



VILLAGE OF HOWARD CITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021



Vredeveld Haefner LLC
CPAs and Consultants

VILLAGE OF HOWARD CITY

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INDEPENDENT AUDITORS' REPORT

July 13, 2021

Village Council
Village of Howard City, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Howard City, Michigan, (the Village) as of and for the year ended February 28, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village, as of February 28, 2021, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the information on pages 33 through 37 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 who 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 supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village's basic financial statements. The combining and individual fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2021, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.

Uredaxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of Howard City

Management's Discussion and Analysis

As management of the Village of Howard City (the Village), we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of the Village for the year ended February 28, 2021. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- The Village closed out a 2.2 million MEDC CDBG infrastructure grant project.
- The Village spent \$107,539 on new road projects. Specifically, chip-sealed all of Shaw Street and road replacement of White to Edgerton and a parking area near the fire barn.
- The Village expended \$57,415 for the purchase of a new air tank station, extrication equipment, and other equipment for the Fire Department.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Village of Howard City's financial statements. The Village's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Village of Howard City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, recreation and culture, and debt service activities. The business-type activities of the Village include sewer and water services.

The government-wide financial statements include not only the Village itself (known as the primary government), but also a legally separate Downtown Development Authority for which the Village is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major streets, local streets, and property replacement funds which are considered to be major funds. Data is combined into a single aggregated presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

Proprietary funds. The Village maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its fleet of vehicles. Because this service predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the *government-wide* financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, each of which are considered to be major funds of the Village.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* which includes this management discussion and analysis as well as major fund budgetary schedules and pension benefit schedules.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Village of Howard City, assets exceeded liabilities and deferred inflows by \$8,994,387 at the close of the most recent fiscal year.

A portion of the Village's net position reflects unrestricted net position which is available for future operations while a significant portion of net position is invested in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Following is a summary of net position:

Summary of Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|---------------------------------------|-------------------------|--------------------|--------------------------|--------------------|--------------------|--------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Current and other assets | \$1,371,042 | \$1,387,507 | \$1,075,218 | \$957,107 | \$2,446,260 | \$2,344,614 |
| Capital assets | 3,870,807 | 3,931,483 | 5,452,035 | 5,139,860 | 9,322,842 | 9,071,343 |
| Total assets | 5,241,849 | 5,318,990 | 6,527,253 | 6,096,967 | 11,769,102 | 11,415,957 |
| Deferred outflows of resources | 6,551 | 30,812 | - | - | 6,551 | 30,812 |
| Current liabilities | 197,022 | 421,057 | 100,845 | 95,438 | 297,867 | 516,495 |
| Long-term liabilities | 1,721,175 | 1,926,435 | 747,000 | 810,000 | 2,468,175 | 2,736,435 |
| Total liabilities | 1,918,197 | 2,347,492 | 847,845 | 905,438 | 2,766,042 | 3,252,930 |
| Deferred inflows of resources | 15,224 | - | - | - | 15,224 | - |
| Net position | | | | | | |
| Net investment in capital assets | 1,986,002 | 1,885,747 | 4,642,035 | 4,273,860 | 6,628,037 | 6,159,607 |
| Restricted | 577,279 | 583,809 | 105,500 | - | 682,779 | 583,809 |
| Unrestricted | 751,698 | 532,754 | 931,873 | 917,669 | 1,683,571 | 1,450,423 |
| Total net position | \$3,314,979 | \$3,002,310 | \$5,679,408 | \$5,191,529 | \$8,994,387 | \$8,193,839 |

Net position of the Village increased by \$773,929. The governmental activities increase in net position of \$286,050 is primarily due to a decrease in the net pension liability. The business-type activities increase in net position of \$487,879 was primarily the result of transfers of grant funding to the sewer and water funds which are capitalized.

Following is a summary of activities:

Summary of Activities

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------------------------------------|----------------------------|--------------------|-----------------------------|--------------------|--------------------|--------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> | <u>2021</u> | <u>2020</u> |
| Revenue | | | | | | |
| Program revenue | | | | | | |
| Charges for services | \$ 158,636 | \$ 163,117 | \$ 601,805 | \$ 574,495 | \$ 760,441 | \$ 737,612 |
| Operating grants and contributions | 469,406 | 479,506 | - | - | 469,406 | 479,506 |
| Capital grants and contributions | 591,021 | 1,706,540 | - | - | 591,021 | 1,706,540 |
| General revenue | | | | | | |
| Property taxes | 340,441 | 318,512 | - | - | 340,441 | 318,512 |
| State shared revenues | 169,423 | 175,774 | - | - | 169,423 | 175,774 |
| Other | 9,617 | 11,844 | 7,875 | 9,937 | 17,492 | 21,781 |
| Transfers | (414,913) | (1,582,174) | 414,913 | 1,582,174 | - | - |
| Total revenue | 1,323,631 | 1,273,119 | 1,024,593 | 2,166,606 | 2,348,224 | 3,439,725 |
| Expenses | | | | | | |
| General government | 197,159 | 191,815 | - | - | 197,159 | 191,815 |
| Public safety | 276,164 | 225,913 | - | - | 276,164 | 225,913 |
| Public works | 475,092 | 307,496 | - | - | 475,092 | 307,496 |
| Community and economic development | - | - | - | - | - | - |
| Recreation and culture | 24,070 | 30,539 | - | - | 24,070 | 30,539 |
| Interest on long-term debt | 65,096 | 102,374 | - | - | 65,096 | 102,374 |
| Sewer | - | - | 332,912 | 284,855 | 332,912 | 284,855 |
| Water | - | - | 203,802 | 201,032 | 203,802 | 201,032 |
| Total expenses | 1,037,581 | 858,137 | 536,714 | 485,887 | 1,574,295 | 1,344,024 |
| Increase in net position | 286,050 | 414,982 | 487,879 | 1,680,719 | 773,929 | 2,095,701 |
| Net position, beginning of year, as restated | 3,028,929 | 2,587,328 | 5,191,529 | 3,510,810 | 8,220,458 | 6,098,138 |
| Net position, end of year | \$3,314,979 | \$3,002,310 | \$5,679,408 | \$5,191,529 | \$8,994,387 | \$8,193,839 |

Net position of governmental activities at March 1, 2020, has been increased by \$26,619 to reflect a reclassification of various community funds from liabilities to net position.

Governmental Activities. During the year the Village invested \$475,092 or 46% of governmental activities expenses in public works which includes major and local streets while general government, public safety, culture and recreation and interest on long-term debt made up the remaining 54% of governmental activities expenses.

Business-type Activities. Business-type activities increased the Village's net position by \$487,879. As noted above, the primary reason for the increase is the transfer of federal grant funding to the sewer and water funds which are capitalized.

Financial Analysis of the Government's Funds

As noted earlier, the Village uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Village's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$1,113,114, an increase of \$96,036 in comparison with the prior year. Of the \$1,113,114, \$535,730 is reported in the General fund. The remaining amount of fund balance is reported in various funds as non-spendable, restricted, committed, or assigned for certain uses such as street construction.

The General fund is the chief operating fund of the Village. At the end of the current fiscal year, unassigned fund balance of the general fund was \$438,248. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 69% of total general fund expenditures and transfers out. Fund balance of the Village's general fund increased by \$103,051, primarily due to budget planning and an unanticipated donation.

At the end of the current fiscal year, fund balance of the major streets special revenue fund was \$277,425, an increase of \$27,988. Fund balance of the local streets special revenue fund was \$67,345, a decrease of \$29,843.

At the end of the current fiscal year, fund balance of the property replacement fund was zero as the remaining grant funds were expended on the related projects.

Proprietary Funds. The Village's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net position of the sewer and water funds at the end of the year amounted to \$505,387 and \$426,486, respectively. The sewer fund had an increase in net position for the year of \$282,806 and the water fund had an increase of \$205,073. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Village's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2021, amounted to \$9,322,842 (net of accumulated depreciation).

