared revenue decreased due to the decrease in the population in the 2010 census.

General government expenditures declined primarily due to a one-time severance pay in 2012. Public safety expenditures declined $142,525 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 reductions in some expenditures netted an increase in the fund balance of $108,966.

Capital Asset and Debt Administration

During 2013, the Village did not invest in governmental capital assets.

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 $5,156,190 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.

Statement of Net Position
June 30, 2013

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents (Note 3)	$ 1,097,400	$ 820,425	$ 1,917,825	$ 17,947
Receivables	196,469	705,384	901,853	1,180
Inventory	-	38,297	38,297	-
Restricted assets (Note 9)	-	1,534,813	1,534,813	-
Due from fiduciary fund - Retiree Health	107,365	-	107,365	-
Capital assets (Note 5):				
Assets not subject to depreciation	198,000	50,000	248,000	-
Assets subject to depreciation	3,349,392	32,656,154	36,005,546	-
Total assets	4,948,626	35,805,073	40,753,699	19,127
Liabilities				
Accounts payable	66,094	7,087	73,181	2,158
Accrued liabilities and other	22,921	187,876	210,797	-
Noncurrent liabilities:				
Due within one year:				
Compensated absences (Note 8)	139,649	15,413	155,062	-
Capital leases (Note 7)	-	67,140	67,140	-
Current portion of long-term debt (Note 8)	42,084	1,036,794	1,078,878	-
Due in more than one year:				
Capital leases (Note 7)	-	225,773	225,773	-
Net OPEB obligation	180,623	60,714	241,337	-
Long-term debt (Note 8)	-	14,244,172	14,244,172	-
Total liabilities	451,371	15,844,969	16,296,340	2,158
Net Position				
Net investment in capital assets	3,505,308	17,132,771	20,638,079	-
Restricted for:				
Streets and highways	277,258	-	277,258	-
Federal grants	18,546	-	18,546	-
Lake treatment	3,931	-	3,931	-
Bond reserve	-	1,534,317	1,534,317	-
Unrestricted	692,212	1,293,016	1,985,228	16,969
Total net position	**$ 4,497,255**	**$ 19,960,104**	**$ 24,457,359**	**$ 16,969**

		Program Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 500,590	$ 213,023	$ 12,000	$ -
Public safety:				
Police	1,577,426	39,097	16,551	-
Building inspections and related	25,195	-	-	-
Fire	294,361	19,550	-	-
Public works:				
Streets	590,740	-	364,438	-
Rubbish disposal	310,581	270,052	-	-
Other public works activities	269,866	87,846	-	5,853
Cemetery	9,240	-	-	-
Trees	5,321	-	-	-
Community and economic development:				
Redevelopment and housing	15,081	-	81,205	-
Planning, zoning, and related	8,768	96,073	-	-
Senior transportation	33,679	22,572	37,311	-
Parks and recreation	35,039	-	-	-
Interest on long-term debt	765	-	-	-
Total governmental activities	3,676,652	748,213	511,505	5,853
Business-type activities:				
Sewer Fund	1,986,668	2,125,168	-	-
Water Fund	1,229,807	1,748,299	-	4,676
Total business-type activities	3,216,475	3,873,467	-	4,676
Total primary government	**$ 6,893,127**	**$ 4,621,680**	**$ 511,505**	**$ 10,529**
Component units:				
Economic Development Corporation	$ 11,000	$ -	$ -	$ -
Downtown Development Authority	111,474	-	-	-
Total component units	**$ 122,474**	**$ -**	**$ -**	**$ -**

General revenue:
- Property taxes
- State-shared revenue
- Investment income
- Cable franchise fees
- Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (275,567)	$ -	$ (275,567)	$ -
(1,521,778)	-	(1,521,778)	-
(25,195)	-	(25,195)	-
(274,811)	-	(274,811)	-
(226,302)	-	(226,302)	-
(40,529)	-	(40,529)	-
(176,167)	-	(176,167)	-
(9,240)	-	(9,240)	-
(5,321)	-	(5,321)	-
66,124	-	66,124	-
87,305	-	87,305	-
26,204	-	26,204	-
(35,039)	-	(35,039)	-
(765)	-	(765)	-
(2,411,081)	-	(2,411,081)	-
-	138,500	138,500	-
-	523,168	523,168	-
-	661,668	661,668	-
(2,411,081)	661,668	(1,749,413)	-
-	-	-	(11,000)
-	-	-	(111,474)
-	-	-	(122,474)
1,267,639	-	1,267,639	64,169
542,427	-	542,427	-
5,220	14,481	19,701	3
71,288	-	71,288	-
43,210	-	43,210	7,937
1,929,784	14,481	1,944,265	72,109
(481,297)	676,149	194,852	(50,365)
4,978,552	19,283,955	24,262,507	67,334
$ 4,497,255	**$ 19,960,104**	**$ 24,457,359**	**$ 16,969**

Governmental Funds Balance Sheet June 30, 2013

	General Fund	Nonmajor Funds	Total
Assets			
Cash and cash equivalents	$ 614,267	$ 483,133	$ 1,097,400
Receivables:			
Delinquent taxes	82	-	82
Special assessments receivable	12,493	11,014	23,507
Other	16,254	-	16,254
Due from other governmental units	99,081	57,545	156,626
Due from other funds	7,024	-	7,024
Due from fiduciary fund - Retiree Health	107,365	-	107,365
Total assets	**$ 856,566**	**$ 551,692**	**$ 1,408,258**
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 35,229	$ 30,865	$ 66,094
Due to other funds	-	7,024	7,024
Accrued payroll and related liabilities	21,428	571	21,999
Deferred revenue (Note 4)	12,493	8,519	21,012
Total liabilities	69,150	46,979	116,129
Fund Balances			
Restricted:			
Roads	-	277,258	277,258
Other restricted	-	18,546	18,546
Committed - Cemetery care	149,283	-	149,283
Assigned:			
Tri party	34,779	-	34,779
Sidewalks	141,689	-	141,689
Roads	-	159,684	159,684
Mill pond	100,000	-	100,000
Capital improvements	172,018	-	172,018
Senior transportation	-	71,240	71,240
Unassigned	189,647	(22,015)	167,632
Total fund balances	787,416	504,713	1,292,129
Total liabilities and fund balances	**$ 856,566**	**$ 551,692**	**$ 1,408,258**

