

Village of Howard City

Montcalm County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

Year Ended February 28, 2009

Village of Howard City

Montcalm County, Michigan

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February 28, 2009

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Howard City
Montcalm County, Michigan

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 remaining fund information of Village of Howard City as of and for the year ended February 28, 2009 and 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Howard City management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Village of Howard City as of February 28, 2009 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report under separate cover dated August 24, 2009 on our consideration of the Village's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 and pages 43 through 55 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Howard City
Montcalm County, Michigan

Combining Financial Statements and Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Howard City's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, sweeping flourish at the end.

Douglas Wohlberg, CPA
Statement of Activities
August 24, 2009

Village of Howard City

Montcalm County, Michigan

Management Discussion and Analysis

For the year ended February 28, 2009

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets decreased 0.02% from a year ago, decreasing from \$2,855,201 to \$2,854,727. Unrestricted net assets, the part of net assets that can be used to finance day to day operations, increased by \$27,142 for the governmental activities. This represents an increase of approximately 10%. The current level of unrestricted net assets for our governmental activities stands at \$286,750, or about 22% of expenses. This is within the targeted range set by the Village Council during its last budget process.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2009	2008	2009	2008	2009	2008
Current assets	\$ 313,683	\$ 282,271	\$ 215,740	\$ 251,920	\$ 529,423	\$ 534,191
Noncurrent assets	1,909,165	1,962,275	1,971,501	2,062,462	3,880,666	4,024,737
Total assets	2,222,848	2,244,546	2,187,241	2,314,382	4,410,089	4,558,928
Long-term debt outstanding	910,956	990,951	479,000	519,000	1,389,956	1,509,951
Other liabilities	105,983	129,305	59,423	64,471	165,406	193,776
Total liabilities	1,016,939	1,120,256	538,423	583,471	1,555,362	1,703,727
Net assets						
Invested in capital assets - net of debt	922,805	888,318	1,452,501	1,504,452	2,375,306	2,392,770
Restricted	192,671	202,823	-	-	192,671	202,823
Unrestricted	90,433	33,149	196,317	226,459	286,750	259,608
Total net assets	\$ 1,205,909	\$ 1,124,290	\$ 1,648,818	\$ 1,730,911	\$ 2,854,727	\$ 2,855,201

