

# VILLAGE OF HOWARD CITY

FINANCIAL STATEMENTS

AND

SINGLE AUDIT REPORT

FOR THE YEAR ENDED FEBRUARY 29, 2020



Vredeveld Haefner LLC  
CPAs and Consultants

# VILLAGE OF HOWARD CITY

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### INDEPENDENT AUDITORS' REPORT

July 14, 2020

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 29, 2020, 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 29, 2020, 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 36 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 individual fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The individual fund financial statements and schedules and the schedule of expenditures of federal awards 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 individual fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The corrective action plan has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2020, 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.

*Urodeuxeld 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 29, 2020. 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 purchased a new leaf vacuum for \$55,550.
- The Village was able to pay off three loans early – Michigan Economic Development Corporation Grant, USDA Loan 97-07 for a grass rig, and USDA Loan 97-04 for a fire/dump truck.
- The Village had a 10% match for a MEDC infrastructure construction grant.

### 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, municipal streets, property replacement and street bond 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 by \$8,193,839 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	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$1,387,507	\$1,351,159	\$ 957,107	\$1,020,654	\$ 2,344,614	\$2,371,813
Capital assets	3,931,483	4,012,730	5,139,860	3,441,736	9,071,343	7,454,466
<b>Total assets</b>	<b>5,318,990</b>	<b>5,363,889</b>	<b>6,096,967</b>	<b>4,462,390</b>	<b>11,415,957</b>	<b>9,826,279</b>
<b>Deferred outflows of resources</b>	<b>30,812</b>	<b>121,170</b>	<b>-</b>	<b>-</b>	<b>30,812</b>	<b>121,170</b>
Current liabilities	421,057	36,799	95,438	29,580	516,495	66,379
Long-term liabilities	1,926,435	2,541,659	810,000	922,000	2,736,435	3,463,659
<b>Total liabilities</b>	<b>2,347,492</b>	<b>2,578,458</b>	<b>905,438</b>	<b>951,580</b>	<b>3,252,930</b>	<b>3,530,038</b>
<b>Deferred inflows of resources</b>	<b>-</b>	<b>83,495</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>83,495</b>
Net position						
Net investment in capital assets	1,885,747	2,190,960	4,273,860	2,519,766	6,159,607	4,710,726
Restricted	583,809	800,002	-	68,867	583,809	868,869
Unrestricted	532,754	(167,856)	917,669	922,177	1,450,423	754,321
<b>Total net position</b>	<b>\$3,002,310</b>	<b>\$2,823,106</b>	<b>\$5,191,529</b>	<b>\$3,510,810</b>	<b>\$8,193,839</b>	<b>\$6,333,916</b>

Net position of the Village increased by \$2,095,701. The governmental activities increase in net position of \$414,982 is primarily due to a decrease in the net pension liability. The business-type activities increase in net position of \$1,680,719 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>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>Revenue</b>						
Program revenue						
Charges for services	\$ 163,017	\$ 96,477	\$ 574,495	\$ 583,397	\$ 737,512	\$ 679,874
Operating grants and contributions	479,506	314,594	-	-	479,506	314,594
Capital grants and contributions	1,706,540	27,000	-	-	1,706,540	27,000
General revenue						
Property taxes	318,512	599,091	-	-	318,512	599,091
State shared revenues	175,774	165,020	-	-	175,774	165,020
Other	11,844	74,551	9,937	9,546	21,781	84,097
Transfers	(1,582,174)	23,124	1,582,174	(23,124)	-	-
<b>Total revenue</b>	<b>1,273,119</b>	<b>1,299,857</b>	<b>2,166,606</b>	<b>569,819</b>	<b>3,439,725</b>	<b>1,869,676</b>
<b>Expenses</b>						
General government	191,815	342,560	-	-	191,815	342,560
Public safety	225,913	327,042	-	-	225,913	327,042
Public works	307,496	455,126	-	-	307,496	455,126
Community and economic development	-	45,611	-	-	-	45,611
Recreation and culture	30,539	40,564	-	-	30,539	40,564
Interest on long-term debt	102,374	79,610	-	-	102,374	79,610
Sewer	-	-	284,855	296,023	284,855	296,023
Water	-	-	201,032	198,506	201,032	198,506
<b>Total expenses</b>	<b>858,137</b>	<b>1,290,513</b>	<b>485,887</b>	<b>494,529</b>	<b>1,344,024</b>	<b>1,785,042</b>
Increase in net position	414,982	9,344	1,680,719	75,290	2,095,701	84,634
<b>Net position, beginning of year, as restated</b>	<b>2,587,328</b>	<b>2,813,762</b>	<b>3,510,810</b>	<b>3,435,520</b>	<b>6,098,138</b>	<b>6,249,282</b>
<b>Net position, end of year</b>	<b>\$3,002,310</b>	<b>\$2,823,106</b>	<b>\$5,191,529</b>	<b>\$3,510,810</b>	<b>\$8,193,839</b>	<b>\$6,333,916</b>

**Governmental Activities.** During the year the Village invested \$307,496 or 36% of governmental activities expenses in public works which includes major and local streets and motor pool operations while general government, public safety, culture and recreation and interest on long-term debt made up the remaining 64% of governmental activities expenses.

**Business-type Activities.** Business-type activities increased the Village's net position by \$1,680,719. The primary reason for the increase is the transfer in of federal grant funding recorded in another fund.

## 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 \$990,459, an increase of \$61,663 in comparison with the prior year. Of the \$990,459, \$406,060 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 \$379,588. 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 57% of total general fund expenditures and transfers out. Fund balance of the Village's general fund increased by \$15,669, primarily due to increases in state revenue sharing.

At the end of the current fiscal year, fund balance of the municipal streets special revenue fund was \$237,184, a decrease of \$36,905.

At the end of the current fiscal year, fund balance of the street bond debt service fund was \$4, an increase of \$1.

**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 \$556,838 and \$360,831, respectively. The sewer fund had an increase in net position for the year of \$1,058,472 and the water fund had an increase of \$622,247. 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 29, 2020, amounted to \$9,071,343 (net of accumulated depreciation).