The Village's capital assets (net of depreciation) are summarized as follows:

| Capital Assets | | | |
|------------------------------------------------------|------------------------------------|-------------------------------------|--------------------|
| | Governmental Activities | Business-type Activities | Total |
| Land | \$ - | \$ 34,300 | \$ 34,300 |
| Buildings, vehicles, equipment and infrastructure | 3,870,807 | 5,417,735 | 9,288,542 |
| Total | \$3,870,807 | \$5,452,035 | \$9,322,842 |

Significant additions during the year included a dump truck and sanitary and water main infrastructure improvements. Additional information on the Village of Howard City capital assets can be found in Note 5 of these financial statements.

Debt. At the end of the current fiscal year, the Village had total debt outstanding of \$2,694,805 consisting of bonds totaling \$2,469,805 and an installment purchase agreement totaling \$225,000. Principal payments of \$216,931 were made during the year. Additional information on the Village's long-term debt can be found in Note 8 of these financial statements.

Budgetary Highlights

- Council deferred \$10,000 fire hydrant rent fee from the Fire Department.
- Due to a water break, the Village replaced the water line between the Tri-County Area Schools bus garage and Joy Street at a cost of \$25,653.
- The Village incurred expenses of \$5,639 for additional road line painting and sweeping.
- The Village incurred an unexpected unfunded mandate expense of \$5,452 for new monitoring wells.
- There are new EGLE Lead and Copper rules that all municipalities must follow. It cost the Village an additional \$3,000 for this compliance and could increase in the future.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Village's budget for the 2022 fiscal year:

- To remain in compliance with EGLE's mandate of the new monitoring wells we had to install, the Village will see a new monitoring expense of at least \$6,000 per year.
- \$180,000 for a backhoe purchase.
- Due to COVID-19, the Village did see a small revenue sharing drop of \$3,858. We will monitor this closely, as the financial ramifications COVID 19 has, or will have, on revenue sharing is yet to be determined.
- It is anticipated that we should see an infusion of approximately \$180K under the Cares Act. However, the Village is waiting on the Treasury to release the required forms before we have a better idea of when these funds will be released.
- Even with COVID, there has been a slight increase in taxable value within the Village. In addition, we will begin to receive an additional \$16,000 in personal property taxes for the Solar project.
- Paint and remodeling of the Village hall will cost approximately \$15,000.
- The Village Council approved a \$30,000 increase from the General Fund for a second year to be used for new equipment for the fire department.
- In 2017 the Village was 80% funded in its MERS retirement. According to MERS Annual Actuarial Valuation Report, as of December 31, 2020, the Village of Howard City is now 100% funded.

Requests for Information

This financial report is designed to provide a general overview of the Village's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information can be obtained by contacting the Village office at (231) 937-4311.

BASIC FINANCIAL STATEMENTS

VILLAGE OF HOWARD CITY

STATEMENT OF NET POSITION

FEBRUARY 28, 2021

| | Primary Government | | | Component Unit |
|---------------------------------------|---------------------|---------------------|---------------------|--------------------------------|
| | Governmental | Business-Type | Total | Downtown Development Authority |
| | Activities | Activities | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 1,224,276 | \$ 884,316 | \$ 2,108,592 | \$ 165,503 |
| Accounts receivable | 7,690 | 85,402 | 93,092 | - |
| Due from other governments | 76,269 | - | 76,269 | - |
| Prepaid items | 21,538 | - | 21,538 | - |
| Land held for sale | - | - | - | 78,368 |
| Restricted cash | - | 105,500 | 105,500 | - |
| Net pension asset | 41,269 | - | 41,269 | - |
| Capital assets | | | | |
| Land | - | 34,300 | 34,300 | - |
| Depreciable capital assets, net | 3,870,807 | 5,417,735 | 9,288,542 | - |
| Total assets | 5,241,849 | 6,527,253 | 11,769,102 | 243,871 |
| Deferred outflows of resources | | | | |
| Pension related | 6,551 | - | 6,551 | - |
| Liabilities | | | | |
| Accounts payable | 13,440 | 7,958 | 21,398 | - |
| Accrued liabilities | 19,952 | 29,887 | 49,839 | - |
| Debt due within one year | 163,630 | 63,000 | 226,630 | - |
| Noncurrent liabilities | | | | |
| Debt due in more than one year | 1,721,175 | 747,000 | 2,468,175 | - |
| Total liabilities | 1,918,197 | 847,845 | 2,766,042 | - |
| Deferred inflows of resources | | | | |
| Pension related | 15,224 | - | 15,224 | - |
| Net position | | | | |
| Net investment in capital assets | 1,986,002 | 4,642,035 | 6,628,037 | - |
| Restricted for | | | | |
| Streets | 577,279 | - | 577,279 | - |
| Revenue bonds | - | 105,500 | 105,500 | - |
| Unrestricted | 751,698 | 931,873 | 1,683,571 | 243,871 |
| Total net position | \$ 3,314,979 | \$ 5,679,408 | \$ 8,994,387 | \$ 243,871 |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2021

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|---------------------------------|---------------------|-----------------------------|-------------------------------------------|-----------------------------------------|------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Primary government | | | | | |
| Governmental activities | | | | | |
| General government | \$ 197,159 | \$ 61,229 | \$ 13,357 | \$ - | \$ (122,573) |
| Public safety | 276,164 | 96,807 | - | 7,500 | (171,857) |
| Public works | 475,092 | - | 456,049 | 540,676 | 521,633 |
| Recreation and culture | 24,070 | 600 | - | 42,845 | 19,375 |
| Interest on long-term debt | 65,096 | - | - | - | (65,096) |
| Total governmental activities | 1,037,581 | 158,636 | 469,406 | 591,021 | 181,482 |
| Business-type activities | | | | | |
| Sewer | 332,912 | 342,497 | - | - | 9,585 |
| Water | 203,802 | 259,308 | - | - | 55,506 |
| Total business-type activities | 536,714 | 601,805 | - | - | 65,091 |
| Total primary government | \$ 1,574,295 | \$ 760,441 | \$ 469,406 | \$ 591,021 | \$ 246,573 |
| Component unit | | | | | |
| Downtown Development Authority | \$ 208,881 | \$ 7,680 | \$ 2,400 | \$ - | \$ (198,801) |

(Continued)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 28, 2021

| | Primary Government | | | Component Unit |
|-----------------------------------------------------|-------------------------|--------------------------|--------------|--------------------------------|
| | Governmental Activities | Business-type Activities | Total | Downtown Development Authority |
| Changes in net assets | | | | |
| Net (expense) revenue | \$ 181,482 | \$ 65,091 | \$ 246,573 | \$ (198,801) |
| General revenues | | | | |
| Property taxes | 340,441 | - | 340,441 | 195,635 |
| State shared revenues | 169,423 | - | 169,423 | - |
| Interest and rentals | 3,845 | 2,601 | 6,446 | - |
| Other revenue | 5,772 | 5,274 | 11,046 | - |
| Transfers - internal activities | (414,913) | 414,913 | - | - |
| Total general revenues | 104,568 | 422,788 | 527,356 | 195,635 |
| Change in net position | 286,050 | 487,879 | 773,929 | (3,166) |
| Net position, beginning of year, as restated | 3,028,929 | 5,191,529 | 8,220,458 | 247,037 |
| Net position, end of year | \$ 3,314,979 | \$ 5,679,408 | \$ 8,994,387 | \$ 243,871 |

(Concluded)