Village of Howard City

Montcalm County, Michigan

Management Discussion and Analysis

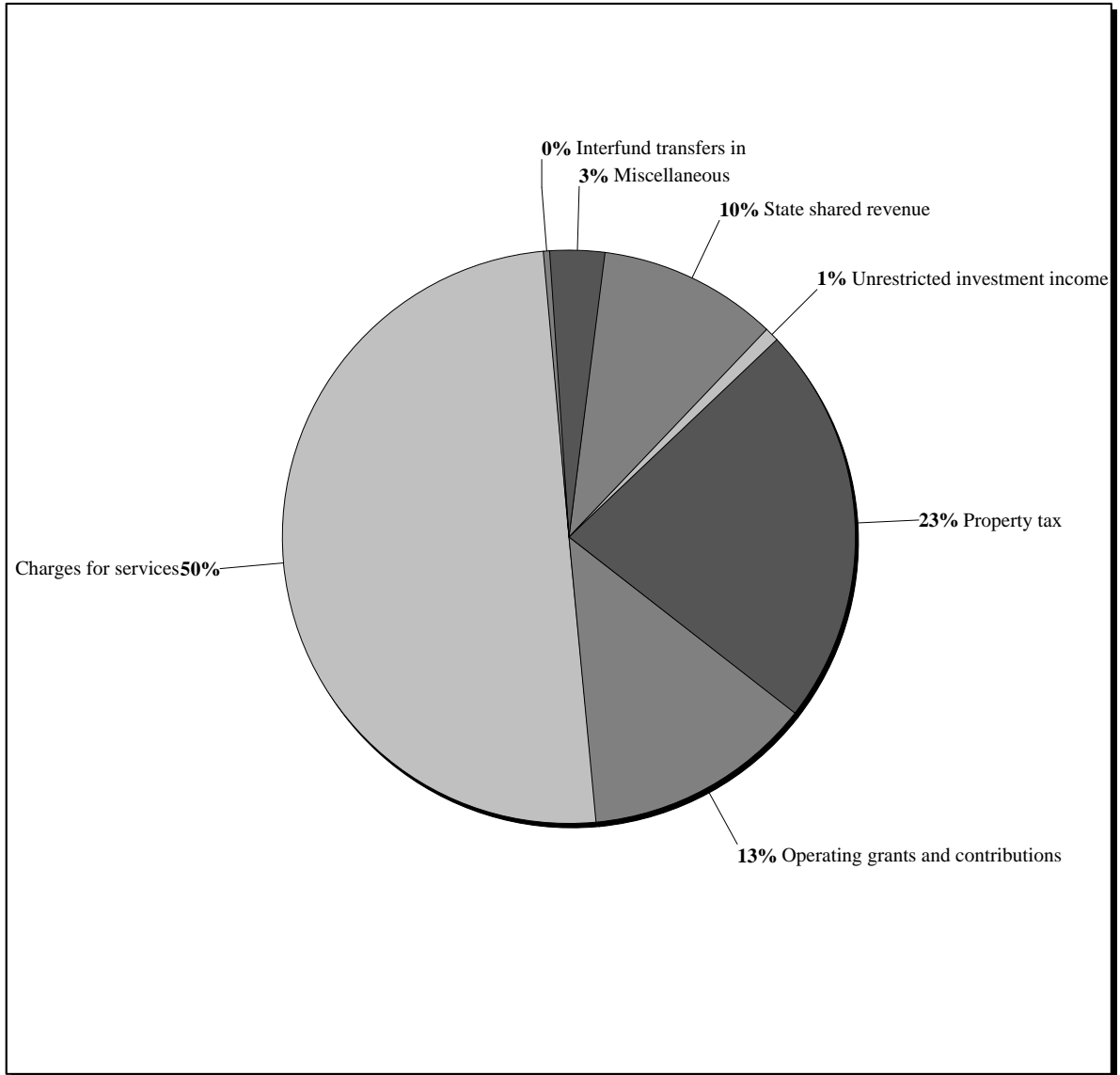
For the year ended February 28, 2009

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2009	2008	2009	2008	2009	2008
<u>Program revenues</u>						
Charges for services	\$ 245,217	\$ 124,685	\$ 417,552	\$ 388,633	\$ 662,769	\$ 513,318
Operating grants and contributions	171,309	182,654	-	-	171,309	182,654
Capital grants and contributions	-	-	-	28,094	-	28,094
<u>General revenue</u>						
Property tax	298,959	294,290	-	-	298,959	294,290
State shared revenue	133,717	135,673	-	-	133,717	135,673
Unrestricted investment income	7,287	9,843	3,354	6,779	10,641	16,622
Miscellaneous	36,793	53,753	4,064	1,837	40,857	55,590
Interfund transfers in	-	15,000	4,156	-	4,156	15,000
Total revenues	893,282	815,898	429,126	425,343	1,322,408	1,241,241
<u>Program expenses</u>						
General government	18,112	92,041	-	-	18,112	92,041
Public safety	343,929	360,413	-	-	343,929	360,413
Public works	385,394	313,357	-	-	385,394	313,357
Recreation and culture	18,813	14,291	-	-	18,813	14,291
Sewer Fund	-	-	301,549	291,319	301,549	291,319
Water Fund	-	-	209,669	147,842	209,669	147,842
Interfund transfers out	4,156	-	-	-	4,156	-
Loss on sale of assets	-	12,943	-	-	-	12,943
Interest on long-term debt	27,113	24,925	-	-	27,113	24,925
Total expenses	797,517	817,970	511,218	439,161	1,308,735	1,257,131
Change in net assets	\$ 95,765	\$ (2,072)	\$ (82,092)	\$ (13,818)	\$ 13,673	\$ (15,890)

Village of Howard City

Montcalm County, Michigan
Management Discussion and Analysis
For the year ended February 28, 2009