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

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
June 30, 2013

Fund Balance Reported in Governmental Funds	$ 1,292,129
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	3,547,392
Net OPEB liability	(180,623)
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	21,012
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(42,084)
Accrued interest is not due and payable in the current period and is not reported in the funds	(922)
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	(139,649)
Net Position of Governmental Activities	**$ 4,497,255**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2013

	General Fund	Nonmajor Funds	Total
Revenue			
Property taxes	$ 1,267,639	$ -	$ 1,267,639
Licenses and permits	78,524	-	78,524
Federal grants	95,475	70,035	165,510
State-shared revenue and grants	547,325	347,552	894,877
Charges for services	547,852	4,923	552,775
Fines and forfeitures	37,867	-	37,867
Investment income	2,922	2,298	5,220
Other revenue:			
Special assessments	-	275,905	275,905
NSP program income	11,000	-	11,000
Other miscellaneous income	56,249	1,379	57,628
Total revenue	2,644,853	702,092	3,346,945
Expenditures			
Current:			
General government:			
Village Council	6,455	-	6,455
Village manager	65,604	-	65,604
Clerk/Treasurer	85,211	-	85,211
Buildings and grounds	133,698	-	133,698
Attorney	37,242	-	37,242
Data processing	11,964	-	11,964
Other	176,639	-	176,639
Public safety:			
Police	1,109,597	-	1,109,597
Dispatch	292,919	-	292,919
Fire	263,616	-	263,616
Building inspections and related	22,792	-	22,792
Public works:			
Streets	-	348,385	348,385
Rubbish disposal	-	310,581	310,581
Other public works activities	247,536	-	247,536
Cemetery	15,578	-	15,578
Lake maintenance	-	5,321	5,321
Senior transportation	-	30,691	30,691
Community and economic development:			
Redevelopment and housing	1,158	15,081	16,239
Planning, zoning, and related	8,768	-	8,768
Parks and recreation	17,225	-	17,225
Capital outlay	12,009	-	12,009
Debt service	27,876	-	27,876
Total expenditures	2,535,887	710,059	3,245,946
Net Change in Fund Balances	108,966	(7,967)	100,999
Fund Balances - Beginning of year	678,450	512,680	1,191,130
Fund Balances - End of year	**$ 787,416**	**$ 504,713**	**$ 1,292,129**

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, 2013

Net Change in Fund Balances - Total Governmental Funds	$ 100,999
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:	
Depreciation expense	(423,463)
Net book value of assets disposed of	(11,387)
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	(18,870)
Decrease in accrued interest payable	1,403
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	61,026
Decrease in the obligation of contracts payables are recorded when incurred in the statement of activities	5,340
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	(8,274)
Increase in the liability for other postemployment benefits is recorded when earned in the statement of activities	(188,071)
Change in Net Position of Governmental Activities	**$ (481,297)**

Proprietary Funds
Statement of Net Position
June 30, 2013

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	$ 28,117	$ 792,308	$ 820,425
Receivables	398,573	306,811	705,384
Inventory	38,297	-	38,297
Total current assets	464,987	1,099,119	1,564,106
Noncurrent assets:			
Restricted assets (Note 9)	783,057	751,756	1,534,813
Capital assets (Note 5):			
Assets not subject to depreciation	50,000	-	50,000
Assets subject to depreciation	21,746,252	10,909,902	32,656,154
Total noncurrent assets	22,579,309	11,661,658	34,240,967
Total assets	23,044,296	12,760,777	35,805,073
Liabilities			
Current liabilities:			
Accounts payable	502	6,585	7,087
Accrued liabilities and other:			
Accrued salaries and wages	4,490	3,039	7,529
Accrued interest payable	104,921	72,595	177,516
Customer deposits	-	2,831	2,831
Compensated absences - < 1 yr	11,840	3,573	15,413
Capital leases - < 1 yr (Note 7)	33,570	33,570	67,140
Current portion of long-term debt (Note 8)	603,397	433,397	1,036,794
Total current liabilities	758,720	555,590	1,314,310
Noncurrent liabilities:			
Net OPEB obligation	34,605	26,109	60,714
Capital leases - > 1 yr (Note 7)	112,887	112,886	225,773
Long-term debt (Note 8)	8,844,172	5,400,000	14,244,172
Total noncurrent liabilities	8,991,664	5,538,995	14,530,659
Total liabilities	9,750,384	6,094,585	15,844,969
Net Position			
Net investment in capital assets	12,202,226	4,930,545	17,132,771
Restricted - Restricted for bond reserve	783,057	751,260	1,534,317
Unrestricted	308,629	984,387	1,293,016
Total net position	**$ 13,293,912**	**$ 6,666,192**	**$ 19,960,104**

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2013

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating Revenue			
Sale of water	$ -	$ 948,189	$ 948,189
Sewage disposal charges	1,137,322	-	1,137,322
Other sales to customers	9,440	7,911	17,351
Interest and penalty charges	61,811	46,821	108,632
Recoveries	-	1,515	1,515
Charges to other funds	-	14,388	14,388
Total operating revenue	1,208,573	1,018,824	2,227,397
Operating Expenses			
Water treatment and transmission	-	595,781	595,781
Wastewater treatment	624,176	-	624,176
Water collection system	207,358	-	207,358
Billing and administrative costs	55,289	55,070	110,359
Depreciation	678,124	296,772	974,896
Total operating expenses	1,564,947	947,623	2,512,570
Operating (Loss) Income	(356,374)	71,201	(285,173)
Nonoperating Revenue (Expenses)			
Investment income	2,148	12,333	14,481
Interest expense	(421,721)	(282,184)	(703,905)
Debt service charges	916,595	687,160	1,603,755
Cell tower leases	-	42,315	42,315
Total nonoperating revenue	497,022	459,624	956,646
Income - Before contributions	140,648	530,825	671,473
Capital Contributions - Capital grants	-	4,676	4,676
Change in Net Position	140,648	535,501	676,149
Net Position - Beginning of year	13,153,264	6,130,691	19,283,955
Net Position - End of year	**$ 13,293,912**	**$ 6,666,192**	**$ 19,960,104**