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

<b>Capital Assets</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land	\$ -	\$ 34,300	\$ 34,300
Construction in progress	89,363	1,817,661	1,907,024
Buildings, vehicles, equipment and infrastructure	3,842,120	3,287,899	7,130,019
<b>Total</b>	<b>\$3,931,483</b>	<b>\$5,139,860</b>	<b>\$9,071,343</b>

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 \$2,911,736 consisting of bonds totaling \$2,671,736 and an installment purchase agreement totaling \$240,000. Principal payments of \$309,289 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**

- The Village fire department had a budget increase for new equipment of \$11,200.
- An initial union contract was settled between the Village and AFSCME Local 3067.05 which included various wage and funding increases.
- The Village incurred unexpected engineering fees for the water asset management plan and ground water monitoring plan.
- The Village continues to contract with the Montcalm County Sheriff's Department for public services which included a significant cost increase.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Village's budget for the 2021 fiscal year:

- In accordance with Village ordinances, there will be slight water/sewer rate increases.
- Due to COVID-19, the Village will see an impact on revenue sharing and ACT 51 funding however the extent is currently unknown.
- There has been a slight increase in taxable value within the Village.
- Not exceeding the Headlee Amendment, the Village Council approved a 1 mill increase.
- Village Council approved a \$30,000 increase to be used for new equipment for the fire department.

### **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 29, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<b>Assets</b>				
Cash and cash equivalents	\$ 1,147,063	\$ 762,605	\$ 1,909,668	\$ 168,669
Accounts receivable	111,823	89,002	200,825	-
Due from other governments	102,149	-	102,149	-
Prepaid items	26,472	-	26,472	-
Land held for sale	-	-	-	78,368
Restricted cash	-	105,500	105,500	-
Capital assets				
Land	-	34,300	34,300	-
Construction in progress	89,363	1,817,661	1,907,024	-
Depreciable capital assets, net	3,842,120	3,287,899	7,130,019	-
<b>Total assets</b>	<b>5,318,990</b>	<b>6,096,967</b>	<b>11,415,957</b>	<b>247,037</b>
<b>Deferred outflows of resources</b>				
Pension related	30,812	-	30,812	-
<b>Liabilities</b>				
Accounts payable	212,082	9,795	221,877	-
Accrued liabilities	48,101	29,643	77,744	-
Debt due within one year	160,874	56,000	216,874	-
Noncurrent liabilities				
Net pension liability	41,573	-	41,573	-
Debt due in more than one year	1,884,862	810,000	2,694,862	-
<b>Total liabilities</b>	<b>2,347,492</b>	<b>905,438</b>	<b>3,252,930</b>	<b>-</b>
<b>Net position</b>				
Net investment in capital assets	1,885,747	4,273,860	6,159,607	-
Restricted for				
Streets	583,809	-	583,809	-
Revenue bonds	-	105,500	105,500	-
Unrestricted	532,754	812,169	1,344,923	247,037
<b>Total net position</b>	<b>\$ 3,002,310</b>	<b>\$ 5,191,529</b>	<b>\$ 8,193,839</b>	<b>\$ 247,037</b>

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

**VILLAGE OF HOWARD CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 29, 2020**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 191,815	\$ 65,146	\$ 15,864	\$ -	\$ (110,805)
Public safety	225,913	93,856	-	-	(132,057)
Public works	307,496	-	463,742	1,706,540	1,862,786
Recreation and culture	30,539	4,015	-	-	(26,524)
Interest on long-term debt	<u>102,374</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(102,374)</u>
Total governmental activities	<u>858,137</u>	<u>163,017</u>	<u>479,606</u>	<u>1,706,540</u>	<u>1,491,026</u>
Business-type activities					
Sewer	284,855	330,362	-	-	45,507
Water	<u>201,032</u>	<u>244,133</u>	<u>-</u>	<u>-</u>	<u>43,101</u>
Total business-type activities	<u>485,887</u>	<u>574,495</u>	<u>-</u>	<u>-</u>	<u>88,608</u>
<b>Total primary government</b>	<u>\$ 1,344,024</u>	<u>\$ 737,512</u>	<u>\$ 479,606</u>	<u>\$ 1,706,540</u>	<u>\$ 1,579,634</u>
<b>Component unit</b>					
Downtown Development Authority	<u>\$ 209,117</u>	<u>\$ 7,680</u>	<u>\$ 1,900</u>	<u>\$ -</u>	<u>\$ (199,537)</u>

(Continued)

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

**VILLAGE OF HOWARD CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED FEBRUARY 29, 2020**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority
<b>Changes in net assets</b>				
<b>Net (expense) revenue</b>	\$ 1,491,026	\$ 88,608	\$ 1,579,634	\$ (199,537)
General revenues				
Property taxes	318,512	-	318,512	184,977
State shared revenues	175,774	-	175,774	-
Interest and rentals	7,584	5,176	12,760	-
Other revenue	4,260	4,761	9,021	-
Transfers - internal activities	(1,582,174)	1,582,174	-	-
Total general revenues	(1,076,044)	1,592,111	516,067	184,977
Change in net position	414,982	1,680,719	2,095,701	(14,560)
<b>Net position, beginning of year, as restated</b>	2,587,328	3,510,810	6,098,138	261,597
<b>Net position, end of year</b>	\$ 3,002,310	\$ 5,191,529	\$ 8,193,839	\$ 247,037

(Concluded)