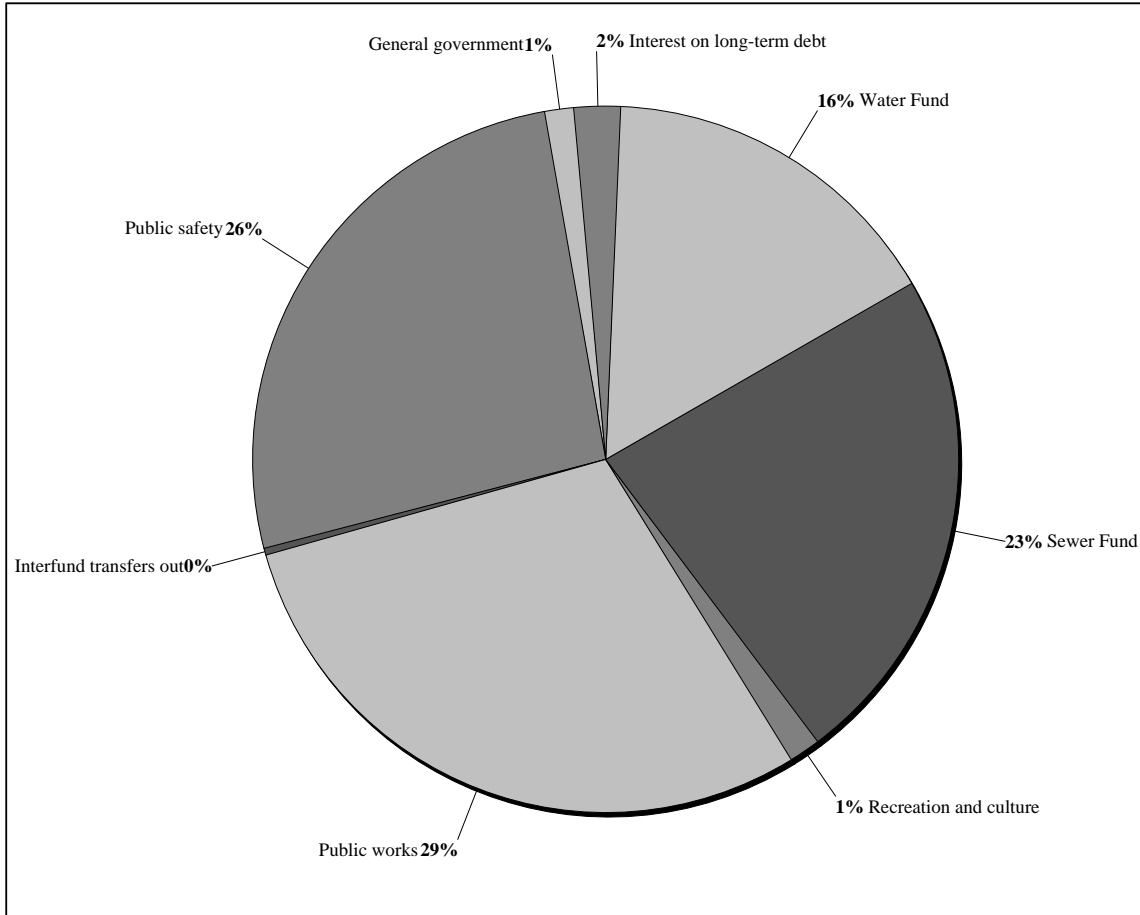
The following chart illustrates the sources of the Village's revenue.



Village of Howard City

Montcalm County, Michigan
Management Discussion and Analysis
For the year ended February 28, 2009

The following chart illustrates the Village's expenses.



Village of Howard City

Montcalm County, Michigan

Management Discussion and Analysis

For the year ended February 28, 2009

The Village's Funds

Our presentation of the Village's major funds begins on page 12, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2009 were the General Fund, the Major Streets and Local Streets Special Revenue Funds, the Ensley/Washburn Capital Projects Fund, Locally Raised Street Fund, and the Street Bond Debt Service Fund.

The General Fund Budget

Actual total General Fund expenditures were less than the budgeted expenditures because of cost containment in the police department. Village personnel worked very diligently to keep expenditures within the budget.

Capital Asset and Debt Administration

At the end of fiscal year, the Village had \$3,880,666, net of accumulated depreciation, invested in a broad range of capital assets, including buildings, police and fire equipment and water and sewer lines.