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

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2013

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
Cash Flows from Operating Activities			
Receipts from customers	$ 1,165,122	$ 974,628	$ 2,139,750
Receipts from interfund services and reimbursements	-	14,388	14,388
Payments to suppliers	(372,674)	(231,707)	(604,381)
Payments to employees	(387,529)	(299,880)	(687,409)
Internal activity - Payments to other funds	(90,443)	(87,176)	(177,619)
Net cash provided by operating activities	314,476	370,253	684,729
Cash Flows from Noncapital Financing Activities - Cell tower leases	-	42,315	42,315
Cash Flows from Capital and Related Financing Activities			
Receipt of capital grants	-	4,676	4,676
Purchase of capital assets	(46,563)	(46,563)	(93,126)
Principal and interest paid on capital debt	(1,011,998)	(742,836)	(1,754,834)
Debt service charge	916,595	687,160	1,603,755
Net cash used in capital and related financing activities	(141,966)	(97,563)	(239,529)
Cash Flows from Investing Activities - Interest received on investment	2,148	12,333	14,481
Net Increase in Cash and Cash Equivalents	174,658	327,338	501,996
Cash and Cash Equivalents - Beginning of year	636,516	1,216,726	1,853,242
Cash and Cash Equivalents - End of year	**$ 811,174**	**$ 1,544,064**	**$ 2,355,238**
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	$ 28,117	$ 792,308	$ 820,425
Restricted cash	783,057	751,756	1,534,813
Total cash and cash equivalents	**$ 811,174**	**$ 1,544,064**	**$ 2,355,238**

Proprietary Funds
Statement of Cash Flows (Continued)
Year Ended June 30, 2013

	Enterprise Funds		
	Sewer Fund	Water Fund	Total
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities			
Operating (loss) income	$ (356,374)	$ 71,201	$ (285,173)
Adjustments to reconcile operating (loss) income to net cash from operating activities:			
Depreciation	678,124	296,772	974,896
Changes in assets and liabilities:			
Receivables	(43,451)	(29,808)	(73,259)
Inventories	(7,863)	-	(7,863)
Prepaid and other assets	10,988	8,814	19,802
Accounts payable	(5,637)	(6,174)	(11,811)
Accrued and other liabilities	38,689	29,448	68,137
Net cash provided by operating activities	**$ 314,476**	**$ 370,253**	**$ 684,729**

Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	Retiree Health Care Fund (Employee Benefits Fund)	Agency Funds
Assets		
Cash and cash equivalents	$ 7,930	$ 140,661
Investments:		
Mutual funds	158,744	-
Certificates of deposit	322,106	-
Total assets	488,780	**$ 140,661**
Liabilities		
Due to primary government	107,365	$ -
Refundable deposits, bonds, etc.	-	120,174
Other miscellaneous liabilities	-	20,487
Total liabilities	107,365	**$ 140,661**
Net Position Held in Trust for Pension and Other Employee Benefits	**$ 381,415**	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position - Retiree Health Care Fund (Employee Benefits Fund)
Year Ended June 30, 2013

	Retiree Health Care Fund (Employee Benefits Fund)
Additions	
Investment income - Net increase in fair value investments	$ 13,468
Contributions - Employee	20,087
Total additions	33,555
Deductions	
Benefit payments	63,204
Administrative expenses	5,367
Total deductions	68,571
Net Decrease in Net Position Held in Trust	(35,016)
Net Position Held in Trust for Retiree Health Care Benefits - Beginning of year	416,431
Net Position Held in Trust for Retiree Health Care Benefits - End of year	**$ 381,415**

Component Units
Statement of Net Position
June 30, 2013

	Downtown Development Authority	Economic Development Corporation	Total
Assets			
Cash and cash equivalents (Note 3)	$ 17,882	$ 65	$ 17,947
Property tax receivable	1,180	-	1,180
Total assets	19,062	65	19,127
Liabilities - Accounts payable	2,158	-	2,158
Net Position	**$ 16,904**	**$ 65**	**$ 16,969**

Component Units
Statement of Activities
Year Ended June 30, 2013

	Expenses	Net (Expense) Revenue and Changes in Net Position: Downtown Development Authority	Net (Expense) Revenue and Changes in Net Position: Economic Development Corporation	Net (Expense) Revenue and Changes in Net Position: Total
Functions/Programs				
Downtown Development Authority	$ 111,474	$ (111,474)	$ -	$ (111,474)
Economic Development Corporation	11,000	-	(11,000)	(11,000)
Total component units	**$ 122,474**	(111,474)	(11,000)	(122,474)
General revenue:				
Property taxes		64,169	-	64,169
Investment income		3	-	3
Other miscellaneous income		7,937	-	7,937
Total general revenue		72,109	-	72,109
Change in Net Position		(39,365)	(11,000)	(50,365)
Net Position - Beginning of year		56,269	11,065	67,334
Net Position - End of year		**$ 16,904**	**$ 65**	**$ 16,969**

Note 1 - 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. 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 position 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 1 - 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 1 - 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 fiduciary activities:

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.

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.

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.

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

The Village's 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the Village totaled $99 million (a portion of which is abated and a portion of which is captured by the DDA). Taxes were levied as follows:

Purpose	Millage Rate	Revenue
General operating	13.5244	$ 1,267,639

Assets, Liabilities, and Net Position 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.

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.

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

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

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 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 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.

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

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts, 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.

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 the Village Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Village Council.
- Assigned: Intent to spend resources on specific purposes expressed by the Village Council

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position 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.

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.

Accounting and Reporting Change - During the year, the Village adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. 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. The 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. The statement impacts the format and reporting of the balance sheet at the government-wide level and also at the fund level.

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.

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

Shortfall at July 1, 2012	$	(328,210)
Current year permit revenue		36,435
Related expenses - Direct costs		22,792
Current year surplus		13,643
Cumulative shortfall at June 30, 2013	$	(314,567)

Fund Deficits - As of June 30, 2013, the Lake Improvement Fund and the Solid Waste Fund had fund deficits of $4,588 and $17,427, respectively. The deferred revenue in the Lake Improvement Fund due to funds being unavailable as of June 30, 2013 caused the deficit. An accrual of an invoice at June 30, 2013 caused the deficit in the Solid Waste Fund.

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

Note 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.

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had $1,578,096 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.