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

**VILLAGE OF HOWARD CITY**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

**FEBRUARY 29, 2020**

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Debt Service</u>	
	<u>General</u>	<u>Municipal Streets</u>	<u>Property Replacement</u>	<u>Street Bond</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Assets</b>						
Cash and cash equivalents	\$ 369,625	\$ 326,547	\$ 485	\$ 4	\$ 293,517	\$ 990,178
Accounts receivable	-	-	111,823	-	-	111,823
Due from other governments	48,940	-	-	-	53,209	102,149
Prepaid items	<u>26,472</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,472</u>
<b>Total assets</b>	<u>\$ 445,037</u>	<u>\$ 326,547</u>	<u>\$ 112,308</u>	<u>\$ 4</u>	<u>\$ 346,726</u>	<u>\$ 1,230,622</u>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 10,896	\$ 89,363	\$ 111,823	\$ -	\$ -	\$ 212,082
Accrued liabilities	<u>28,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,081</u>
<b>Total liabilities</b>	<u>38,977</u>	<u>89,363</u>	<u>111,823</u>	<u>-</u>	<u>-</u>	<u>240,163</u>
<b>Fund balances</b>						
Nonspendable						
Prepaid items	26,472	-	-	-	-	26,472
Restricted						
Streets	-	237,184	-	-	346,625	583,809
Assigned						
Debt service	-	-	-	4	101	105
Capital projects	-	-	485	-	-	485
Unassigned	<u>379,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>379,588</u>
<b>Total fund balances</b>	<u>406,060</u>	<u>237,184</u>	<u>485</u>	<u>4</u>	<u>346,726</u>	<u>990,459</u>
<b>Total liabilities and fund balances</b>	<u>\$ 445,037</u>	<u>\$ 326,547</u>	<u>\$ 112,308</u>	<u>\$ 4</u>	<u>\$ 346,726</u>	<u>\$ 1,230,622</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 29, 2020

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<b>Fund balances - total governmental funds</b>	\$ 990,459
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)	3,759,156
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - long-term debt payable	(2,045,736)
Deduct - accrued interest on bonds and loans payable	(20,020)
Deduct - net pension liability	(41,573)
Add - deferred outflows related to net pension liability	30,812
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>329,212</u>
<b>Net position of governmental activities</b>	<u>\$ 3,002,310</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 29, 2020**

	<u>Special Revenue</u>		<u>Capital Projects</u>		<u>Debt Service</u>		<u>Total</u>
	<u>General</u>	<u>Municipal Streets</u>	<u>Property Replacement</u>	<u>Street Bond</u>	<u>Nonmajor Funds</u>		
<b>Revenues</b>							
Taxes and penalties	\$ 318,512	\$ 100,968	\$ -	\$ -	\$ -	\$ -	\$ 419,480
Intergovernmental revenues							
Federal	-	-	1,605,572	-	-	-	1,605,572
State	191,638	-	-	-	294,372	-	486,010
Local	-	-	-	69,981	99,263	-	169,244
Charges for services	156,103	-	-	-	-	-	156,103
Interest and rentals	7,583	-	-	1	126	-	7,710
Miscellaneous	11,098	-	-	-	76	-	11,174
<b>Total revenues</b>	<u>684,934</u>	<u>100,968</u>	<u>1,605,572</u>	<u>69,982</u>	<u>393,837</u>	<u>2,855,293</u>	
<b>Expenditures</b>							
Current							
Legislative	7,256	-	-	-	-	-	7,256
General government	184,199	-	-	-	-	-	184,199
Public safety	250,746	-	-	-	-	-	250,746
Public works	96,226	18,501	-	-	165,420	-	280,147
Recreation and culture	34,102	-	-	-	-	-	34,102
Debt service							
Principal	86,000	-	-	93,130	74,159	-	253,289
Interest	10,736	-	-	46,514	25,104	-	82,354
<b>Total expenditures</b>	<u>669,265</u>	<u>18,501</u>	<u>-</u>	<u>139,644</u>	<u>264,683</u>	<u>1,092,093</u>	
Revenues over (under) expenditures	<u>15,669</u>	<u>82,467</u>	<u>1,605,572</u>	<u>(69,662)</u>	<u>129,154</u>	<u>1,763,200</u>	
Other financing sources (uses)							
Transfers in	-	-	500	69,663	9	-	70,172
Transfers out	-	(119,372)	(1,605,587)	-	(46,750)	-	(1,771,709)
Total other financing sources (uses)	<u>-</u>	<u>(119,372)</u>	<u>(1,605,087)</u>	<u>69,663</u>	<u>(46,741)</u>	<u>(1,701,537)</u>	
Net changes in fund balances	15,669	(36,905)	485	1	82,413	-	61,663
<b>Fund balances, beginning of year</b>	<u>390,391</u>	<u>274,089</u>	<u>-</u>	<u>3</u>	<u>264,313</u>	<u>928,796</u>	
<b>Fund balances, end of year</b>	<u>\$ 406,060</u>	<u>\$ 237,184</u>	<u>\$ 485</u>	<u>\$ 4</u>	<u>\$ 346,726</u>	<u>\$ 990,459</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 29, 2020**

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<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 61,663</b>
 Amounts reported for <i>governmental activities</i> 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	45,038
Deduct - depreciation expense	(252,504)
 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	253,289
 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	201,061
Add - decrease in deferred inflows related to net pension liability	83,495
Deduct - decrease in deferred outflows related to net pension liability	(90,358)
Deduct - increase in accrued interest	(20,020)
 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	133,318
 <b>Change in net position of governmental activities</b>	 <b><u>\$ 414,982</u></b>