The following table shows the Village's capital assets compared to last year.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2009	2008	2009	2008	2009	2008
Land	\$ -	\$ -	\$ 34,300	\$ 34,300	\$ 34,300	\$ 34,300
Buildings and improvements	101,926	84,000	-	-	101,926	84,000
Equipment	386,922	424,168	10,982	12,974	397,904	437,142
Internal service equipment fund	89,232	124,979	-	-	89,232	124,979
Infrastructure	1,331,085	1,329,128	1,926,219	2,015,188	3,257,304	3,344,316
Total net assets	\$ 1,909,165	\$ 1,962,275	\$ 1,971,501	\$ 2,062,462	\$ 3,880,666	\$ 4,024,737

The following table shows the Village's long-term debt compared to last year.

	<u>Governmental Activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	2009	2008	2009	2008	2009	2008
Bonds	\$ 450,000	\$ 470,000	\$ 519,000	\$ 558,000	\$ 969,000	\$ 1,028,000
Installment purchase agreements	204,910	233,964	-	-	204,910	233,964
Loans	331,450	369,990	-	-	331,450	369,990
Compensated absences	1,338	4,591	-	-	1,338	4,591
Total long-term debt	\$ 987,698	\$ 1,078,545	\$ 519,000	\$ 558,000	\$ 1,506,698	\$ 1,636,545

Village of Howard City

Montcalm County, Michigan

Management Discussion and Analysis

For the year ended February 28, 2009

Economic Factors and Next Year's Budgets and Rates

The Village has been awarded a Transportation Enhancement Grant to undergo a streetscape project in the downtown district which includes water, sewer and street improvements. This could result in the issuance of bonds in the amount of \$800,000 to complete the improvements.

The Village of Howard City has been awarded a \$1.3 Million Economic Development Grant to fund 50% of the required improvements to its wastewater treatment facility. The Village will fund the remaining 50% of the project through Michigan's Water Pollution Control Revolving Fund, better known as the State Revolving Fund (SRF). This is a low (2.5%) interest loan financing program that assists qualified local municipalities with the construction of needed water pollution control facilities. Michigan enacted 1988 PA 317, The Clean Water Assistance Act, to establish the SRF which is now codified as Part 53, 1994 PA 451, of the Natural Resources and Environmental Protection Act. This project will be self-funded through the Sewer Fund. The Village will also receive a 40%, about \$560,000, principal forgiveness through the Federal American Reinvestment and Recovery Act. Standard and Poors, a bond rating agency, has awarded the Village's Wastewater Bonds a medium investment grade, that is considered a very good rating.

The Village anticipates that commercial and residential development will remain static for the next year.

The Village expects a reduction in state revenue sharing and Michigan Transportation Fund funding.

The Village anticipates a slight increase to revenue due to the partial expiration of the Renaissance Zone. More parcels within the tax-free Renaissance Zone will begin to pay 25% of their taxes within the next fiscal budget. This will increase by an additional 25% each of the following 3 years.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's Manager at the Howard City Village Hall, 125 Shaw Street, Howard City, Michigan, 49329. The Village's phone number is (231) 937-4311.

Village of Howard City

Montcalm County, Michigan

Statement of Net Assets

For the year ended February 28, 2009

	Governmental activities	Business type activities	Total	Component unit
ASSETS				
Cash and cash equivalents	\$ 313,683	\$ 172,555	\$ 486,238	\$ 140,057
Receivables (net)	-	43,185	43,185	-
Capital assets (net)	1,909,165	1,971,501	3,880,666	-
TOTAL ASSETS	\$ 2,222,848	\$ 2,187,241	\$ 4,410,089	\$ 140,057
LIABILITIES				
Accounts payable	\$ 19,143	\$ 2,661	\$ 21,804	\$ 3,023
Accrued and other liabilities	10,098	16,653	26,751	-
Deferred revenue	-	109	109	-
Due within one year	76,742	40,000	116,742	-
Due in more than one year	910,956	479,000	1,389,956	-
TOTAL LIABILITIES	1,016,939	538,423	1,555,362	3,023
NET ASSETS				
Restricted for	-	-	-	-
Streets and highways	25,637	-	25,637	-
Debt service	521	-	521	-
Capital projects	166,513	-	166,513	-
Invested in capital assets	922,805	1,452,501	2,375,306	20
Unrestricted	90,433	196,317	286,750	137,034
TOTAL NET ASSETS	1,205,909	1,648,818	2,854,727	137,054
TOTAL LIABILITIES AND NET ASSETS	\$ 2,222,848	\$ 2,187,241	\$ 4,410,089	\$ 140,077