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	$ 2,595	AAAm	S&P
Pooled Investments #77866	456,018	N/A	N/A
Pooled Investments #77865	1,415,975	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	$ 21,012

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
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	734,380	-	-	734,380
Vehicles	1,355,510	-	24,890	1,330,620
Subtotal	13,274,556	-	24,890	13,249,666
Accumulated depreciation:				
Roads and sidewalks	7,213,637	234,900	-	7,448,537
Buildings and improvements	766,450	42,250	-	808,700
Office furnishings and equipment	450,200	45,194	-	495,394
Vehicles	1,060,027	101,119	13,503	1,147,643
Subtotal	9,490,314	423,463	13,503	9,900,274
Net capital assets being depreciated	3,784,242	(423,463)	11,387	3,349,392
Net capital assets	$ 3,982,242	$ (423,463)	$ 11,387	$ 3,547,392

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
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	1,271,033	93,125	-	1,364,158
Subtotal	47,688,303	93,125	-	47,781,428
Accumulated depreciation:				
Water and sewer distribution system	13,465,213	915,795	-	14,381,008
Equipment and vehicles	685,165	59,101	-	744,266
Subtotal	14,150,378	974,896	-	15,125,274
Net capital assets being depreciated	33,537,925	(881,771)	-	32,656,154
Net capital assets	$ 33,587,925	$ (881,771)	$ -	$ 32,706,154

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

Governmental activities:	
General government	$ 104,165
Public safety	65,716
Public works	251,346
Recreation and culture	2,236
Total governmental activities	$ 423,463
Business-type activities:	
Water	$ 296,772
Sewer	678,124
Total business-type activities	$ 974,896

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	$ 7,024

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

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

There is a payable from the Retiree Health Care Fund (Employee Benefits Fund) to the primary government in the amount of $107,365 as a result of the premium payments related to retiree healthcare being paid through pooled cash.

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:

Years Ending June 30		Amount
2014		$ 79,800
2015		79,800
2016		79,800
2017		79,800
2018		5,222
	Total minimum lease payments	324,422
	Less amount representing interest	(31,509)
	Present value	$ 292,913

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 reassessment of the Village) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 8 - Long-term Debt (Continued)

The Village has the following long-term debt outstanding as of June 30, 2013:

Description	Amount
Governmental Activities:	
General obligations:	
HVAC unit for Village office, with interest of 4.0 percent, maturing in February 2014	$ 36,744
Contracts payable due June 2014	5,340
Total governmental activities debt	$ 42,084
Business-type Activities:	
General obligations:	
2006 General Obligation Limited Tax Bond, with interest from 4 percent to 4.375 percent, maturing in 2025	$ 4,450,000
Contracts payable due June 2014	6,794
Subtotal	4,456,794
Revenue bonds:	
1991 Water Revenue Bond, with interest of 5.113 percent, maturing in 2014	215,000
1999 Water Supply Revenue Bonds Act 94, with interest of 2.5 percent, maturing in 2019	590,000
2004 Wastewater System Revenue Bond, with interest from 3.5 percent to 4.85 percent, maturing in 2025	5,050,000
2006 Water System Revenue Bond, with interest from 4 percent to 5.5 percent, maturing in 2027	5,025,000
Total revenue bonds	10,880,000
Total business-type activity debt	$ 15,336,794

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	$ 97,770	$ -	$ 61,026	$ 36,744	$ 36,744
Contracts payable	10,680	-	5,340	5,340	5,340
Accumulated compensated absences	131,375	139,650	131,376	139,649	139,649
Total governmental activities	$ 239,825	$ 139,650	$ 197,742	$ 181,733	$ 181,733
Business-type Activities					
General obligation bonds	$ 4,700,000	$ -	$ 250,000	$ 4,450,000	$ 300,000
Revenue bonds	11,600,000	-	720,000	10,880,000	730,000
Less deferred amounts - Issuance cost	(60,483)	-	(4,655)	(55,828)	-
Contracts payable	13,590	-	6,796	6,794	6,794
Total bonds and contracts payable	16,253,107	-	972,141	15,280,966	1,036,794
Accumulated compensated absences	14,194	1,219	-	15,413	15,413
Total business-type activities	$ 16,267,301	$ 1,219	$ 972,141	$ 15,296,379	$ 1,052,207

Total interest expense for the year was $703,680. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
Years Ending June 30	Principal	Interest	Total	Principal	Interest	Total
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	-	-	-	1,035,000	493,888	1,528,888
2019-2023	-	-	-	5,680,000	1,766,350	7,446,350
2024-2028	-	-	-	4,500,000	396,438	4,896,438
Total	$ 42,084	$ 1,106	$ 43,190	$ 15,336,794	$ 5,040,204	$ 20,376,998

Revenue Pledged - The Village has pledged substantially all revenue of the Water Fund, net of operating expenses, to repay the above water and sewer revenue bonds. Proceeds from the bonds provided financing for the construction of the water plant. The bonds are payable solely from the net revenue of the water system. The remaining principal and interest to be paid on the revenue bonds total $7,930,340. During the current year, net revenue of the water system was $1,118,923 compared to the annual debt requirements of $699,314.

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 $6,695,363. During the current year, net revenue of the sewer system was $1,246,479 compared to the annual debt requirements of $968,350.

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	$ 496
Revenue bond restrictions - Bond reserve	1,534,317
Total restricted assets	$ 1,534,813

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.

Note 11 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended June 30, 2013, the Village's annual pension cost of $347,307 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, 2010, 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 26 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2013	2012	2011
Annual pension cost (APC)	$ 347,307	$ 293,775	$ 269,286
Percentage of APC contributed	100.0 %	100.0 %	100.0 %
Net pension obligation	$ -	$ -	$ -

	Actuarial Valuation as of December 31		
	2012	2011	2010
Actuarial value of assets	$ 7,194,568	$ 7,385,644	$ 7,532,241
Actuarial accrued liability (AAL) (entry age)	$ 12,280,556	$ 12,187,273	$ 11,836,411
Unfunded AAL (UAAL)	$ 5,085,988	$ 4,801,629	$ 4,304,170
Funded ratio	58.6 %	60.6 %	63.6 %
Covered payroll	$ 918,677	$ 970,678	$ 954,753
UAAL as a percentage of covered payroll	553.6 %	494.7 %	450.8 %

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 $455,988 in fiscal year 2013. 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 $26,185, which is 5 to 10 percent of eligible wages. Employees made required and voluntary contributions to the plan during the current year. The plan is administered by the Village treasurer/clerk. Investments are made through ICMA and AXA, which hold the assets of the plan within a trust. As a result, the plan assets are not reflected in the financial statements since the Village has no fiduciary or administrative responsibility for the plan. It is the policy of the Village to pay the pension costs as accrued.

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

Note 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 these financial statements as an other employee benefit trust fund type.

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) liability:

Annual required contribution (recommended)	$ 127,110
Interest on the prior year's net OPEB obligation	5,199
Less adjustment to the annual required contribution	(6,513)
Annual OPEB cost	125,796
Amounts contributed:	
Payments of current premiums	-
Adjustment to the net OPEB obligation	125,551
Increase in net OPEB liability	251,347
OPEB asset - Beginning of year	(10,010)
OPEB obligation - End of year	$ 241,337

Employer contributions and annual OPEB cost data for the year ended June 30, 2013 are as follows:

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

The funding progress of the plan is as follows:

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

Note 13 - Other Postemployment Benefits (Continued)

* The AAL for the previous year has been restated to properly reflect the estimated annual cost of retiree health insurance.