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

GOVERNMENTAL FUNDS BALANCE SHEET

FEBRUARY 28, 2021

| | | Special Revenue | | Capital Projects | | |
|--------------------------------------------|-------------------|--------------------------|--------------------------|---------------------------------|---------------------------|---------------------|
| | <u>General</u> | <u>Major Streets</u> | <u>Local Streets</u> | <u>Property Replacement</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 496,034 | \$ 241,337 | \$ 52,669 | \$ - | \$ 232,614 | \$ 1,022,654 |
| Accounts receivable | 7,690 | - | - | - | - | 7,690 |
| Due from other governments | 25,505 | 36,088 | 14,676 | - | - | 76,269 |
| Prepaid items | 21,538 | - | - | - | - | 21,538 |
| Total assets | <u>\$ 550,767</u> | <u>\$ 277,425</u> | <u>\$ 67,345</u> | <u>\$ -</u> | <u>\$ 232,614</u> | <u>\$ 1,128,151</u> |
| Liabilities and fund balances | | | | | | |
| Liabilities | | | | | | |
| Accounts payable | \$ 13,440 | \$ - | \$ - | \$ - | \$ - | \$ 13,440 |
| Accrued liabilities | 1,597 | - | - | - | - | 1,597 |
| Total liabilities | <u>15,037</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>15,037</u> |
| Fund balances | | | | | | |
| Nonspendable | | | | | | |
| Prepaid items | 21,538 | - | - | - | - | 21,538 |
| Restricted | | | | | | |
| Streets | - | 277,425 | 67,345 | - | 232,509 | 577,279 |
| Committed | | | | | | |
| Various projects | 75,944 | - | - | - | - | 75,944 |
| Assigned | | | | | | |
| Debt service | - | - | - | - | 105 | 105 |
| Unassigned | 438,248 | - | - | - | - | 438,248 |
| Total fund balances | <u>535,730</u> | <u>277,425</u> | <u>67,345</u> | <u>-</u> | <u>232,614</u> | <u>1,113,114</u> |
| Total liabilities and fund balances | <u>\$ 550,767</u> | <u>\$ 277,425</u> | <u>\$ 67,345</u> | <u>\$ -</u> | <u>\$ 232,614</u> | <u>\$ 1,128,151</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

FEBRUARY 28, 2021

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Fund balances - total governmental funds | \$ 1,113,114 |
| Amounts reported for <i>governmental activities</i> in the statement of net position are different because | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds. | |
| Add - capital assets (net of accumulated depreciation) | 3,613,061 |
| Certain liabilities are not due and payable in the current period and therefore are not reported in the funds. | |
| Deduct - long-term debt payable | (1,884,805) |
| Deduct - accrued interest on bonds and loans payable | (18,355) |
| Add - deferred outflows related to net pension liability | 6,551 |
| Deduct - deferred inflows related to net pension liability | (15,224) |
| Add - net pension asset | 41,269 |
| Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities. | |
| Add - net position of governmental activities accounted for in the internal service fund | <u>459,368</u> |
| Net position of governmental activities | <u>\$ 3,314,979</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED FEBRUARY 28, 2021

| | | Special Revenue | | Capital Projects | | |
|------------------------------------------------------|-------------------|--------------------------|--------------------------|---------------------------------|---------------------------|---------------------|
| | <u>General</u> | <u>Major Streets</u> | <u>Local Streets</u> | <u>Property Replacement</u> | <u>Nonmajor Funds</u> | <u>Total</u> |
| Revenues | | | | | | |
| Taxes and penalties | \$ 340,441 | \$ - | \$ - | \$ - | \$ 126,248 | \$ 466,689 |
| Intergovernmental revenues | | | | | | |
| Federal | - | - | - | 414,428 | - | 414,428 |
| State | 182,780 | 198,323 | 90,330 | - | - | 471,433 |
| Local | 7,500 | - | - | - | 167,294 | 174,794 |
| Charges for services | 154,283 | - | - | - | - | 154,283 |
| Fines | 412 | - | - | - | - | 412 |
| Interest and rentals | 3,845 | 102 | - | - | - | 3,947 |
| Miscellaneous | 48,208 | 4,350 | - | - | - | 52,558 |
| Total revenues | <u>737,469</u> | <u>202,775</u> | <u>90,330</u> | <u>414,428</u> | <u>293,542</u> | <u>1,738,544</u> |
| Expenditures | | | | | | |
| Current | | | | | | |
| Legislative | 9,390 | - | - | - | - | 9,390 |
| General government | 175,124 | - | - | - | - | 175,124 |
| Public safety | 301,532 | - | - | - | - | 301,532 |
| Public works | 104,268 | 136,889 | 120,173 | - | 22,064 | 383,394 |
| Recreation and culture | 21,604 | - | - | - | - | 21,604 |
| Debt service | | | | | | |
| Principal | 15,000 | - | - | - | 145,931 | 160,931 |
| Interest | 7,500 | - | - | - | 59,261 | 66,761 |
| Total expenditures | <u>634,418</u> | <u>136,889</u> | <u>120,173</u> | <u>-</u> | <u>227,256</u> | <u>1,118,736</u> |
| Revenues over (under) expenditures | <u>103,051</u> | <u>65,886</u> | <u>(29,843)</u> | <u>414,428</u> | <u>66,286</u> | <u>619,808</u> |
| Other financing sources (uses) | | | | | | |
| Transfers in | - | - | - | - | 37,898 | 37,898 |
| Transfers out | - | (37,898) | - | (414,913) | (108,859) | (561,670) |
| Total other financing sources (uses) | <u>-</u> | <u>(37,898)</u> | <u>-</u> | <u>(414,913)</u> | <u>(70,961)</u> | <u>(523,772)</u> |
| Net changes in fund balances | 103,051 | 27,988 | (29,843) | (485) | (4,675) | 96,036 |
| Fund balances, beginning of year, as restated | <u>432,679</u> | <u>249,437</u> | <u>97,188</u> | <u>485</u> | <u>237,289</u> | <u>1,017,078</u> |
| Fund balances, end of year | <u>\$ 535,730</u> | <u>\$ 277,425</u> | <u>\$ 67,345</u> | <u>\$ -</u> | <u>\$ 232,614</u> | <u>\$ 1,113,114</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | | |
|----------------------------------------------------------------|-----------|---------------|
| Net changes in fund balances - total governmental funds | \$ | 96,036 |
|----------------------------------------------------------------|-----------|---------------|

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, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

| | |
|-------------------------------|-----------|
| Add - capital outlay | 110,611 |
| Deduct - depreciation expense | (256,706) |

Bond or debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--------------------------------------------|---------|
| Add - principal payments on long-term debt | 160,931 |
|--------------------------------------------|---------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | |
|-------------------------------------------------------------------------|----------|
| Add - decrease in net pension liability | 82,842 |
| Deduct - increase in deferred inflows related to net pension liability | (15,224) |
| Deduct - decrease in deferred outflows related to net pension liability | (24,261) |
| Add - decrease in accrued interest | 1,665 |

Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

| | |
|-------------------------------------------------------------|----------------|
| Add - increase in net position of the internal service fund | <u>130,156</u> |
|-------------------------------------------------------------|----------------|

| | | |
|----------------------------------------------------------|-----------|-----------------------|
| Change in net position of governmental activities | \$ | <u>286,050</u> |
|----------------------------------------------------------|-----------|-----------------------|