Village of Howard City

Montcalm County, Michigan

Statement of Activities

For the year ended February 28, 2009

Functions/Programs	Expenses	Charges for services	Operating grants and contributions
<u>PRIMARY GOVERNMENT EXPENSES</u>			
General government	\$ 18,112	\$ 3,546	\$ -
Public safety	343,929	126,205	3,437
Public works	385,394	113,166	148,575
Recreation and culture	18,813	2,300	19,297
Interest on long-term debt	27,113	-	-
Total Governmental activities	793,361	245,217	171,309
<u>BUSINESS TYPE EXPENSES</u>			
Sewer	301,549	237,327	-
Water	209,668	180,225	-
Total Business type activities	511,217	417,552	-
Total Primary government	1,304,578	662,769	171,309
<u>COMPONENT UNIT EXPENSES</u>			
Downtown Development Authority	\$ 70,646	\$ -	\$ -

General Revenues

Property taxes

State-shared revenue

Unrestricted investment income

Miscellaneous

Transfers

Total general revenues - special items and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The Notes to the Financial Statements are an integral part of this statement.

Capital grants and contributions	Governmental activities	Business-type activities	Total	Component unit
\$ -	\$ (14,566)	\$ -	\$ (14,566)	\$ -
-	(214,287)	-	(214,287)	-
-	(123,653)	-	(123,653)	-
-	2,784	-	2,784	-
-	(27,113)	-	(27,113)	-
-	(376,835)	-	(376,835)	-
-	-	(64,222)	(64,222)	-
-	-	(29,443)	(29,443)	-
-	-	(93,665)	(93,665)	-
-	(376,835)	(93,665)	(470,500)	-
\$ -	-	-	-	\$ (70,646)
-	298,959	-	298,959	74,410
-	133,717	-	133,717	-
-	7,287	3,353	10,640	2,205
-	36,793	4,064	40,857	2,200
-	(4,156)	4,156	-	-
-	472,600	11,573	484,173	78,815
-	95,765	(82,092)	13,673	8,169
-	1,110,144	1,730,910	2,841,054	128,865
\$ -	\$ 1,205,909	\$ 1,648,818	\$ 2,854,727	\$ 137,034

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Governmental Funds

Balance Sheet

February 28, 2009

	General Fund	Major Street Fund	Local Street Fund	Ensley/ Washburn Project Fund	Locally Raised Street Fund	Street Bond Debt Service Fund	Total
ASSETS							
Cash	\$ 80,775	\$ 20,148	\$ 942	\$ 166,513	\$ 14,278	\$ 521	\$ 283,177
TOTAL ASSETS	\$ 80,775	\$ 20,148	\$ 942	\$ 166,513	\$ 14,278	\$ 521	\$ 283,177
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 6,336	\$ 7,710	\$ 2	\$ -	\$ 2,019	\$ -	\$ 16,067
Payroll deductions payable	338	-	-	-	-	-	338
Accrued wages payable	3,921	-	-	-	-	-	3,921
TOTAL LIABILITIES	10,595	7,710	2	-	2,019	-	20,326
FUND BALANCES							
Reserved for							
Debt service	-	-	-	-	-	521	521
Streets	-	12,438	940	-	12,259	-	25,637
Capital projects	-	-	-	166,513	-	-	166,513
Unreserved	70,180	-	-	-	-	-	70,180
TOTAL FUND BALANCES	70,180	12,438	940	166,513	12,259	521	262,851
TOTAL LIABILITIES AND FUND BALANCES	\$ 80,775	\$ 20,148	\$ 942	\$ 166,513	\$ 14,278	\$ 521	\$ 283,177

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Reconciliation of Fund Balance of Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets

For the year ended February 28, 2009

Total fund balances - total governmental funds	\$ 262,851
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Capital assets at cost	3,000,655
Accumulated depreciation	(1,091,490)
Net capital assets	1,909,165
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Balances at February 28, 2009 were:	
Bonds payable	(450,000)
Installment purchase contracts payable	(204,910)
Industrial Park Loan	(331,450)
Accrued absences	(1,338)
Internal service funds are used by management to charge the costs of equipment rental activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets	21,591
Net assets of governmental activities	\$ 1,205,909