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

**VILLAGE OF HOWARD CITY**

**PROPRIETARY FUNDS  
STATEMENT OF NET POSITION**

**FEBRUARY 29, 2020**

	<u>Enterprise Funds</u>		<u>Enterprise Funds Total</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>		<u>Motor Pool</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 414,561	\$ 348,044	\$ 762,605	\$ 156,885
Accounts receivable	<u>53,401</u>	<u>35,601</u>	<u>89,002</u>	<u>-</u>
Total current assets	<u>467,962</u>	<u>383,645</u>	<u>851,607</u>	<u>156,885</u>
Noncurrent assets				
Restricted cash	105,500	-	105,500	-
Land	17,879	16,421	34,300	-
Construction in progress	1,233,283	584,378	1,817,661	89,363
Capital assets, net	<u>2,808,754</u>	<u>479,145</u>	<u>3,287,899</u>	<u>82,964</u>
Net noncurrent assets	<u>4,165,416</u>	<u>1,079,944</u>	<u>5,245,360</u>	<u>172,327</u>
<b>Total assets</b>	<u>4,633,378</u>	<u>1,463,589</u>	<u>6,096,967</u>	<u>329,212</u>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	4,678	5,117	9,795	-
Accrued liabilities	11,946	17,697	29,643	-
Current portion of long-term debt	<u>56,000</u>	<u>-</u>	<u>56,000</u>	<u>-</u>
Total current liabilities	<u>72,624</u>	<u>22,814</u>	<u>95,438</u>	<u>-</u>
Long-term liabilities				
Bonds payable, net of current portion	<u>810,000</u>	<u>-</u>	<u>810,000</u>	<u>-</u>
<b>Total liabilities</b>	<u>882,624</u>	<u>22,814</u>	<u>905,438</u>	<u>-</u>
<b>Net position</b>				
Net investment in capital assets	3,193,916	1,079,944	4,273,860	172,327
Restricted for bonds	105,500	-	105,500	-
Unrestricted	<u>451,338</u>	<u>360,831</u>	<u>812,169</u>	<u>156,885</u>
<b>Total net position</b>	<u>\$ 3,750,754</u>	<u>\$ 1,440,775</u>	<u>\$ 5,191,529</u>	<u>\$ 329,212</u>

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 29, 2020**

	<u>Enterprise Funds</u>		<u>Enterprise Funds Total</u>	<u>Governmental Activities</u>
	<u>Sewer</u>	<u>Water</u>		<u>Motor Pool</u>
<b>Operating revenue</b>				
Charges for services	\$ 330,362	\$ 244,133	\$ 574,495	\$ 113,592
Other	1,855	2,906	4,761	-
<b>Total operating revenue</b>	<u>332,217</u>	<u>247,039</u>	<u>579,256</u>	<u>113,592</u>
<b>Operating expense</b>				
Personnel services	77,599	56,731	134,330	27,063
Contractual	4,919	6,491	11,410	-
Utilities	33,701	23,001	56,702	10,923
Repair and maintenance	13,751	65,712	79,463	10,853
Other expenses	3,605	28,437	32,042	32,104
Depreciation	122,467	20,660	143,127	18,694
<b>Total operating expense</b>	<u>256,042</u>	<u>201,032</u>	<u>457,074</u>	<u>99,637</u>
Operating income (loss)	<u>76,175</u>	<u>46,007</u>	<u>122,182</u>	<u>13,955</u>
Non-operating revenue (expense)				
Interest income	5,176	-	5,176	-
Interest expense	(28,813)	-	(28,813)	-
Total non-operating revenue (expense)	<u>(23,637)</u>	<u>-</u>	<u>(23,637)</u>	<u>-</u>
Income (loss) before transfers	<u>52,538</u>	<u>46,007</u>	<u>98,545</u>	<u>13,955</u>
Transfers				
Transfers in	1,089,391	584,378	1,673,769	119,363
Transfers out	(83,457)	(8,138)	(91,595)	-
Total transfers	<u>1,005,934</u>	<u>576,240</u>	<u>1,582,174</u>	<u>119,363</u>
Changes in net position	1,058,472	622,247	1,680,719	133,318
<b>Net position, beginning of year</b>	<u>2,692,282</u>	<u>818,528</u>	<u>3,510,810</u>	<u>195,894</u>
<b>Net position, end of year</b>	<u>\$ 3,750,754</u>	<u>\$ 1,440,775</u>	<u>\$ 5,191,529</u>	<u>\$ 329,212</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 29, 2020**

	<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>
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 340,431	\$ 254,341	\$ 594,772	\$ 113,592
Payments to employees	(77,599)	(56,731)	(134,330)	(27,063)
Payments to suppliers	(51,298)	(117,744)	(169,042)	(55,624)
<b>Net cash provided by (used in) operating activities</b>	<u>211,534</u>	<u>79,866</u>	<u>291,400</u>	<u>30,905</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers in	1,089,391	584,378	1,673,769	119,363
Transfers out	(83,457)	(8,138)	(91,595)	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>1,005,934</u>	<u>576,240</u>	<u>1,582,174</u>	<u>119,363</u>
<b>Cash flows from capital and related financing activities</b>				
Interest paid	(29,530)	-	(29,530)	-
Principal paid on bonds	(56,000)	-	(56,000)	-
Acquisitions of capital assets	(1,247,714)	(593,537)	(1,841,251)	(144,913)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(1,333,244)</u>	<u>(593,537)</u>	<u>(1,926,781)</u>	<u>(144,913)</u>
<b>Cash flows from investing activities</b>				
Interest income	5,176	-	5,176	-
<b>Net increase (decrease) in cash and cash equivalents</b>	(110,600)	62,569	(48,031)	5,355
<b>Cash and cash equivalents, beginning of year</b>	<u>630,661</u>	<u>285,475</u>	<u>916,136</u>	<u>151,530</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 520,061</u>	<u>\$ 348,044</u>	<u>\$ 868,105</u>	<u>\$ 156,885</u>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ 76,175	\$ 46,007	\$ 122,182	\$ 13,955
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	122,467	20,660	143,127	18,694
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	8,214	7,302	15,516	-
Accounts payable	4,678	4,997	9,675	(1,744)
Accrued liabilities	-	900	900	-
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 211,534</u>	<u>\$ 79,866</u>	<u>\$ 291,400</u>	<u>\$ 30,905</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 29, 2020

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### 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 29, 2020

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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 *municipal streets fund* is used to account for the proceeds of property tax millage revenue 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 *street bond debt service fund* is used to account for the financial resources that are assigned to expenditure for principal and interest.

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 funds* are 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 29, 2020

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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 funds* are 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 March 1.
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 29, 2020

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- 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 29, 2020

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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 no items that qualify for reporting in this category.

#### ***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 29, 2020

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#### **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 29, 2020, 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 29, 2020, the Village incurred the following expenditure in excess of the amount appropriated:

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Municipal streets fund			
Transfers out	\$9	\$119,372	\$119,363

# VILLAGE OF HOWARD CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED FEBRUARY 29, 2020

#### 3. CASH AND CASH EQUIVALENTS

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

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Component Unit</b>	<b>Total</b>
Cash and cash equivalents	\$1,147,063	\$762,605	\$168,669	\$2,078,337
Restricted cash	-	105,500	-	105,500
	\$1,147,063	\$868,105	\$168,669	\$2,183,837

Restricted cash consists of the following at February 29, 2020:

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

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, \$1,681,672 of the Village's bank balance of \$2,194,005 was exposed to custodial credit risk because it was uninsured and uncollateralized.