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

PROPRIETARY FUNDS STATEMENT OF NET POSITION

FEBRUARY 28, 2021

| | <u>Enterprise Funds</u> | | <u>Enterprise Funds</u> | <u>Governmental Activities</u> |
|---------------------------------------|-------------------------|---------------------|-------------------------|--------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | <u>Motor Pool</u> |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 475,188 | \$ 409,128 | \$ 884,316 | \$ 201,622 |
| Accounts receivable | 49,387 | 36,015 | 85,402 | - |
| Total current assets | 524,575 | 445,143 | 969,718 | 201,622 |
| Noncurrent assets | | | | |
| Restricted cash | 105,500 | - | 105,500 | - |
| Land | 17,879 | 16,421 | 34,300 | - |
| Capital assets, net | 4,214,794 | 1,202,941 | 5,417,735 | 257,746 |
| Net noncurrent assets | 4,338,173 | 1,219,362 | 5,557,535 | 257,746 |
| Total assets | 4,862,748 | 1,664,505 | 6,527,253 | 459,368 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable | 7,958 | - | 7,958 | - |
| Accrued liabilities | 11,230 | 18,657 | 29,887 | - |
| Current portion of long-term debt | 63,000 | - | 63,000 | - |
| Total current liabilities | 82,188 | 18,657 | 100,845 | - |
| Long-term liabilities | | | | |
| Bonds payable, net of current portion | 747,000 | - | 747,000 | - |
| Total liabilities | 829,188 | 18,657 | 847,845 | - |
| Net position | | | | |
| Net investment in capital assets | 3,422,673 | 1,219,362 | 4,642,035 | 257,746 |
| Restricted for bonds | 105,500 | - | 105,500 | - |
| Unrestricted | 505,387 | 426,486 | 931,873 | 201,622 |
| Total net position | \$ 4,033,560 | \$ 1,645,848 | \$ 5,679,408 | \$ 459,368 |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>Enterprise Funds</u> | | <u>Enterprise Funds</u> | <u>Governmental Activities</u> |
|----------------------------------------|-------------------------|---------------------|-------------------------|--------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | <u>Motor Pool</u> |
| Operating revenue | | | | |
| Charges for services | \$ 342,497 | \$ 259,308 | \$ 601,805 | \$ 103,582 |
| Other | <u>4,850</u> | <u>424</u> | <u>5,274</u> | <u>-</u> |
| Total operating revenue | <u>347,347</u> | <u>259,732</u> | <u>607,079</u> | <u>103,582</u> |
| Operating expense | | | | |
| Personnel services | 93,309 | 65,779 | 159,088 | 22,291 |
| Contractual | 391 | 11,188 | 11,579 | 730 |
| Utilities | 34,766 | 24,170 | 58,936 | 11,021 |
| Repair and maintenance | 26,189 | 50,514 | 76,703 | 2,963 |
| Other expenses | 9,165 | 21,963 | 31,128 | 10,001 |
| Depreciation | <u>141,998</u> | <u>30,188</u> | <u>172,186</u> | <u>35,279</u> |
| Total operating expense | <u>305,818</u> | <u>203,802</u> | <u>509,620</u> | <u>82,285</u> |
| Operating income (loss) | <u>41,529</u> | <u>55,930</u> | <u>97,459</u> | <u>21,297</u> |
| Non-operating revenue (expense) | | | | |
| Interest income | 2,601 | - | 2,601 | - |
| Interest expense | <u>(27,094)</u> | <u>-</u> | <u>(27,094)</u> | <u>-</u> |
| Total non-operating revenue (expense) | <u>(24,493)</u> | <u>-</u> | <u>(24,493)</u> | <u>-</u> |
| Income (loss) before transfers | <u>17,036</u> | <u>55,930</u> | <u>72,966</u> | <u>21,297</u> |
| Transfers | | | | |
| Transfers in | 281,519 | 149,143 | 430,662 | 108,859 |
| Transfers out | <u>(15,749)</u> | <u>-</u> | <u>(15,749)</u> | <u>-</u> |
| Total transfers | <u>265,770</u> | <u>149,143</u> | <u>414,913</u> | <u>108,859</u> |
| Changes in net position | 282,806 | 205,073 | 487,879 | 130,156 |
| Net position, beginning of year | <u>3,750,754</u> | <u>1,440,775</u> | <u>5,191,529</u> | <u>329,212</u> |
| Net position, end of year | <u>\$ 4,033,560</u> | <u>\$ 1,645,848</u> | <u>\$ 5,679,408</u> | <u>\$ 459,368</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>Enterprise Funds</u> | | <u>Enterprise Funds</u> | <u>Governmental Activities</u> |
|---------------------------------------------------------------------------------------------------------|-------------------------|-------------------|-------------------------|--------------------------------|
| | <u>Sewer</u> | <u>Water</u> | <u>Total</u> | <u>Motor Pool</u> |
| Cash flows from operating activities | | | | |
| Receipts from customers and users | \$ 351,361 | \$ 259,318 | \$ 610,679 | \$ 103,582 |
| Payments to employees | (93,309) | (65,779) | (159,088) | (22,291) |
| Payments to suppliers | (67,231) | (111,992) | (179,223) | (24,715) |
| Net cash provided by (used in) operating activities | <u>190,821</u> | <u>81,547</u> | <u>272,368</u> | <u>56,576</u> |
| Cash flows from non-capital financing activities | | | | |
| Transfers in | 281,519 | 149,143 | 430,662 | 108,859 |
| Transfers out | (15,749) | - | (15,749) | - |
| Net cash provided by (used in) non-capital financing activities | <u>265,770</u> | <u>149,143</u> | <u>414,913</u> | <u>108,859</u> |
| Cash flows from capital and related financing activities | | | | |
| Interest paid | (27,810) | - | (27,810) | - |
| Principal paid on bonds | (56,000) | - | (56,000) | - |
| Acquisitions of capital assets | (314,755) | (169,606) | (484,361) | (120,698) |
| Net cash provided by (used in) capital and related financing activities | <u>(398,565)</u> | <u>(169,606)</u> | <u>(568,171)</u> | <u>(120,698)</u> |
| Cash flows from investing activities | | | | |
| Interest income | 2,601 | - | 2,601 | - |
| Net increase (decrease) in cash and cash equivalents | <u>60,627</u> | <u>61,084</u> | <u>121,711</u> | <u>44,737</u> |
| Cash and cash equivalents, beginning of year | <u>520,061</u> | <u>348,044</u> | <u>868,105</u> | <u>156,885</u> |
| Cash and cash equivalents, end of year | <u>\$ 580,688</u> | <u>\$ 409,128</u> | <u>\$ 989,816</u> | <u>\$ 201,622</u> |
| Cash flows from operating activities | | | | |
| Operating income (loss) | \$ 41,529 | \$ 55,930 | \$ 97,459 | \$ 21,297 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | | | |
| Depreciation | 141,998 | 30,188 | 172,186 | 35,279 |
| Changes in operating assets and liabilities which provided (used) cash | | | | |
| Accounts receivable | 4,014 | (414) | 3,600 | - |
| Accounts payable | 3,280 | (5,117) | (1,837) | - |
| Accrued liabilities | - | 960 | 960 | - |
| Net cash provided by (used in) operating activities | <u>\$ 190,821</u> | <u>\$ 81,547</u> | <u>\$ 272,368</u> | <u>\$ 56,576</u> |

The accompanying notes are an integral part of these financial statements.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Howard City, Michigan (the Village) was incorporated in 1895, and covers an area of approximately 2.4 square miles. The Village operates under an elected Village Council of 7 members and provides services to its more than 1,800 residents in many areas including water and sewer services, community enrichment and development, and human services.

The accounting policies of the Village conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the Village and its component unit for which the Village is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the Village.

Discretely Presented Component Unit

The Village established a Downtown Development Authority (DDA) in 1996 to complete various projects in the downtown district. Funding for these projects will be provided through captured property taxes from various units of government. The members of the governing boards of the DDA are appointed by the Village Council. The budgets of the DDA must be approved by the Village Council, and the Village has the ability to significantly influence its operations. Financial statements are not separately issued for the DDA. This entity is reported in a separate column in the Village's financial statements to emphasize that it is legally separate from the Village.

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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants 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 revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary 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 financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources* measurement focus and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except grant revenues which are recognized when grant requirements are met, state shared revenue is recognized in the month in which taxes are collected, and interest revenue which is recorded when earned. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, grant revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Village reports the following major governmental funds:

The *general fund* is the general operating fund of the Village. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *major and local streets funds* are used to account for the proceeds of Act 51 revenue from the Michigan Department of Transportation that is legally restricted to expenditures for streets within the Village.

The *property replacement capital projects fund* is used to account for the financial resources and activities relating to specific construction projects.

The Village reports the following major proprietary funds:

The *sewer enterprise fund* is used to account for the operations of the Village's sewer department that provides sewer services to most residents of the Village on a user charge basis.

The *water enterprise fund* is used to account for the operations of the Village's water department that provides water services to most residents of the Village on a user charge basis.

Additionally, the Village reports the following fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

The *debt service funds* are used to account for the financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *internal service fund* is used to account for the revenues and costs of goods or services provided by the Village to other departments and funds on a cost reimbursement basis.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Budgets and Budgetary Accounting

Comparisons to budget are presented for general and special revenue funds. The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to year-end, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to March 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
6. Adoption and amendments of all budgets used by the Village are governed by Public Act 621. The appropriations ordinances are based on the projected expenditures budget of the department heads of the Village. Any amendment to the original budget must meet the requirements of Public Act 621. The Village amended its budget for the year. Any revisions that alter the total expenditures of any activity must be approved by the Village Council.

Budgets for expenditures are adopted on an activity basis for the general and special revenue funds and lapse at year end. Budgeted amounts are as originally adopted and amended by the Village Council.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Village considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash represents amounts set aside in accordance with various bond requirements.

Investment Statutory Authority

State statutes authorize the Village to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

-
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
 - c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
 - d. Bankers' acceptances of United States banks.
 - e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
 - f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
 - g. External investment pools as authorized by Public Act 20 as amended.

Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements using the consumption method.

Capital Assets

Capital assets, which include land, buildings and improvements, vehicles and equipment, and infrastructure are reported in the governmental and business-type activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 15-60 |
| Equipment | 3-15 |
| Vehicles | 3-15 |
| System infrastructure | 5-50 |

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Village has items that qualify for reporting in this category related to the net pension liability which is discussed in Note 6.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Village has items that qualify for reporting in this category related to the net pension liability which is discussed in Note 6.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the 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. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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 and discounts received on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures regardless of fund or activity.

Net Position and Fund Balance Reporting

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the Village Council.
4. Assigned - the related assets can only be spent for a specific purpose identified by formal resolution of the Village Council. The Council has not delegated authority for the ability to assign fund balance.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

Property Taxes

Village property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14. Real property taxes not collected as of September 30 are turned over to the County for collection, which advances the Village 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer. Property taxes levied in July of each year are recognized as revenue in that year.

Grants and Other Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Risk Management

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2021, the Village carried commercial insurance to cover risks of losses. The Village has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the activity level. The same level at which the budgets of the Village were adopted. During the year ended February 28, 2021, the Village did not incur any expenditures in excess of appropriations

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

3. CASH AND CASH EQUIVALENTS

The captions on the financial statements relating to cash and cash equivalents are as follows:

| | Governmental Activities | Business- type Activities | Component Unit | Total |
|---------------------------|------------------------------------|------------------------------------------|---------------------------|--------------------|
| Cash and cash equivalents | \$1,224,276 | \$884,316 | \$165,503 | \$2,274,095 |
| Restricted cash | - | 105,500 | - | 105,500 |
| | <u>\$1,224,276</u> | <u>\$989,816</u> | <u>\$165,503</u> | <u>\$2,379,595</u> |

Restricted cash consists of the following at February 28, 2021:

| | Sewer Fund |
|------------------------------------|-----------------------|
| 2009 Sewage disposal revenue bonds | \$ 51,500 |
| 1994 Sewer system revenue bonds | 54,000 |
| | <u>\$105,500</u> |

These deposits are in financial institutions located in Michigan. State policy limits the Treasurer's investing options to financial institutions located in Michigan (with specific exceptions). All accounts are in the name of the Village and a specific fund or common account. They are recorded in Village records at fair value.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. As of year-end, \$1,887,886 of the Village's bank balance of \$2,400,219 was exposed to custodial credit risk because it was uninsured and uncollateralized.

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended February 28, 2021 are as follows:

| | Transfers out | | | | |
|-----------------------|--------------------------|---------------------------------|-------------------|-----------------|------------------|
| Transfers in: | Major streets fund | Property replacement fund | Nonmajor Funds | Sewer fund | Total |
| Nonmajor funds | \$37,898 | \$ - | \$ - | \$ - | \$ 37,898 |
| Sewer fund | - | 281,519 | - | - | 281,519 |
| Water fund | - | 133,394 | - | 15,749 | 149,143 |
| Internal service fund | - | - | 108,859 | - | 108,859 |
| | <u>\$37,898</u> | <u>\$414,913</u> | <u>\$108,859</u> | <u>\$15,749</u> | <u>\$577,419</u> |

Transfers are used to contribute budgeted amounts to various funds and move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

| | Balance March 1, 2020 | Additions | Deletions | Balance February 28, 2021 |
|-----------------------------------------------------|-----------------------------|--------------------|--------------------|---------------------------------|
| Governmental Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Construction in progress | \$ 89,363 | \$ - | \$89,363 | \$ - |
| Capital assets, being depreciated | | | | |
| Building and improvements | 235,162 | - | - | 235,162 |
| Infrastructure | 4,975,636 | 52,822 | - | 5,028,458 |
| Vehicles and equipment | 1,475,802 | 267,850 | 32,149 | 1,711,503 |
| Total capital assets, being depreciated | 6,686,600 | 320,672 | 32,149 | 6,975,123 |
| Less accumulated depreciation | | | | |
| Building and improvements | 95,517 | 6,227 | - | 101,744 |
| Infrastructure | 1,745,432 | 202,374 | - | 1,947,806 |
| Vehicles and equipment | 1,003,531 | 83,384 | 32,149 | 1,054,766 |
| Total accumulated depreciation | 2,844,480 | 291,985 | 32,149 | 3,104,316 |
| Net capital assets, being depreciated | 3,842,120 | 28,687 | - | 3,870,807 |
| Governmental Activities capital assets, net | \$3,931,483 | \$ 28,687 | \$89,363 | \$3,870,807 |
| Business-type Activities | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 34,300 | \$ - | \$ - | \$ 34,300 |
| Construction in progress | 1,817,661 | - | 1,817,661 | - |
| Total capital assets, not being depreciated | 1,851,961 | - | 1,817,661 | 34,300 |
| Capital assets, being depreciated | | | | |
| Systems | 6,457,867 | 2,302,022 | - | 8,759,889 |
| Machinery and equipment | 18,501 | - | - | 18,501 |
| Software | 6,870 | - | - | 6,870 |
| Total capital assets, being depreciated | 6,483,238 | 2,302,022 | - | 8,785,260 |
| Less accumulated depreciation | | | | |
| Systems | 3,169,968 | 172,186 | - | 3,342,154 |
| Machinery and equipment | 18,501 | - | - | 18,501 |
| Software | 6,870 | - | - | 6,870 |
| Total accumulated depreciation | 3,195,339 | 172,186 | - | 3,367,525 |
| Net capital assets, being depreciated | 3,287,899 | 2,129,836 | - | 5,417,735 |
| Business-type Activities capital assets, net | \$5,139,860 | \$2,129,836 | \$1,817,661 | \$5,452,035 |

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

| | |
|------------------------------------------------------------|------------------|
| Governmental Activities | |
| General government | \$ 14,370 |
| Public safety | 45,430 |
| Public works | 192,950 |
| Culture and recreation | 3,956 |
| Internal service fund | 35,279 |
| Total depreciation expense, governmental activities | \$291,985 |

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | |
|-------------------------------------------------------------|------------------|
| Business-type Activities | |
| Sewer | \$141,998 |
| Water | 30,188 |
| | <hr/> |
| Total depreciation expense, business-type activities | \$172,186 |
| | <hr/> |

6. DEFINED BENEFIT PENSION PLAN

MERS Defined Benefit Plan

Plan Description

The Village participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

This plan is closed to new entrants.

Benefits Provided

Benefits provided include a multiplier of up to 1.7 times final average compensation with a vesting period of 10 years. Effective in 2020, plan participants are frozen at their current multiplier rate. Normal retirement age is 60 with early retirement at 50 with 25 years of service or 55 with 15 years of service with various benefits. Benefits are calculated using final average compensation of 5 years.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are 2.5%.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2020):

| | |
|------------------------------------------------------------------|-------|
| Active plan members | 1 |
| Inactive employees entitled but not yet receiving benefits | 5 |
| Inactive employees or beneficiaries currently receiving benefits | 4 |
| | <hr/> |
| Total | 10 |
| | <hr/> |

Contributions

The Village is required to contribute at an actuarially determined rate. For divisions closed to new employees the employer has a monthly employer contribution amount of \$3,933. Participating employees are not required to contribute to the Plan. The contribution requirements of the Village are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

Net Pension Liability

The employer's net pension liability was measured as of December 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2020 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: base wage inflation of 3.00% in the long-term (plus merit and longevity from 0 to 11% based on age)

Investment rate of return: 7.35%, net of investment expense, including inflation

Mortality rates used for non-disabled plan member were based on a weighted blend of RP-2014 mortality tables of a 50% Male and 50% Female blend. Mortality rates used for disabled plan member were based on a blend of RP-2014 disabled retiree mortality tables of a 50% Male and 50% Female blend of disabled retirees

The actuarial assumptions used in the valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> | <u>Expected Money Weighted Rate of Return*</u> |
|---------------------------|--------------------------|-----------------------------------------------|------------------------------------------------|
| Global Equity | 60.0% | 7.75% | 3.15% |
| Global Fixed Income | 20.0% | 3.75% | 0.25% |
| Private investments | 20.0% | 9.75% | 1.45% |
| Inflation | | | 2.50% |
| Administrative fee | | | 0.25% |
| Investment rate of return | | | <u>7.60%</u> |