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

For the year ended February 28, 2009

	General Fund	Major Street Fund	Local Street Fund	Ensley/Washburn Project Fund	Locally Raised Street Fund	Street Bond Debt Service Fund	Total
REVENUE							
Property taxes	\$ 226,402	\$ -	\$ -	\$ -	\$ 78,452	\$ -	\$ 304,854
Federal grants	28	-	-	-	-	-	28
State grants	136,454	104,177	43,095	-	-	-	283,726
Metro act	-	-	7,101	-	-	-	7,101
Licenses and permits	550	-	-	-	-	-	550
Fines and forfeits	4,256	-	-	-	-	-	4,256
Charges for services	128,887	-	-	-	-	-	128,887
Interest and rentals	4,140	767	57	3,829	323	13	9,129
Other revenue	44,345	980	-	-	-	-	45,325
TOTAL REVENUE	545,062	105,924	50,253	3,829	78,775	13	783,856
EXPENDITURES							
General government	86,617	-	-	-	-	-	86,617
Public safety	287,794	-	-	-	-	-	287,794
Public works	80,622	83,309	77,880	-	28,059	-	269,870
Recreation and culture	25,968	-	-	-	-	-	25,968
Other	29,081	-	-	-	-	-	29,081
TOTAL EXPENDITURES	510,082	83,309	77,880	-	28,059	-	699,330
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	34,980	22,615	(27,627)	3,829	50,716	13	84,526
OTHER FINANCING SOURCES (USES)							
Transfers in	31,000	25,383	35,000	-	-	-	91,383
Transfers out	(4,156)	(15,000)	-	(11,000)	(45,383)	-	(75,539)
Debt service	(11,355)	(35,433)	(13,265)	-	-	-	(60,053)
TOTAL OTHER FINANCING SOURCES (USES)	15,489	(25,050)	21,735	(11,000)	(45,383)	-	(44,209)
NET CHANGE IN FUND BALANCES	50,469	(2,435)	(5,892)	(7,171)	5,333	13	40,317
FUND BALANCES, BEGINNING OF YEAR	19,711	14,873	6,832	173,684	6,926	508	222,534
FUND BALANCES, END OF YEAR	\$ 70,180	\$ 12,438	\$ 940	\$ 166,513	\$ 12,259	\$ 521	\$ 262,851

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended February 28, 2009

Net change in fund balances - total governmental funds	\$	40,317
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay added to capital assets.		91,876
An internal service fund is used by management to charge the cost of certain equipment to individual funds		21,590
Sale of capital assets		(285)
Repayment of long-term debt is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		83,715
Some expense reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Depreciation		(144,701)
Accrued absences		3,253
Change in net assets of government activities	\$	95,765

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Proprietary Funds

Statement of Net Assets

February 28, 2009

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
ASSETS				
Current assets				
Cash	\$ 16,473	\$ 77,971	\$ 94,444	\$ 30,506
Accounts receivable	25,937	17,248	43,185	-
Total current assets	42,410	95,219	137,629	30,506
Noncurrent assets				
Restricted cash	60,301	17,810	78,111	-
Capital assets	1,486,290	485,211	1,971,501	89,231
Total Noncurrent assets	1,546,591	503,021	2,049,612	89,231
TOTAL ASSETS	\$ 1,589,001	\$ 598,240	\$ 2,187,241	\$ 119,737
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 1,895	\$ 766	\$ 2,661	\$ 5,554
Payroll deductions payable	-	-	-	3,360
Accrued interest payable	9,458	82	9,540	-
Customers deposits payable	58	7,055	7,113	-
Deferred revenue	109	-	109	-
Total current liabilities	11,520	7,903	19,423	8,914
Long-term debt				
Bonds payable	500,000	19,000	519,000	-
Total noncurrent liabilities	500,000	19,000	519,000	-
TOTAL LIABILITIES	511,520	26,903	538,423	8,914
NET ASSETS				
Invested in capital assets - net of related debt	986,290	466,211	1,452,501	89,231
Undesignated	91,191	105,126	196,317	21,592
TOTAL NET ASSETS	1,077,481	571,337	1,648,818	110,823
TOTAL LIABILITIES AND NET ASSETS	\$ 1,589,001	\$ 598,240	\$ 2,187,241	\$ 119,737