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

The following simplifying assumptions were made:

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

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

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

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

Health Insurance Premiums - 2013 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.

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, 2013 was 30 years.

Note 14 - Upcoming Accounting Pronouncements

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 multi-year refuse collection agreement through June 30, 2014 at the following base rates:

- 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

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 1,337,289	$ 1,118,652	$ 1,267,639	$ 148,987
Licenses and permits	80,310	78,501	78,524	23
Federal grants	-	103,176	95,475	(7,701)
State-shared revenue and grants	531,655	541,823	547,325	5,502
Charges for services	442,403	537,145	547,852	10,707
Fines and forfeitures	71,000	42,000	37,867	(4,133)
Investment income	5,000	3,200	2,922	(278)
Local donations	-	-	11,000	11,000
Other revenue - Other miscellaneous income	21,000	25,790	53,218	27,428
Total revenue	2,488,657	2,450,287	2,641,822	191,535
Expenditures - Current				
General government:				
Village Council	6,490	6,454	6,455	(1)
Village Manager	68,725	66,000	65,604	396
Clerk/Treasurer	80,537	83,580	85,211	(1,631)
Buildings and grounds	136,186	137,671	133,698	3,973
Attorney	22,700	36,500	37,242	(742)
Data processing	11,500	12,908	11,964	944
Other	150,657	178,818	176,639	2,179
Total general government	476,795	521,931	516,813	5,118
Public safety:				
Police	1,118,775	1,103,212	1,109,597	(6,385)
Dispatch	336,071	291,739	292,919	(1,180)
Fire	274,029	262,923	263,616	(693)
Building inspections and related	40,975	24,774	22,792	1,982
Total public safety	1,769,850	1,682,648	1,688,924	(6,276)
Public works:				
Other public works activities	223,348	235,705	247,536	(11,831)
Cemetery	29,105	15,673	15,578	95
Total public works	252,453	251,378	263,114	(11,736)
Community and economic development - Planning, zoning, and related	4,250	6,894	8,768	(1,874)
Recreation and culture	23,986	18,470	17,225	1,245
Capital outlay	10,500	13,988	12,009	1,979
Debt service	-	26,736	27,876	(1,140)
Total expenditures	2,537,834	2,522,045	2,534,729	(12,684)
Excess of Revenue (Under) Over Expenditures	(49,177)	(71,758)	107,093	178,851
Other Financing Sources - Transfers in	49,176	49,176	25,000	(24,176)
Net Change in Fund Balance	(1)	(22,582)	132,093	154,675
Fund Balance - Beginning of year	364,351	364,351	364,351	-
Fund Balance - End of year	**$ 364,350**	**$ 341,769**	**$ 496,444**	**$ 154,675**

See Note to Required Supplemental Information.

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	Transfers	Total Change in Fund Balance	Fund Balance
General Fund:					
Amounts per operating statement	$ 2,644,853	$ 2,535,887	$ -	$ 108,966	$ 787,416
Municipal Street Fund budgeted separately from the General Fund	(3,031)	-	-	(3,031)	(141,689)
Cemetery Endowment Trust Fund budgeted separately from the General Fund	-	(1,158)	-	1,158	(149,283)
Transfer from Cemetery Endowment to General Fund	-	-	25,000	25,000	-
Amounts per budget statement	$ 2,641,822	$ 2,534,729	$ 25,000	$ 132,093	$ 496,444

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Village of Holly had no significant budget overruns.

Other Supplemental Information

	Special Revenue Funds			
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund
Assets				
Cash and investments	$ 352,060	$ 31,632	$ -	$ 9,036
Receivables:				
Special assessments receivable	-	-	10,955	59
Due from other governmental units	41,510	16,035	-	-
Total assets	**$ 393,570**	**$ 47,667**	**$ 10,955**	**$ 9,095**
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	$ 3,681	$ 362	$ -	$ 26,522
Due to other funds	-	-	7,024	-
Accrued liabilities and other	189	63	-	-
Deferred revenue	-	-	8,519	-
Total liabilities	3,870	425	15,543	26,522
Fund Balances (Deficit)				
Restricted:				
Roads	277,258	-	-	-
Other restricted	-	-	-	-
Assigned:				
Roads	112,442	47,242	-	-
Senior transportation	-	-	-	-
Unassigned	-	-	(4,588)	(17,427)
Total fund balances (deficit)	389,700	47,242	(4,588)	(17,427)
Total liabilities and fund balances (deficit)	**$ 393,570**	**$ 47,667**	**$ 10,955**	**$ 9,095**

Special Revenue Funds		
Community Development Block Grant Fund	Holly Area Transportation Fund	Total Nonmajor Governmental Funds
$ -	$ 90,405	$ 483,133
-	-	11,014
-	-	57,545
$ -	**$ 90,405**	**$ 551,692**
$ -	$ 300	$ 30,865
-	-	7,024
-	319	571
-	-	8,519
-	619	46,979
-	-	277,258
-	18,546	18,546
-	-	159,684
-	71,240	71,240
-	-	(22,015)
-	89,786	504,713
$ -	**$ 90,405**	**$ 551,692**

	Special Revenue Funds			
	Major Streets Fund	Local Streets Fund	Lake Improvement Fund	Solid Waste Fund
Revenue				
Federal grants	$ 8,443	$ 8,443	$ -	$ -
State-shared revenue and grants	250,704	96,848	-	-
Charges for services	-	-	-	-
Investment income	1,973	325	-	-
Other revenue:				
Special assessments	-	-	5,853	270,052
Other miscellaneous income	726	653	-	-
Total revenue	261,846	106,269	5,853	270,052
Expenditures - Current				
Public works	211,519	136,866	5,321	310,581
Health and welfare	-	-	-	-
Community and economic development	-	-	-	-
Total expenditures	211,519	136,866	5,321	310,581
Net Change in Fund Balances (Deficit)	50,327	(30,597)	532	(40,529)
Fund Balances (Deficit) - Beginning of year	339,373	77,839	(5,120)	23,102
Fund Balances (Deficit) - End of year	**$ 389,700**	**$ 47,242**	**$ (4,588)**	**$ (17,427)**

Special Revenue Funds: Community Development Block Grant Fund	Special Revenue Funds: Holly Area Transportation Fund	Total Nonmajor Governmental Funds
$ 15,838	$ 37,311	$ 70,035
-	-	347,552
-	4,923	4,923
-	-	2,298
-	-	275,905
-	-	1,379
15,838	42,234	702,092
-	-	664,287
-	30,691	30,691
15,081	-	15,081
15,081	30,691	710,059
757	11,543	(7,967)
(757)	78,243	512,680
$ -	**$ 89,786**	**$ 504,713**

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December 12, 2013

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, 2013 and have issued our report thereon dated December 12, 2013. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Internal Control Related Matters Identified in an Audit

Section II - Required Communications with Those Charged with Governance

Section III - 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 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 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.