Discount rate. The discount rate used to measure the total pension liability is 7.60%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

Changes in the Net Pension Liability

The components of the change in the net pension liability were as follows:

| | Increase (Decrease) | | |
|----------------------------------------------------|-------------------------|-----------------------------|-------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability (Asset) |
| | (a) | (b) | (a)-(b) |
| Balance at December 31, 2019 | \$753,194 | \$711,621 | \$ 41,573 |
| Changes for the Year: | | | |
| Service cost | 3,321 | - | 3,321 |
| Interest | 55,729 | - | 55,729 |
| Change in benefits | (47,107) | - | (47,107) |
| Differences between expected and actual experience | 18,743 | - | 18,743 |
| Change in assumptions | 24,982 | - | 24,982 |
| Contributions: employer | - | 45,665 | (45,665) |
| Contributions: employee | - | - | - |
| Net investment income | - | 94,298 | (94,298) |
| Benefit payments, including refunds | (43,157) | (43,157) | - |
| Administrative expense | - | (1,453) | 1,453 |
| Other changes | - | - | - |
| Net changes | 12,511 | 95,353 | (82,842) |
| Balance at December 31, 2020 | \$765,705 | \$806,974 | \$(41,269) |

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

For the year ended February 28, 2021 the Village recognized pension expense of \$2,333. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---------------------------------------------------|--------------------------------|-------------------------------|
| Differences in experience | \$ - | \$ - |
| Differences in assumptions | - | - |
| Deficit investment returns | - | 15,224 |
| Contributions subsequent to the measurement date* | 6,551 | - |
| Total | \$6,551 | \$15,224 |

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending February 28, 2022.

Amounts reported as deferred outflows and inflows of resources from pension related items (excluding contributions subsequent to measurement date) will be recognized in pension expense as follows:

| | |
|-------|------------|
| 2022 | \$ 3,102 |
| 2023 | 4,906 |
| 2024 | (15,197) |
| 2025 | (8,035) |
| Total | \$(15,224) |

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

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

The following presents the net pension liability of the employer, calculated using the discount rate of 7.60%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.60%) or higher (8.60%) than the current rate.

| | 1% Decrease | Current Discount Rate | 1% Increase |
|-------------------------|-------------|--------------------------|-------------|
| Total pension liability | \$859,571 | \$765,705 | \$ 687,500 |
| Fiduciary net position | 806,974 | 806,974 | 806,974 |
| Net pension liability | \$ 52,597 | \$(41,269) | \$(119,474) |

7. DEFINED CONTRIBUTION PLAN

The Village maintains a defined contribution 401(a) Plan administered by MERS. The plan is available to all full-time employees at time of hire. The plan provisions and contribution requirements are established and may be amended by Village Council. The contribution by the Village is 10% of gross wages. Employer contributions to the plan for the year ended February 28, 2021 amounted to \$30,645.

8. LONG-TERM DEBT

The following is a summary of the debt transactions of the Village for the year ended February 28, 2021.

| | Balance March 1, <u>2020</u> | <u>Additions</u> | <u>Deletions</u> | Balance February 28, <u>2021</u> | Due Within One Year |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|------------------|------------------|----------------------------------------|------------------------------|
| Governmental Activities | | | | | |
| 2005 Michigan Transportation Fund Bonds, payable in annual installments of \$15,000 to \$35,000 through 2026, plus interest at 4.00% | \$ 195,000 | \$ - | \$ 30,000 | \$ 165,000 | \$ 30,000 |
| 2011 Limited Tax General Obligation Bonds, payable in annual installments of \$25,000 to \$70,000 through 2031, plus interest at 4.875% | 575,000 | - | 40,000 | 535,000 | 40,000 |
| 2016 Limited Tax General Obligation Bonds, payable in bi-annual installments of \$31,982 to \$49,067 through 2031, plus interest at 2.30% | 1,035,736 | - | 75,931 | 959,805 | 77,630 |
| 2017 Act 99 Installment Purchase Agreement, payable in annual installments if \$8,000 to \$21,000 through 2034, plus interest at 3.125% | 240,000 | - | 15,000 | 225,000 | 16,000 |
| Total Governmental Activities | \$2,045,736 | \$ - | \$160,931 | \$1,884,805 | \$163,630 |

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | Balance March 1, 2020 | Additions | Deletions | Balance February 28, 2021 | Due Within One Year |
|---------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------|-----------------|---------------------------------|------------------------------|
| Business-type Activities | | | | | |
| 1994 Sewer System Revenue Bonds, payable in annual installments of \$5,000 to \$28,000 through 2034, plus interest at 4.50% | \$351,000 | \$ - | \$16,000 | \$335,000 | \$18,000 |
| 2009 Sewage Disposal Revenue Bonds, payable in annual installments of \$35,000 to \$50,000 through 2031, plus interest at 2.50% | 515,000 | - | 40,000 | 475,000 | 45,000 |
| Total Business-type Activities | \$866,000 | \$ - | \$56,000 | \$810,000 | \$63,000 |

The annual requirements to amortize all debt outstanding as of February 28, 2021 are as follows:

| Year Ending February 28 | Governmental Activities | | Business-type Activities | |
|----------------------------|-------------------------|------------------|--------------------------|------------------|
| | Principal | Interest | Principal | Interest |
| 2022 | \$ 163,630 | \$ 61,459 | \$ 63,000 | \$ 25,983 |
| 2023 | 170,426 | 55,998 | 63,000 | 24,048 |
| 2024 | 178,263 | 50,252 | 64,000 | 22,091 |
| 2025 | 185,143 | 44,231 | 65,000 | 20,088 |
| 2026 | 188,066 | 37,921 | 66,000 | 18,040 |
| 2027-2031 | 858,772 | 103,384 | 372,000 | 56,215 |
| 2032-2036 | 140,505 | 3,780 | 117,000 | 10,547 |
| Total | \$1,884,805 | \$357,025 | \$810,000 | \$177,012 |

All debt of the Village is private placement. In the event of default, the Village will be required to use money from its General fund or levy an ad-valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory and charter limitations.

9. LEASE RECEIVABLE

During the year ended February 28, 2021, the Village leased the use of a building to an unrelated third party that expires in September 2022. The Village's investment in the leased property is \$49,906.

The following is a schedule of annual future minimum lease receipts required under the operating lease with a remaining non-cancelable lease term in excess of one year as of February 28, 2021:

| Year | Non-Cancelable Operating Leases |
|------------------------------|---------------------------------------|
| 2022 | \$ 7,680 |
| 2023 | 4,480 |
| Total minimum future rentals | \$12,160 |

VILLAGE OF HOWARD CITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2021

10. FUND BALANCE COMMITMENTS

Committed fund balance consists of the following at February 28, 2021:

| | General Fund |
|------------------|-------------------------|
| Ensley park | \$14,956 |
| Skate park | 3,943 |
| Winterfest | 1,169 |
| Harvest festival | 2,503 |
| Ballfield | 6,317 |
| Bandshell | 45,672 |
| Buck pole | <u>1,384</u> |
| | <u>\$75,944</u> |

11. COMMITMENTS

As of February 28, 2021, the Village has a purchase commitment of approximately \$140,000 for a new backhoe.