#### 4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended February 29, 2020 are as follows:

	<b>Transfers out</b>					
<b>Transfers in:</b>	<b>Municipal streets fund</b>	<b>Property replacement fund</b>	<b>Nonmajor Funds</b>	<b>Sewer fund</b>	<b>Water fund</b>	<b>Total</b>
Property replacement fund	\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 500
Street bond fund	-	-	46,750	15,275	7,638	69,663
Nonmajor funds	9	-	-	-	-	9
Sewer fund	-	1,089,391	-	-	-	1,089,391
Water fund	-	516,196	-	68,182	-	584,378
Internal service fund	119,363	-	-	-	-	119,363
	<b>\$119,372</b>	<b>\$1,605,587</b>	<b>\$46,750</b>	<b>\$83,457</b>	<b>\$8,138</b>	<b>\$1,863,304</b>

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 29, 2020

#### 5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<b>Balance March 1, <u>2019</u></b>	<b><u>Additions</u></b>	<b><u>Deletions</u></b>	<b>Balance February 29, <u>2020</u></b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Construction in progress	\$ -	\$ 89,363	\$ -	\$ 89,363
<b>Capital assets, being depreciated</b>				
Building and improvements	235,162	-	-	235,162
Infrastructure	4,940,598	35,038	-	4,975,636
Vehicles and equipment	1,435,498	65,550	25,246	1,475,802
Total capital assets, being depreciated	6,611,258	100,588	25,246	6,686,600
Less accumulated depreciation				
Building and improvements	89,289	6,228	-	95,517
Infrastructure	1,545,256	200,176	-	1,745,432
Vehicles and equipment	963,983	64,794	25,246	1,003,531
Total accumulated depreciation	2,598,528	271,198	25,246	2,844,480
<b>Net capital assets, being depreciated</b>	4,012,730	(170,610)	-	3,842,120
<b>Governmental Activities capital assets, net</b>	<b>\$4,012,730</b>	<b>\$ (81,247)</b>	<b>\$ -</b>	<b>\$3,931,483</b>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 34,300	\$ -	\$ -	\$ 34,300
Construction in progress	-	1,817,661	-	1,817,661
Total capital assets, not being depreciated	34,300	1,817,661	-	1,851,961
<b>Capital assets, being depreciated</b>				
Systems	6,434,277	23,590	-	6,457,867
Machinery and equipment	18,501	-	-	18,501
Software	6,870	-	-	6,870
Total capital assets, being depreciated	6,459,648	23,590	-	6,483,238
Less accumulated depreciation				
Systems	3,026,841	143,127	-	3,169,968
Machinery and equipment	18,501	-	-	18,501
Software	6,870	-	-	6,870
Total accumulated depreciation	3,052,212	143,127	-	3,195,339
<b>Net capital assets, being depreciated</b>	3,407,436	(119,537)	-	3,287,899
<b>Business-type Activities capital assets, net</b>	<b>\$3,441,736</b>	<b>\$1,698,124</b>	<b>\$ -</b>	<b>\$5,139,860</b>

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

<b>Governmental Activities</b>	
General government	\$ 14,370
Public safety	43,425
Public works	190,752
Culture and recreation	3,956
Internal service fund	18,694
<b>Total depreciation expense, governmental activities</b>	<b>\$271,197</b>

# VILLAGE OF HOWARD CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED FEBRUARY 29, 2020

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<b>Business-type Activities</b>	
Sewer	\$122,467
Water	<u>20,660</u>
<b>Total depreciation expense, business-type activities</b>	<b><u>\$143,127</u></b>

#### 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](http://www.mersofmich.com).

This plan is closed to new entrants.

##### *Benefits Provided*

Benefits provided include a multiplier of 1.7 times final average compensation with a vesting period of 10 years. 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, 2019):

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

##### *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 \$3,263. 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 29, 2020

#### **Net Pension Liability**

The employer's net pension liability was measured as of December 31, 2019, 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, 2019 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 3.75%

Salary Increases: 3.75% in the long-term

Investment rate of return: 7.75%, net of investment expense, including inflation

Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

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	57.5%	6.27%	3.60%
Global Fixed Income	20.0%	3.43%	0.68%
Real Assets	12.5%	5.48%	0.69%
Diversifying Strategies	10.0%	7.81%	0.78%
Inflation			2.00%
Administrative fee			0.25%
Investment rate of return			<u>8.00%</u>

Discount rate. The discount rate used to measure the total pension liability is 8.00%. 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 29, 2020

**Changes in the Net Pension Liability**

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

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at December 31, 2018	\$875,211	\$632,577	\$242,634
Changes for the Year:			
Service cost	3,139	-	3,139
Interest	68,356	-	68,356
Change in benefits	-	-	-
Differences between expected and actual experience	(179,826)	-	(179,826)
Change in assumptions	30,978	-	30,978
Contributions: employer	-	39,057	(39,057)
Contributions: employee	-	-	-
Net investment income	-	86,136	(86,136)
Benefit payments, including refunds	(44,664)	(44,664)	-
Administrative expense	-	(1,485)	1,485
Other changes	-	-	-
Net changes	(122,017)	79,044	(201,061)
Balance at December 31, 2019	\$753,194	\$711,621	\$ 41,573

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

For the year ended February 29, 2020 the Village recognized pension expense of \$(43,367). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experience	\$ -	\$ -
Differences in assumptions	-	-
Deficit investment returns	24,286	-
Contributions subsequent to the measurement date*	6,526	-
Total	\$30,812	\$ -

\* 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, 2021.