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

Tadd Harburn, CPA

Chrystal Simpson, CPA

To the Village Council
Village of Holly, Michigan

December 12, 2013

Section I - Communications Required Under AU 265

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, 2013, 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 audit procedures that are appropriate in the circumstances 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, material weaknesses or significant deficiencies may exist that were not 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 Village'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. Without the proposed adjustments detailed below, the financial statements would have been materially misstated. 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 16 adjustments (which include both accruals and also adjustments to correct misstatements) were proposed by Plante & Moran, PLLC and posted by the Village. Accruals represent any adjustments other than cash that impact the accounting records (state-shared revenue, Act 51, accounts payable, prepaids, transfers, deferred revenue, other postemployment benefits obligation, capital assets, and debt). This deficiency is repeated from the prior year's audit.

- **Fund Balance/Net Position** - 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 position 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 sewer and water unbilled accounts receivable balance was not reconciled at year end. We recommend that a monthly reconciliation be performed and reviewed to ensure that the aging for the billed receivables and the unbilled receivables are in agreement with the general ledger. This deficiency is repeated from the prior year's audit.

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 nonpayment by the taxpayer or reductions in taxes related to pending tax appeals because, until recently, the amount has generally not been significant or material to the financial statements. The amount of estimated charge-backs at June 30, 2013 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 the Village Council only receives budget to actual reports. As a result of not receiving and reviewing balance sheet information, the Village Council cannot ascertain as to whether the interim financial information is balanced, complete, and accurate. We recommend that Village Council be provided with a balance sheet along with budget to actual reports on a regular basis.

To the Village Council
Village of Holly, Michigan

December 12, 2013

Section II - Communications Required Under AU 260

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 5, 2013, 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.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit:

Public Act 196 of 1997, as amended, requires that the Village Council receive an investment report on a quarterly basis. During the audit, it was brought to our attention that the Village Council was not receiving these reports during the year. We recommend that the Village implement a process to report the investment balances to the Village Council quarterly in order to be in compliance.

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 September 9, 2013.

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 1 to the financial statements.

As described in Note 1, the government changed accounting policies related to the adoption of GASB Statement No. 63. The new 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. The 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. The statement impacts the format and reporting of the balance sheet at the government-wide level and also at the fund level. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used.

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 procedures and the related assumptions used in the valuation of other postemployment benefit alternative methods were based upon procedures outlined by the Governmental Accounting Standards Board (GASB) and assumptions commonly used by actuaries in the development of these obligations. The estimated liability related to open Michigan Tax Tribunal cases are based on the 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 encountered no significant difficulties in dealing with management in performing and completing our audit.

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.

Corrected and 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 material misstatements identified in Section I that were detected as a result of audit procedures were corrected by management. The attached schedules summarize 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.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Village, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the government's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2013.

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 Village'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.

Other Matters

The Lake Improvement Fund and the Solid Waste Fund have unassigned fund balance deficits of $4,588 and $17,427, respectively. As a result, the Village will be required to file deficit elimination plans. Section III contains more information related to the filing requirements.

Section III - Legislative and Informational Items

Revenue Sharing

The State's FY 2013-2014 budget agreement has been reached and has put in place new requirements for CIP (County Incentive Program) and EVIP (Economic Vitality Incentive Program) compliance in the coming year. As you will note below, there are changes to each of the three categories, with the most dramatic change to the newly titled Category 3: Unfunded Accrued Liability Plan. The agreement also provides for a 4.8 percent increase for CIP and EVIP. Below are the new requirements in effect for the upcoming year:

Category 1 - Accountability and Transparency - Due date 10/1/13

- Produce a citizens guide, including recognition of unfunded liabilities
- Produce a performance dashboard
- Publish a detail debt service listing which includes, at minimum, the following:
  - Issuance date, issuance amount, type of debt instrument
  - Listing of all revenues pledged to finance debt service by debt instrument
  - Listing of the annual payment amounts
- Publish a projected budget report including current and succeeding year and assumptions used

Note: All four of the above items must be made available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, all items shall be submitted directly to the State Department of Treasury.

Category 2 - Consolidation of Services - Due date 2/1/14

- Produce a consolidation plan and make it readily available in the city, village, township, or county clerk's office or poste it on a publicly accessible website, in addition to submitting it to the State Department of Treasury.
- If first-time filer of a consolidation plan:
  - Include any previous service cooperations, collaborations, consolidations, innovations, or privatizations with an estimated cost savings for each
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
- For all other than first-time filers:
  - Must include an update on all previous initiatives addressing:
    - Whether the previously proposed plans were fully implemented
    - Barriers experienced in implementing the proposals
    - Estimated timeline of steps to accomplish the proposed plans
  - Include one or more new proposals to increase the level of cooperation, collaboration, consolidation, innovation, or privatization within jurisdiction or with others. The timeline to implement and potential savings are also required.
    - If no new initiatives are identified, must address why it is not feasible to enter into any new consolidation efforts

Category 3 - Unfunded Accrued Liability Plan (UALP) - Due date 6/1/14

If the most recent audited financial report includes unfunded accrued liabilities for employee pensions or other postemployment benefits, a plan to lower all unfunded accrued liabilities must be completed with the following elements:

- Listing of all previous actions taken to reduce unfunded accrued liabilities. This should include an estimated cost savings.
- Detailed plan of how the previous actions will continue to be implemented and maintained
- A list of additional actions that could be taken
- In the event that no actions have been taken to reduce the liabilities, an explanation as to why this is the case and what potential actions could be taken
- Note that any actuarial assumption changes and issuance of debt do not qualify as a new proposal
- The plan shall be readily available in the city, village, township, or county clerk's office or posted on a publicly accessible website. In addition, the entity should certify with the Department of Treasury that the plan is publicly available.
- If there are no unfunded accrued liabilities, the unit must certify to the Department of Treasury by the deadline and explain why none exist.