12. PRIOR PERIOD ADJUSTMENT

The opening balance of the general fund and governmental activities were increased by \$26,619 to reflect a reclassification of various community funds from liabilities to committed fund balance accounts.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF HOWARD CITY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------------------------|-----------------------|-------------------|-------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Positive</u> <u>(Negative)</u> |
| Revenues | | | | |
| Taxes and penalties | \$ 338,550 | \$ 340,268 | \$ 340,441 | \$ 173 |
| Intergovernmental revenues | | | | |
| State | 177,100 | 194,600 | 182,780 | (11,820) |
| Local | - | - | 7,500 | 7,500 |
| Charges for services | 140,056 | 154,259 | 154,283 | 24 |
| Fines | - | 412 | 412 | - |
| Interest and rentals | 3,000 | 3,700 | 3,845 | 145 |
| Miscellaneous | 6,000 | 4,441 | 48,208 | 43,767 |
| Total revenues | <u>664,706</u> | <u>697,680</u> | <u>737,469</u> | <u>39,789</u> |
| Expenditures | | | | |
| Current | | | | |
| Legislative - Village Council | 13,150 | 9,470 | 9,390 | 80 |
| General government | | | | |
| Village manager | 167,900 | 159,796 | 149,244 | 10,552 |
| Grounds | 30,200 | 26,550 | 25,760 | 790 |
| Tribunal refunds | 2,000 | 200 | 120 | 80 |
| Total general government | <u>200,100</u> | <u>186,546</u> | <u>175,124</u> | <u>11,422</u> |
| Public safety | | | | |
| Police services | 197,500 | 197,500 | 197,500 | - |
| Fire department | 86,700 | 106,625 | 104,032 | 2,593 |
| Total public safety | <u>284,200</u> | <u>304,125</u> | <u>301,532</u> | <u>2,593</u> |
| Department of public works | 101,700 | 107,550 | 104,268 | 3,282 |
| Culture and recreation | 35,700 | 23,831 | 21,604 | 2,227 |
| Debt service | | | | |
| Principal | 15,000 | 15,000 | 15,000 | - |
| Interest and fiscal charges | 8,000 | 7,500 | 7,500 | - |
| Total expenditures | <u>657,850</u> | <u>654,022</u> | <u>634,418</u> | <u>19,604</u> |
| Revenues over (under) expenditures | 6,856 | 43,658 | 103,051 | 59,393 |
| Other financing sources (uses) | | | | |
| Transfers in | - | 975 | - | (975) |
| Net changes in fund balance | 6,856 | 44,633 | 103,051 | 58,418 |
| Fund balance, beginning of year, as restated | <u>432,679</u> | <u>432,679</u> | <u>432,679</u> | <u>-</u> |
| Fund balance, end of year | <u>\$ 439,535</u> | <u>\$ 477,312</u> | <u>\$ 535,730</u> | <u>\$ 58,418</u> |

VILLAGE OF HOWARD CITY

MAJOR STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------------|-----------------------|-------------------|-------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Positive</u> <u>(Negative)</u> |
| Revenues | | | | |
| Intergovernmental revenues | | | | |
| State | \$ 185,000 | \$ 200,000 | \$ 198,323 | \$ (1,677) |
| Interest and rentals | 50 | 125 | 102 | (23) |
| Miscellaneous | - | 4,350 | 4,350 | - |
| Total revenues | <u>185,050</u> | <u>204,475</u> | <u>202,775</u> | <u>(1,700)</u> |
| Expenditures | | | | |
| Public works | | | | |
| Routine maintenance | 133,600 | 121,385 | 116,040 | 5,345 |
| Winter maintenance | <u>26,100</u> | <u>25,125</u> | <u>20,849</u> | <u>4,276</u> |
| Total expenditures | <u>159,700</u> | <u>146,510</u> | <u>136,889</u> | <u>9,621</u> |
| Revenues over (under) expenditures | 25,350 | 57,965 | 65,886 | 7,921 |
| Other financing sources (uses) | | | | |
| Transfers out | <u>(37,000)</u> | <u>(37,898)</u> | <u>(37,898)</u> | <u>-</u> |
| Net changes in fund balances | (11,650) | 20,067 | 27,988 | 7,921 |
| Fund balances, beginning of year | <u>249,437</u> | <u>249,437</u> | <u>249,437</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 237,787</u> | <u>\$ 269,504</u> | <u>\$ 277,425</u> | <u>\$ 7,921</u> |

VILLAGE OF HOWARD CITY

LOCAL STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>Budget Amounts</u> | | <u>Actual</u> | <u>Variance</u> |
|-----------------------------------------|-----------------------|------------------|------------------|--------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Positive</u> <u>(Negative)</u> |
| Revenues | | | | |
| Intergovernmental revenues | | | | |
| State | \$ 80,000 | \$ 90,673 | \$ 90,330 | \$ (343) |
| Expenditures | | | | |
| Public works | | | | |
| Routine maintenance | 66,800 | 101,700 | 98,548 | 3,152 |
| Winter maintenance | <u>18,800</u> | <u>24,725</u> | <u>21,625</u> | <u>3,100</u> |
| Total expenditures | <u>85,600</u> | <u>126,425</u> | <u>120,173</u> | <u>6,252</u> |
| Net changes in fund balances | (5,600) | (35,752) | (29,843) | 5,909 |
| Fund balances, beginning of year | <u>97,188</u> | <u>97,188</u> | <u>97,188</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 91,588</u> | <u>\$ 61,436</u> | <u>\$ 67,345</u> | <u>\$ 5,909</u> |

VILLAGE OF HOWARD CITY

DEFINED BENEFIT PENSION PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------------------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Total pension liability | | | | | |
| Service cost | \$ 7,056 | \$ 2,937 | \$ 3,255 | \$ 3,139 | \$ 3,321 |
| Interest | 65,514 | 65,734 | 68,413 | 68,356 | 55,729 |
| Changes in benefit terms | - | - | - | - | (47,107) |
| Difference between expected and actual experience | (57,160) | 2,033 | 12,879 | (179,826) | 18,743 |
| Changes in assumptions | 48,378 | - | - | 30,978 | 24,982 |
| Benefit payments including employee refunds | (43,723) | (55,467) | (69,773) | (44,664) | (43,157) |
| Other | (36) | 15,231 | (2,073) | - | - |
| Net change in total pension liability | <u>20,029</u> | <u>30,468</u> | <u>12,701</u> | <u>(122,017)</u> | <u>12,511</u> |
| Total pension liability, beginning of year | <u>812,013</u> | <u>832,042</u> | <u>862,510</u> | <u>875,211</u> | <u>753,194</u> |
| Total pension liability, end of year | <u>\$ 832,042</u> | <u>\$ 862,510</u> | <u>\$ 875,211</u> | <u>\$ 753,194</u> | <u>\$ 765,705</u> |
| Plan Fiduciary Net Position | | | | | |
| Contributions-employer | \$ 32,732 | \$ 29,384 | \$ 35,367 | \$ 39,057 | \$ 45,665 |
| Contributions-employee | - | - | - | - | - |
| Net investment income | (9,156) | 83,798 | (26,280) | 86,136 | 94,298 |
| Benefit payments including employee refunds | (43,723) | (55,467) | (69,773) | (44,664) | (43,157) |
| Administrative expense | (1,340) | (1,328) | (1,326) | (1,485) | (1,453) |
| Net change in plan fiduciary net position | <u>(21,487)</u> | <u>56,387</u> | <u>(62,012)</u> | <u>79,044</u> | <u>95,353</u> |
| Plan fiduciary net position, beginning of year | <u>659,689</u> | <u>638,202</u> | <u>694,589</u> | <u>632,577</u> | <u>711,621</u> |
| Plan fiduciary net position, end of year | <u>\$ 638,202</u> | <u>\$ 694,589</u> | <u>\$ 632,577</u> | <u>\$ 711,621</u> | <u>\$ 806,974</u> |
| Total net pension liability (asset) | <u>\$ 193,840</u> | <u>\$ 167,921</u> | <u>\$ 242,634</u> | <u>\$ 41,573</u> | <u>\$ (41,269)</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 77% | 81% | 72% | 94% | 105% |
| Covered employee payroll | \$ 90,658 | \$ 36,393 | \$ 38,708 | \$ 37,069 | \$ 38,708 |
| Employer's net pension liability as a percentage of covered employee payroll | 214% | 461% | 627% | 112% | -107% |

VILLAGE OF HOWARD CITY
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED FEBRUARY 28, 2021

| | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined contributions | \$ 32,732 | \$ 29,384 | \$ 35,367 | \$ 39,057 | \$ 45,665 |
| Contributions in relation to the actuarially determined contribution | 32,732 | 29,384 | 35,367 | 39,057 | 45,665 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered employee payroll | \$ 90,658 | \$ 36,393 | \$ 38,708 | \$ 37,069 | \$ 38,708 |
| Contributions as a percentage of covered employee payroll | 36.1% | 80.7% | 91.4% | 105.4% | 118.0% |

Notes to schedule

| | |
|-------------------------------|-------------------------------------------------------------|
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, open |
| Remaining amortization period | 25 years |
| Asset valuation method | 5 year smoothed |
| Inflation | 2.50% |
| Salary increases | 3.75% to 14.5% |
| Investment rate of return | 7.60% |
| Retirement age | Varies depending on plan adoption |
| Mortality | RP-2014 mortality tables of a 50% Male and 50% Female blend |

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

Budgets for the General and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.