# VILLAGE OF HOWARD CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED FEBRUARY 29, 2020

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:

2021	\$ 7,370
2022	11,137
2023	12,941
2024	(7,162)
2025	-
Thereafter	-
<b>Total</b>	<b>\$24,286</b>

#### **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 8.00%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1% higher (9.00%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Total pension liability	\$843,737	\$753,194	\$677,400
Fiduciary net position	711,621	711,621	711,621
Net pension liability	\$132,116	\$41,573	\$(34,221)

#### **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 29, 2020 amounted to \$17,013.

#### **8. LONG-TERM DEBT**

The following is a summary of the debt transactions of the Village for the year ended February 29, 2020.

	Balance March 1, 2019	Additions	Deletions	Balance February 29, 2020	Due Within One Year
<b>Governmental Activities</b>					
2005 Michigan Transportation Fund Bonds, payable in annual installments of \$15,000 to \$35,000 through 2026, plus interest at 4.00%	\$ 225,000	\$ -	\$ 30,000	\$ 195,000	\$ 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%	615,000	-	40,000	575,000	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%	1,109,895	-	74,159	1,035,736	75,874

# VILLAGE OF HOWARD CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED FEBRUARY 29, 2020

	<u>Balance March 1, 2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance February 29, 2020</u>	<u>Due Within One Year</u>
2017 Act 99 Installment Purchase Agreement, payable in annual installments if \$8,000 to \$21,000 through 2034, plus interest at 3.125%	\$ 255,000	\$ -	\$ 15,000	\$ 240,000	\$ 15,000
2006 Act 99 Installment Purchase Agreement, payable in annual installments of \$10,000 to \$19,000 through 2022, plus interest at 4.375%	54,000	-	54,000	-	-
2012 Note Payable, payable in annual installments of \$3,000 to \$6,000 through 2022, plus interest at 3.75%	17,000	-	17,000	-	-
CDBG Note Payable, payable in quarterly installments of \$7,708 through 2019	23,130	-	23,130	-	-
<b>Total Governmental Activities</b>	<b><u>\$2,299,025</u></b>	<b><u>\$ -</u></b>	<b><u>\$253,289</u></b>	<b><u>\$2,045,736</u></b>	<b><u>\$160,874</u></b>
<b>Business-type Activities</b>					
1994 Sewer System Revenue Bonds, payable in annual installments of \$5,000 to \$28,000 through 2034, plus interest at 4.50%	\$367,000	\$ -	\$16,000	\$351,000	\$16,000
2009 Sewage Disposal Revenue Bonds, payable in annual installments of \$35,000 to \$50,000 through 2031, plus interest at 2.50%	555,000	-	40,000	515,000	40,000
<b>Total Business-type Activities</b>	<b><u>\$922,000</u></b>	<b><u>\$ -</u></b>	<b><u>\$56,000</u></b>	<b><u>\$866,000</u></b>	<b><u>\$56,000</u></b>

The annual requirements to amortize all debt outstanding as of February 29, 2020 are as follows:

<u>Year Ending February 28</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 160,874	\$ 66,849	\$ 56,000	\$ 27,811
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
2026-2030	860,468	131,967	361,000	67,757
2031-2035	326,932	13,117	194,000	17,045
<b>Total</b>	<b><u>\$2,045,736</u></b>	<b><u>\$423,873</u></b>	<b><u>\$866,000</u></b>	<b><u>\$204,823</u></b>

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.

# VILLAGE OF HOWARD CITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED FEBRUARY 29, 2020

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#### 9. LEASE RECEIVABLE

During the year ended February 29, 2020, 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 29, 2020:

<u>Year</u>	<u>Non- Cancelable Operating Leases</u>
2021	\$ 7,680
2022	7,680
2023	<u>4,480</u>
Total minimum future rentals	<u>\$19,840</u>

#### 10. SUBSEQUENT EVENT

Subsequent to year-end, the Village staff worked remotely as much as possible along with meeting various other stay-safe requirements due to the COVID-19 outbreak. The effect on operations is unknown at the report date.

#### 11. COMMITMENTS

At February 29, 2020 the Village has remaining construction commitments of approximately \$153,000 and a purchase commitment of approximately \$109,000 for a truck and trailer.

#### 12. PRIOR PERIOD ADJUSTMENTS

Beginning fund balance of the General fund and beginning net position of governmental activities were increased by \$25,819 to recognize state revenue sharing in the proper period. Beginning net position of governmental activities was decreased by \$261,597 to reclassify the Downtown Development Authority as a separate component unit.

## **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 29, 2020**

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes and penalties	\$ 333,550	\$ 318,512	\$ 318,512	\$ -
Intergovernmental revenues				
State	177,100	181,528	191,638	10,110
Charges for services	138,356	159,795	156,103	(3,692)
Fines	1,000	-	-	-
Interest and rentals	2,500	7,500	7,583	83
Miscellaneous	7,000	11,014	11,098	84
<b>Total revenues</b>	<u>659,506</u>	<u>678,349</u>	<u>684,934</u>	<u>6,585</u>
<b>Expenditures</b>				
Current				
Legislative - Village Council	10,000	7,520	7,256	264
General government				
Village manager	174,400	169,432	157,547	11,885
Grounds	24,200	24,400	24,047	353
Tribunal refunds	2,000	2,625	2,605	20
Total general government	<u>200,600</u>	<u>196,457</u>	<u>184,199</u>	<u>12,258</u>
Public safety				
Police services	187,500	188,333	188,333	-
Fire department	89,100	64,574	62,413	2,161
Total public safety	<u>276,600</u>	<u>252,907</u>	<u>250,746</u>	<u>2,161</u>
Department of public works	92,400	98,475	96,226	2,249
Culture and recreation	51,200	39,355	34,102	5,253
Debt service				
Principal	17,000	86,000	86,000	-
Interest and fiscal charges	2,362	10,736	10,736	-
<b>Total expenditures</b>	<u>650,162</u>	<u>691,450</u>	<u>669,265</u>	<u>22,185</u>
Net changes in fund balance	9,344	(13,101)	15,669	28,770
<b>Fund balance, beginning of year, as restated</b>	<u>390,391</u>	<u>390,391</u>	<u>390,391</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 399,735</u>	<u>\$ 377,290</u>	<u>\$ 406,060</u>	<u>\$ 28,770</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 29, 2020**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 95,000	\$ 100,968	\$ 100,968	\$ -
<b>Expenditures</b>				
Public works				
Routine maintenance	53,800	49,000	18,501	30,499
Revenues over (under) expenditures	41,200	51,968	82,467	30,499
Other financing sources (uses)				
Transfers out	-	(9)	(119,372)	119,363
Net changes in fund balances	41,200	51,959	(36,905)	149,862
<b>Fund balances, beginning of year</b>	274,089	274,089	274,089	-
<b>Fund balances, end of year</b>	<u>\$ 315,289</u>	<u>\$ 326,048</u>	<u>\$ 237,184</u>	<u>\$ (88,864)</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 29, 2020**