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.

Personal Property Tax

The personal property tax was repealed by the passing of several bills during the legislature's lame duck session in December. This repeal is contingent upon a state-wide vote in August 2014 to allow for a shifting of the use tax to a reimbursement fund. Key provisions of the act phase out the industrial portion of the tax over a nine-year period beginning in 2016. Also, businesses with less than $40,000 taxable value in industrial and commercial personal property in any jurisdiction would no longer pay the tax. For the July 2013 and December 2013 levies, it will be business as usual and communities will continue to levy as they normally have. However, for the July 2014 levy, this will change. Communities will not be able to levy businesses with less than $40,000 taxable value in industrial and commercial personal property. If during the state-wide vote in August 2014 the proposed personal property tax legislation fails, for future levies the less than $40,000 taxable value will no longer be in effect. If this is the case, the communities will not be able to recover the amounts that were not levied in the July 2014 levy for the taxable values less than $40,000 for industrial and commercial personal property; this will just be lost.

As for the impact on local communities, in short, those local governments that would lose at least 2.3 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. This reimbursement would come from the Metropolitan Area Authority, a newly created entity led by five members appointed by the governor. This authority would be responsible for distributing the use tax collections as well as monies generated from expiring tax credits.

In addition, local governments would have the option to assess a special assessment on industrial property (referred to as essential services assessments). This assessment would not require local voter approval and would reimburse police, fire, ambulance services, and jail operations to ensure they receive 100 percent of the funding that they now get from the personal property tax.

When working through upcoming budgets and longer-term projections, please keep these items in mind. The final act has not yet been published by the State.

The Michigan Municipal League has developed a tool to aid communities in calculating the potential impact of the personal property tax cuts:

http://www.mml.org/advocacy/inside208/post/PPT-calculation-spreadsheet-available.aspx

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. This proposed legislation did not pass during the lame duck session in December and will most likely be reintroduced in 2013.

Emergency Manager

Public Act 4 of 2011, which is known as the "Emergency Manager Bill," was repealed by voters in the November 2012 election. In response to the repeal, the legislature passed a replacement to this bill, PA 436 "the Local Financial Stability and Choice Act." This new legislation gives distressed communities the following four options:

1. Enter into a consent agreement
2. Mediation with the State
3. Emergency manager
4. Chapter 9 bankruptcy

Another key change is that under this new act, the State will be responsible to pay the salary and other related costs of the emergency manager and not the distressed community. In the now obsolete PA 4, this cost was covered by the State. The act took effect in March 2013.

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 on 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. If a community is in the second year of a multi-year plan, in order to not have to revisit your plan you must be ahead of plan at the end of the second year. 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 with 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 postemployment benefit (OPEB) liabilities. The bonds are called Pension Obligation Bonds or Other Postemployment 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.

Michigan's Public Pension Systems - Impact of PA 347 of 2012

In December 2012, Governor Rick Snyder signed Public Act 347 of 2012 into law. This legislation makes some significant changes that will impact all public retirement systems in Michigan. Amending Public Act 314 of 1965, these new rules are meant to provide greater flexibility to these systems as to how funds are invested while at the same time imposing additional requirements aimed at transparency and accountability. These changes, which went into effect in March 2013, are summarized below:

Changes to Allowable Investment Vehicles

Generally, rather than making it more restrictive, the new rules raise the maximums for several investment categories, such as real estate and global equities. As an example, the limitations within the “basket clause” are increasing by 10 percentage points, with most plans now allowed to invest between 15 percent and 20 percent within this section, depending upon plan size. Monitoring under these new limitations will continue to be important. Toward this end, plans will need to ensure their investment consultants, advisors, and managers are "on board" with the changes.

Spending Limitations

This act would limit the amount of spending on professional training, education, and travel. Under the legislation, the retirement system's board of trustees would be required to adopt an annual budget for professional training and education, including travel. This budget will be capped at the lesser of $150,000 or an amount equal to $12,000 multiplied by the number of board members, with professional training, education, and travel costs not to exceed $30,000 for any one board member.

Additional Documentation and Reporting Requirements

Additional transparency reporting requirements for retirement systems, investment fiduciaries, and investment service providers are being imposed by this new public act. First, the legislation would require the publication by the plan of a summary annual report (SAR). Although similar reporting requirements exist in the old legislation, this act requires more detailed reporting than what we are used to.

The SAR would include several additional disclosures, including the following: names of investment service providers, the system's itemized budget (including professional training, education, and travel), disclosure of the system's investment returns, and numerous pieces of information from the system's most recent annual actuarial valuation report. The system is required to make its SAR available to plan participants and citizens via posting to its website if the system has a website or, alternatively, would require the plan sponsor to post it to their website.

In addition, investment service providers are now required to give the investment fiduciary a complete written disclosure of all fees or other compensation associated with its relationship with the retirement system. This disclosure would be required both before providing any investment services as well as on an annual ongoing basis. Finally, financial records of the system must be retained for a minimum six-year period.

To the Village Council
Village of Holly, Michigan

December 12, 2013

Michigan Qualifying Statement Revisions and Changes to Filing Process

Bulletin 6 was recently issued by the State Department of Treasury and is effective beginning May 1, 2013. The bulletin details out the revisions made to the form, changes in the electronic filing process, and provides information on the new process to submit a reconsideration request.

The qualifying statement is now Form 5047. The new form and link to the online filing are available at: www.michigan.gov/municipalfinance. You can also find Bulletin 6 by following this same link.

Several minor changes have been made to the form including the following: additional question asking for the municipality's six-digit municode, information buttons to provide added instruction, and elimination of the requirement to include SEV and population. In addition, changes were made to help ease the completion of the form such as the elimination of certain questions which were duplicative of information that the Department of Treasury already had at their disposal (i.e., audit filing date) as well as separating out compound questions to ease the process of responding to them.

The more significant change, however, is with the electronic filing process. Starting May 1, 2013 there is only one way in which a qualifying statement can be submitted, as follows:

1. The form is now a PDF that can be downloaded and saved. The form is fillable allowing preparers to type in responses and save the form with answers intact.

2. The PDF will be uploaded via the Department of Treasury website. The upload page is: www.michigan.gov/municipalfinance. Once you are on the webpage, choose the Online Qualifying Statement link.

3. The State has a set naming convention that should be used for each uploaded file. The file should be named as follows: municipality's six-digit municode + fiscal year + the words "QStmt" (example: 7830402012QStmt). Please note the system will only accept one qualifying statement per fiscal year per municipality.