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Proprietary Funds

Statement of Revenue, Expenses and Changes in Net Assets

For the year ended February 28, 2009

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
OPERATING REVENUE				
Sales	\$ 237,327	\$ 180,225	\$ 417,552	\$ 113,166
OPERATING EXPENSES				
Personal services	85,519	108,432	193,951	31,886
Contractual services	56,490	32,929	89,419	27,447
Utilities	12,092	13,257	25,349	14,691
Repairs and maintenance	9,926	4,542	14,468	5,718
Rent	13,980	11,218	25,198	-
Other	9,227	9,718	18,945	-
Depreciation	73,741	17,220	90,961	35,462
TOTAL OPERATING EXPENSES	260,975	197,316	458,291	115,204
OPERATING INCOME (LOSS)	(23,648)	(17,091)	(40,739)	(2,038)
NONOPERATING REVENUE (EXPENSES)				
Interest and dividends	1,345	2,009	3,354	560
Interest expense	(40,575)	(8,499)	(49,074)	(2,322)
Other	4,064	-	4,064	1,784
Gain on sale of depreciable assets	-	-	-	(286)
Debt service	-	(3,854)	(3,854)	(6,000)
TOTAL NONOPERATING REVENUES (EXPENSE)	(35,166)	(10,344)	(45,510)	(6,264)
Income (loss) before contributions and transfers	(58,814)	(27,435)	(86,249)	(8,302)
Transfers in	-	4,156	4,156	-
Transfers out	-	-	-	(20,000)
CHANGE IN NET ASSETS	(58,814)	(23,279)	(82,093)	(28,302)
NET ASSETS, BEGINNING OF YEAR	1,136,295	594,616	1,730,911	139,125
NET ASSETS, END OF YEAR	\$ 1,077,481	\$ 571,337	\$ 1,648,818	\$ 110,823

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Proprietary Funds

Statement of Cash Flows

For the year ended February 28, 2009

	Sewer Fund	Water Fund	Total	Governmental activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 227,688	\$ 179,628	\$ 407,316	\$ 113,166
Payments to suppliers	(101,716)	(71,667)	(173,383)	(46,740)
Payments to employees	(85,519)	(108,432)	(193,951)	(33,317)
Customer deposits	-	940	940	-
Net cash provided (used) by operating activities	40,453	469	40,922	33,109
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies and transfers to other funds	-	4,156	4,156	(20,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Principal and interest paid on capital debt	(47,793)	(27,418)	(75,211)	(6,201)
Other receipts (payments)	4,064	-	4,064	1,784
Other expenses	(17,343)	-	(17,343)	(6,000)
Net cash provided (used) by capital and related financing activities	(61,072)	(27,418)	(88,490)	(10,417)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	1,345	2,009	3,354	560
Net increase (decrease) in cash and cash equivalents	(19,274)	(20,784)	(40,058)	3,252
Balances - beginning of year	96,048	116,565	212,613	27,254
Balances - end of year	\$ 76,774	\$ 95,781	\$ 172,555	\$ 30,506
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ (23,648)	\$ (17,091)	\$ (40,739)	\$ (2,038)
Provided (used) by operating activities				
Depreciation expense	73,741	17,220	90,961	35,462
Receivables - net	(3,020)	(859)	(3,879)	-
Accounts and other payables	(5,815)	259	(5,556)	(315)
Deferred revenue	(805)	-	(805)	-
Customer deposits	-	940	940	-
Net cash provided by operating activities	\$ 40,453	\$ 469	\$ 40,922	\$ 33,109

The Notes to the Financial Statements are an intergral part of this statement.

Village of Howard City

Montcalm County, Michigan

Fiduciary Funds

Statement of Net Assets

For the year ended February 28, 2009

	<u>Agency Fund Type</u>
<u>ASSETS</u>	
Cash	\$ 94
<hr/>	
<u>LIABILITIES AND FUND BALANCE</u>	
Payroll withholdings payable	\$ 94
<hr/>	

The Notes to the Financial Statements are an integral part of this statement.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Village of Howard City was incorporated under the provisions of Act 8, P.A. 1895 as amended as a General Law Village. The Village operates under a President-Council form of government and provides the following services as authorized by its charter: public safety, public works, culture and recreation, public improvement, and general administration services.