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

**VILLAGE OF HOWARD CITY**  
**DEFINED BENEFIT PENSION PLAN**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**FOR THE YEAR ENDED FEBRUARY 29, 2020**

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

**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	7.75%
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.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**VILLAGE OF HOWARD CITY**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**

**FEBRUARY 29, 2020**

	<b>Special Revenue</b>		<b>Debt Service</b>	
	<b>Major Streets</b>	<b>Local Streets</b>	<b>2016 Debt</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 211,612	\$ 81,804	\$ 101	\$ 293,517
Due from other governments	37,825	15,384	-	53,209
<b>Total assets</b>	<b>\$ 249,437</b>	<b>\$ 97,188</b>	<b>\$ 101</b>	<b>\$ 346,726</b>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
<b>Fund balances</b>				
Restricted				
Streets	249,437	97,188	-	346,625
Assigned				
Debt service	-	-	101	101
<b>Total fund balances</b>	<b>249,437</b>	<b>97,188</b>	<b>101</b>	<b>346,726</b>
<b>Total liabilities and fund balances</b>	<b>\$ 249,437</b>	<b>\$ 97,188</b>	<b>\$ 101</b>	<b>\$ 346,726</b>

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

**FOR THE YEAR ENDED FEBRUARY 29, 2020**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Major Streets</u>	<u>Local Streets</u>	<u>2016 Debt</u>	<u>Total</u>
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 203,040	\$ 91,332	\$ -	\$ 294,372
Local	-	-	99,263	99,263
Interest and rentals	126	-	-	126
Miscellaneous	-	76	-	76
<b>Total revenues</b>	<u>203,166</u>	<u>91,408</u>	<u>99,263</u>	<u>393,837</u>
<b>Expenditures</b>				
Current				
Public works	91,787	73,633	-	165,420
Debt service				
Principal	-	-	74,159	74,159
Interest	-	-	25,104	25,104
<b>Total expenditures</b>	<u>91,787</u>	<u>73,633</u>	<u>99,263</u>	<u>264,683</u>
Revenues over (under) expenditures	<u>111,379</u>	<u>17,775</u>	<u>-</u>	<u>129,154</u>
Other financing sources (uses)				
Transfers in	-	9	-	9
Transfers out	(46,750)	-	-	(46,750)
Total other financing sources (uses)	<u>(46,750)</u>	<u>9</u>	<u>-</u>	<u>(46,741)</u>
Net changes in fund balances	64,629	17,784	-	82,413
<b>Fund balances, beginning of year</b>	<u>184,808</u>	<u>79,404</u>	<u>101</u>	<u>264,313</u>
<b>Fund balances, end of year</b>	<u>\$ 249,437</u>	<u>\$ 97,188</u>	<u>\$ 101</u>	<u>\$ 346,726</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 29, 2020**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 140,000	\$ 198,480	\$ 203,040	\$ 4,560
Interest and rentals	30	125	126	1
<b>Total revenues</b>	<u>140,030</u>	<u>198,605</u>	<u>203,166</u>	<u>4,561</u>
<b>Expenditures</b>				
Public works				
Routine maintenance	69,000	76,510	73,429	3,081
Winter maintenance	24,100	24,900	18,358	6,542
<b>Total expenditures</b>	<u>93,100</u>	<u>101,410</u>	<u>91,787</u>	<u>9,623</u>
Revenues over (under) expenditures	<u>46,930</u>	<u>97,195</u>	<u>111,379</u>	<u>14,184</u>
Other financing sources (uses)				
Transfers out	(47,000)	(46,750)	(46,750)	-
Net changes in fund balances	(70)	50,445	64,629	14,184
<b>Fund balances, beginning of year</b>	<u>184,808</u>	<u>184,808</u>	<u>184,808</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 184,738</u>	<u>\$ 235,253</u>	<u>\$ 249,437</u>	<u>\$ 14,184</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 29, 2020**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenues				
State	\$ 70,000	\$ 80,724	\$ 91,332	\$ 10,608
Miscellaneous	-	-	76	76
<b>Total revenues</b>	<u>70,000</u>	<u>80,724</u>	<u>91,408</u>	<u>10,684</u>
<b>Expenditures</b>				
Public works				
Routine maintenance	63,500	56,885	53,498	3,387
Winter maintenance	<u>16,750</u>	<u>23,325</u>	<u>20,135</u>	<u>3,190</u>
<b>Total expenditures</b>	<u>80,250</u>	<u>80,210</u>	<u>73,633</u>	<u>6,577</u>
Revenues over (under) expenditures	<u>(10,250)</u>	<u>514</u>	<u>17,775</u>	<u>17,261</u>
Other financing sources (uses)				
Transfers in	-	9	9	-
Net changes in fund balances	(10,250)	523	17,784	17,261
<b>Fund balances, beginning of year</b>	<u>79,404</u>	<u>79,404</u>	<u>79,404</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 69,154</u>	<u>\$ 79,927</u>	<u>\$ 97,188</u>	<u>\$ 17,261</u>

**VILLAGE OF HOWARD CITY**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**BALANCE SHEET/STATEMENT OF NET POSITION**