4. Municipalities will not be able to use the same username and password that they used for filings prior to May 1, 2013. The State has directed each municipality to call the Local Audit and Finance Division at 517.373.3227 to obtain a new username and password.

The bulletin also allows the qualifying statement to be filed by an individual other than the chief administrative officer (CAO) as long as the CAO is made aware and takes full responsibility for the filing. The filer will be asked to indicate whether they are the CAO or the designee at the time the qualifying statement is filed.

EVIP-like Requirements Tied to Act 51 Monies (Public Act 506 of 2012

In recent weeks, cities, villages, and road commissions in Michigan began receiving notices from MDOT about a new reporting requirement due each September 30, starting in 2014. This requirement is a result of Public Act 506 of 2012, which places EVIP-like limitations on pension and healthcare benefits paid to transportation employees. For the purpose of this act, "transportation employee" means an employee paid in whole or in part through Act 51 revenues or who is engaged in work funded through Act 51 revenues.

The new act requires local units receiving Act 51 money for the construction or maintenance of roads to comply with one of the following conditions by September 30, 2014:

- Develop and publicize a transportation employee compensation plan that the local agency intends to implement with any new, modified, or extended employment contracts or agreements. This compensation plan must include all of the following:
    - For new employee hires, the employer contribution toward retirement plans must be capped at 10 percent of base salary.
    - Defined benefit pension plans may use a maximum multiplier of 1.5 percent of final average compensation if postemployment healthcare is provided and 2.25 percent if postemployment healthcare is not provided.
    - For defined benefit pension plans, the final average compensation must be calculated using a minimum of three years of compensation and must not include more than 240 hours of paid leave. Overtime hours cannot be used in calculating final average compensation.
    - The employer contribution for health care coverage for new employee hires is capped at 80 percent of the employee's premium or must be competitive with the new state preferred provider organization health plan on a per-employee basis.
- Comply with Public Act 152 of 2011, which requires public employers to place hard caps on the amounts they contribute toward healthcare costs with an option to elect an 80 percent contribution cap rather than a hard cap. These hard caps are adjusted annually for inflation. The caps in 2012 were $5,000 for single coverage, $11,000 for individual and spousal coverage, and $15,000 for family coverage. See below for a discussion of Senate Bill 542 that proposes changes to the individual and spousal coverage limit from $11,000 to $13,455.
- Certify that the local road agency does not offer medical benefits to its transportation employees or elected public officials.

If a local unit receiving Act 51 money does not certify that it complies with one of the above criteria by September 30 of each year, the Department of Transportation may withhold Act 51 distributions until compliance is established.

Public Act 506 also requires local road agencies to maintain a searchable website (accessible to the public) that includes the current budget, the number of active transportation employees by job classification and wage rate, a financial performance dashboard, the names and contact information of the governing body, and a copy of the annual certification provided to MDOT.

For communities who are already complying with the requirements of Public Act 152 of 2011, we do not expect this new legislation to have a significant impact on operations since it essentially just creates a new reporting requirement; however, please contact your audit team if you would like to talk through the details of the act and your community's compliance.

Senate Bill 542 Increases the Hard-cap Limit for Individual and Spouse Coverage

On October 8, 2013, the Senate passed a five-bill package (SB 541-545) in an effort to clarify PA 152 of 2011. SB 542 has perhaps the most direct financial impact on communities.

SB 542 - This bill modifies the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The proposed bill increases the dollar-cap for individual and spousal coverage from the current limit under PA 152 of $11,000 to $13,455. This would apply for all medical plan coverage years beginning in calendar year 2013 according to the current language. The $13,455 cap would be increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this bill may result in an unanticipated additional cost of $2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the Senate's version of the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case if this bill is passed; they would become part of that calculation.

The bill also would define "family coverage" as "individual-plus-one-nonspouse-dependent coverage."

Below is a summary of the remaining related bills that passed the Senate:

SB 541 - This bill more clearly states that employer contributions to a healthcare fund for plans that are only available to the employee or elected official after retirement or separation of service (HSAs) are not considered costs of a public employer's medical benefit plan. This was the original intent of the legislature and therefore, this amendment would be applied retroactively. In addition, the legislative analysis by the House fiscal agency states the bill would define the "medical benefit plan coverage year" to be: "the 12-month period after the effective date of the contractual or self-insured medical coverage plan that a public employer provides to its employees or public officials."

Several items would be excluded from the calculation of the public employer's total annual medical benefit costs including the following:

- Any amount paid directly or indirectly for the assessment levied pursuant to the health insurance claims act, 2011 PA 142 (MCL 550.1731 to 550.1741)
- Amounts paid by the employer as a tax or fee under the federal Patient Protection and Affordable Care Act
- Payments made to employees or elected officials in lieu of medical benefits
- Any employee of elected official that declines coverage

SB 543 - This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard-cap requirement.

SB 544 and SB 545 - These two bills work to clarify the language regarding a public employer's ability under PA 152 to exempt themselves from the act's requirements. SB 544 requires the effective date of the act (September 27, 2011) to be the date that on or after any new collective bargaining agreement must comply with the act. Additionally, SB 545 states that a 2/3 vote by the governing body is required by the governing body prior to the beginning of each medical benefit plan year in order to exempt itself.

To the Village Council
Village of Holly, Michigan

December 12, 2013

Client: **Village of Holly, Michigan**
Opinion Unit: **Governmental Activities**
Y/E: **6/30/2013**

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	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1									
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record potential property tax chargebacks and MTT adjustments			$ 30,328			$ (30,328)		$ (30,328)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
		$ -	$ -	-	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ 30,328**	**$ -**	**$ -**	**$ (30,328)**	**$ -**	**$ (30,328)**
PASSED DISCLOSURES:									
D1									
D2									

Client: **Village of Holly, Michigan**
Opinion Unit: **General Fund**
Y/E: **6/30/2013**

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	Net Income Statement Impact
FACTUAL MISSTATEMENTS:									
A1									
A2									
JUDGMENTAL ADJUSTMENTS:									
B1	To record potential property tax chargebacks and MTT adjustments			$ 30,328			$ (30,328)		$ (30,328)
B2									
PROJECTED ADJUSTMENTS:									
C1									
C2									
		$ -	$ -	-	$ -	$ -	-	$ -	-
	Total	**$ -**	**$ -**	**$ 30,328**	**$ -**	**$ -**	**$ (30,328)**	**$ -**	**$ (30,328)**
PASSED DISCLOSURES:									
D1									
D2									