Pension Schedules

The pension data is based on a measurement date of December 31.

The pension schedules are being accumulated prospectively until ten years of data is presented.

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**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

VILLAGE OF HOWARD CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
FEBRUARY 28, 2021

| | Special Revenue | Debt Service | | |
|--------------------------------------------|----------------------|---------------|----------------|-------------------|
| | Municipal Streets | 2016 Debt | Street Bond | Total |
| Assets | | | | |
| Cash and cash equivalents | \$ 232,509 | \$ 101 | \$ 4 | \$ 232,614 |
| Total assets | <u>\$ 232,509</u> | <u>\$ 101</u> | <u>\$ 4</u> | <u>\$ 232,614</u> |
| Liabilities and fund balances | | | | |
| Liabilities | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances | | | | |
| Restricted | | | | |
| Streets | 232,509 | - | - | 232,509 |
| Assigned | | | | |
| Debt service | <u>-</u> | <u>101</u> | <u>4</u> | <u>105</u> |
| Total fund balances | <u>232,509</u> | <u>101</u> | <u>4</u> | <u>232,614</u> |
| Total liabilities and fund balances | <u>\$ 232,509</u> | <u>\$ 101</u> | <u>\$ 4</u> | <u>\$ 232,614</u> |

VILLAGE OF HOWARD CITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | Special Revenue | Debt Service | | |
|-----------------------------------------|------------------------------|---------------------|------------------------|-------------------|
| | Municipal Streets | 2016 Debt | Street Bond | Total |
| Revenues | | | | |
| Taxes and penalties | \$ 126,248 | \$ - | \$ - | \$ 126,248 |
| Intergovernmental revenues | | | | |
| Local | <u>-</u> | <u>99,263</u> | <u>68,031</u> | <u>167,294</u> |
| Total revenues | <u>126,248</u> | <u>99,263</u> | <u>68,031</u> | <u>293,542</u> |
| Expenditures | | | | |
| Current | | | | |
| Public works | 22,064 | - | - | 22,064 |
| Debt service | | | | |
| Principal | - | 75,931 | 70,000 | 145,931 |
| Interest | <u>-</u> | <u>23,332</u> | <u>35,929</u> | <u>59,261</u> |
| Total expenditures | <u>22,064</u> | <u>99,263</u> | <u>105,929</u> | <u>227,256</u> |
| Revenues over (under) expenditures | <u>104,184</u> | <u>-</u> | <u>(37,898)</u> | <u>66,286</u> |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 37,898 | 37,898 |
| Transfers out | <u>(108,859)</u> | <u>-</u> | <u>-</u> | <u>(108,859)</u> |
| Total other financing sources (uses) | <u>(108,859)</u> | <u>-</u> | <u>37,898</u> | <u>(70,961)</u> |
| Net changes in fund balances | (4,675) | - | - | (4,675) |
| Fund balances, beginning of year | <u>237,184</u> | <u>101</u> | <u>4</u> | <u>237,289</u> |
| Fund balances, end of year | <u>\$ 232,509</u> | <u>\$ 101</u> | <u>\$ 4</u> | <u>\$ 232,614</u> |

VILLAGE OF HOWARD CITY

MUNICIPAL STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | Budget Amounts | | Actual | Variance |
|-----------------------------------------|------------------------|---------------------|----------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amount</u> | <u>Positive (Negative)</u> |
| Revenues | | | | |
| Taxes | \$ 101,000 | \$ 126,187 | \$ 126,248 | \$ 61 |
| Expenditures | | | | |
| Public works | | | | |
| Routine maintenance | <u>228,800</u> | <u>221,222</u> | <u>22,064</u> | <u>199,158</u> |
| Revenues over (under) expenditures | (127,800) | (95,035) | 104,184 | 199,219 |
| Other financing sources (uses) | | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>(108,859)</u> | <u>108,859</u> |
| Net changes in fund balances | (127,800) | (95,035) | (4,675) | 308,078 |
| Fund balances, beginning of year | <u>237,184</u> | <u>237,184</u> | <u>237,184</u> | <u>-</u> |
| Fund balances, end of year | <u>\$ 109,384</u> | <u>\$ 142,149</u> | <u>\$ 232,509</u> | <u>\$ 90,360</u> |

VILLAGE OF HOWARD CITY

DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEET/STATEMENT OF NET POSITION

FEBRUARY 28, 2021

| | General Fund | Adjustments | Statement of Net Position |
|--------------------------------------------|--------------------------|--------------------|------------------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 165,503 | \$ - | \$ 165,503 |
| Land held for sale | <u>78,368</u> | <u>-</u> | <u>78,368</u> |
| Total assets | 243,871 | - | 243,871 |
| Liabilities and fund balances | | | |
| Liabilities | | | |
| Accounts payable | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances | | | |
| Nonspendable | 78,368 | (78,368) | |
| Unassigned | <u>165,503</u> | <u>(165,503)</u> | |
| Total fund balance | <u>243,871</u> | <u>(243,871)</u> | |
| Total liabilities and fund balances | <u><u>\$ 243,871</u></u> | | |
| Net position | | | |
| Unrestricted | | <u>\$ 243,871</u> | <u>\$ 243,871</u> |

VILLAGE OF HOWARD CITY

DOWNTOWN DEVELOPMENT AUTHORITY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED FEBRUARY 28, 2021

| | <u>General Fund</u> | <u>Adjustments</u> | <u>Statement of Activities</u> |
|------------------------------------------------------------------|--------------------------------|---------------------------|-----------------------------------------------|
| Revenues | | | |
| Taxes | \$ 195,635 | \$ - | \$ 195,635 |
| Miscellaneous | <u>10,080</u> | <u>-</u> | <u>10,080</u> |
| Total revenues | <u>205,715</u> | <u>-</u> | <u>205,715</u> |
| Expenditures/expenses | | | |
| Current | | | |
| General government | 41,587 | - | 41,587 |
| Debt transfer | <u>167,294</u> | <u>-</u> | <u>167,294</u> |
| Total expenditures/expenses | <u>208,881</u> | <u>-</u> | <u>208,881</u> |
| Net changes in fund balance | (3,166) | 3,166 | |
| Change in net position | | (3,166) | (3,166) |
| Fund balance/net position, beginning of year, as restated | <u>247,037</u> | | <u>247,037</u> |
| Fund balance/net position, end of year | <u>\$ 243,871</u> | | <u>\$ 243,871</u> |

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CONTROL AND COMPLIANCE



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 13, 2021

Village Council
Village of Howard City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Howard City (the Village) as of and for the year ended February 28, 2021, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated July 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Village'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as finding number 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Village's Response to the Finding

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Village's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Uredaxeld Haefner LLC

VILLAGE OF HOWARD CITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED FEBRUARY 28, 2021

Finding 2021-001

CONDITION: The Village does not have procedures in place to prepare financial statements in accordance with generally accepted accounting principles including procedures to record certain revenue and expenditure/expense accruals and to present required financial statement disclosures.

CRITERIA: Generally Accepted Auditing Standards require the Village to have the ability to prepare financial statements in accordance with generally accepted accounting principles and to record revenue and expenditure/expense accruals as appropriate.

CAUSE OF CONDITION: The audit process identified several significant journal entries which were necessary to present financial statements in accordance with generally accepted accounting principles.

POTENTIAL EFFECT OF CONDITION: Auditing standards require that this control deficiency be reported as a material weakness.

RECOMMENDATION: The Village's system of controls should be modified so that the Village prepares the necessary adjustments to present financial statements and disclosures in accordance with generally accepted accounting principles.

MANAGEMENT RESPONSE: The Village maintains financial records throughout the year on the modified accrual basis of accounting and has determined that any benefits derived from preparing accrual basis financial statements and required disclosures is not cost effective.