**FEBRUARY 29, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 168,669	\$ -	\$ 168,669
Land held for sale	<u>78,368</u>	<u>-</u>	<u>78,368</u>
<b>Total assets</b>	<u><u>247,037</u></u>	<u><u>-</u></u>	<u><u>247,037</u></u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances</b>			
Unassigned	<u>247,037</u>	<u>(247,037)</u>	
<b>Total fund balance</b>	<u><u>247,037</u></u>	<u><u>(247,037)</u></u>	
<b>Total liabilities and fund balances</b>	<u><u>\$ 247,037</u></u>		
<b>Net position</b>			
Unrestricted		<u><u>\$ 247,037</u></u>	<u><u>\$ 247,037</u></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 29, 2020**

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Taxes	\$ 184,977	\$ -	\$ 184,977
Miscellaneous	<u>9,580</u>	<u>-</u>	<u>9,580</u>
<b>Total revenues</b>	194,557	-	194,557
<b>Expenditures/expenses</b>			
Current			
General government	39,873	-	39,873
Debt transfer	<u>169,244</u>	<u>-</u>	<u>169,244</u>
<b>Total expenditures/expenses</b>	<u>209,117</u>	<u>-</u>	<u>209,117</u>
Net changes in fund balance	(14,560)	14,560	
Change in net position		(7,297)	(14,560)
<b>Fund balance/net position, beginning of year, as restated</b>	<u>261,597</u>		<u>261,597</u>
<b>Fund balance/net position, end of year</b>	<u>\$ 247,037</u>		<u>\$ 247,037</u>

## **SINGLE AUDIT SECTION**



## Vredevelde Haefner LLC

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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 14, 2020

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 29, 2020, 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 14, 2020.

#### **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) to determine the 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 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 questioned costs. 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.

*Urodeuxeld Haefner LLC*



## Vredeveld Haefner LLC

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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

July 14, 2020

Village Council  
Village of Howard City, Michigan

#### **Report on Compliance for Each Major Federal Program**

We have audited the Village of Howard City's (the Village) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Village's major federal programs for the year ended February 29, 2020. The Village's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Village's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Village's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Village complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended February 29, 2020.

## **Report on Internal Control Over Compliance**

Management of the Village is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Uredeveld Haefner LLC*

VILLAGE OF HOWARD CITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FEBRUARY 29, 2020

<u>Federal Grantor/Pass-through Grantor Program Title</u>	<u>Grant Number</u>	<u>Approved Grant Award Amount</u>	<u>Federal CFDA Number</u>	<u>Current Year Expenditures</u>
<b>U.S. Department of Housing and Urban Development</b>				
Passed through Michigan Strategic Fund Community Development Block Grants	MSC 217045-FRZ	\$ 1,817,550	14.228	<u>\$ 1,605,572</u>
<b>Total Federal Financial Assistance</b>				<u>\$ 1,605,572</u>

See notes to schedule of expenditures of federal awards.

# VILLAGE OF HOWARD CITY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

*FEBRUARY 29, 2020*

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1. The Schedule of Expenditures of Federal Awards is prepared in accordance with the modified accrual basis of accounting.
2. Revenues from federal sources per the governmental funds financial statements agree with the expenditures per the Schedule of Expenditures of Federal Awards.
3. The Village did not elect to use the 10% de minimis cost rate as covered in Uniform Guidance section 2 CFR 200.414 indirect costs.

**VILLAGE OF HOWARD CITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FEBRUARY 29, 2020**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	<u>  X  </u> yes	<u>      </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	<u>      </u> yes	<u>  X  </u> no

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	<u>      </u> yes	<u>  X  </u> no
Significant deficiency(ies) identified?	<u>      </u> yes	<u>  X  </u> none reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance?	<u>      </u> yes	<u>  X  </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grants

Dollar threshold used to distinguish between Type A and B programs:	<u>  \$750,000  </u>
Auditee qualified as low-risk auditee?	<u>      </u> yes <u>  X  </u> no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**2020-001**

**Condition and Criteria:** Material audit adjustments were necessary during the course of the audit to compile year-end financial statements from the Village's general ledger balances.

**Cause:** The Village did not provide a trial balance for the audit process with all necessary adjustments to prepare financial statements in accordance with generally accepted accounting principles.

**Effect:** Auditing standards require material audit adjustments be reported as a material weakness.

**Recommendation:** The Village's system of controls should be modified so that all adjustments necessary to prepare financial statements in accordance with generally accepted accounting principles are recorded in the general ledger.

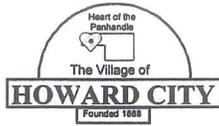
**Management Response:** The Village has developed a corrective action plan that provides for recording general ledger adjustments in accordance with generally accepted accounting principles.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

None noted



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## *Corrective Action Plan*

July 24, 2020

Douglas J. Vredeveld, CPA  
Vredeveld Haefner LLC

The Village of Howard City agrees with the findings identified and respectfully submits the following Corrective Action Plan for the financial management of federal funds.

### **Uniform Guidance Written Procedures**

Written procedures for the receiving and expenditure of Federal Funds were found to be in adequate from Village written polices for the year ending in February 28, 2020.

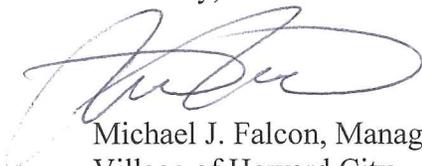
The Village of Howard City received an infrastructure grant from the Michigan Economic Development Corporation. The Village understands that funds of this grant flow through the State of Michigan from the Federal Government. As such, during the Villages yearly audit Jason Mitchell, CPA discovered that specific required written financial procedures under 2 CFR 200 were missing from the Villages policies.

### **Implementation and Monitoring**

To comply, the Village will ensure written financial procedures are adopted through resolution and are in place in accordance with 2 CFR Part 200. Additionally, the Village will monitor 2 CFR 200 to ensure that our written procedures remain in compliance.

If there are any questions regarding this plan, please contact Michael Falcon @ 231.937.4311 or [mfalcon@howardcity.org](mailto:mfalcon@howardcity.org)

Sincerely,



Michael J. Falcon, Manager  
Village of Howard City