Discretely Presented Component Units

The Village of Howard City Downtown Development Authority accounts for property taxes that are earmarked for improvements in a downtown area of the Village. The component unit column in the combined financial statements include the financial data of the Village's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The members of the governing Board of the Downtown Development Authority are appointed by the President. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. Complete financial statements of the Downtown Development Authority can be obtained at the Village of Howard City, 125 Shaw Street, Howard City, MI 49329

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 revenue.

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

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

C. 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 and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village of Howard City's property tax is levied on each December 1 on the taxable valuation of property (as defined by State statutes) located in Village of Howard City as of the preceding December 31st.

The Village of Howard City's 2008 ad valorem tax is levied and collectible on July 1, 2008, and is recognized as revenue in the year ended February 28, 2009, when the proceeds of the levy are budgeted for the financing of operations.

The 2008 taxable valuation of Village of Howard City totaled \$25,198,368, after capture for the Downtown Development Authority, on which ad valorem taxes levied consisted of the following:

	Mills levied	Raising
Operating	9.1502 \$	230,570
Highway	3.2599	82,144

These amounts are recognized in the General Fund financial statements as tax revenue.

The government reports the following major governmental funds:

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

The Major Streets Fund and Local Streets Fund account for Act 51 money received from the State of Michigan for the maintenance and construction of streets in the Village.

Locally Raised Street Fund accounts for property taxes designated for street improvement and construction.

The Ensley/Washburn Capital Project Fund accounts for bond proceeds and other revenue used to reconstruct parts of two streets.

The Street Bond Fund accounts for money set aside to pay various debt issues.

The government reports the following major proprietary funds:

The Water Fund and the Sewer Fund account for the activities of the water distribution system and sewage collection system.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

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

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

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

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

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

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

Inventories and Prepaid Items--Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets--Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	40 years
Vehicles	3 to 5 years
Office equipment	5 to 7 years
Computer equipment	3 to 7 years

Compensated Absences (Vacation and Sick Leave)--It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All unused vacation and sick pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements.

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

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications--Comparative total data for the prior year have been presented only for individual governmental funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 2-STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information--Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements:

The Village Administration submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1.

The operating budget includes proposed expenditures and the means of financing them.

A public hearing is conducted at the Village hall to obtain taxpayer comments.

The budget is legally adopted by ordinance before March 1.

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village Council throughout the operating year.

The Village adopts budgets for the General Fund and the Special Revenue Funds.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved as amended by the Village Council.

The legal level of control is at the activity level of the General Fund, and at the fund expenditure level for the Special Revenue funds.

The Village Manager is authorized to transfer budgeted amounts between accounts within the same department. Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Village Council.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

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

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes Village of Howard City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in all of State statutory authority as listed above.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At the year end, the Village had \$151,895 of bank deposits (money market, checking and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Balance March 1, 2008	Additions	Disposals	Balance February 28, 2009
Capital assets being depreciated:				
Buildings	\$ 120,000	\$ 22,034	\$	\$ 142,034
Equipment	761,868	26,791		788,659
Internal service equipment	506,922		8,359	498,563
Infrastructure	1,528,348	43,051		1,571,399
Subtotal	2,917,138	91,876	8,359	3,000,655
Accumulated depreciation:				
Buildings	36,000	4,108		40,108
Equipment	337,700	64,037		401,737
Internal service equipment	381,943	35,462	8,074	409,331
Infrastructure	199,220	41,094		240,314
Subtotal	954,863	144,701	8,074	1,091,490
Net capital assets being depreciated	1,962,275	(52,825)	285	1,909,165
Net capital assets	\$ 1,962,275	\$ (52,825)	\$ 285	\$ 1,909,165

Business-Type Activities	Balance March 1, 2008	Additions	Disposals	Balance February 28, 2009
Assets not being depreciated	\$ 34,300	\$	\$	\$ 34,300
Capital assets being depreciated:				
Buildings and improvements	3,611,985			3,611,985
Machinery and equipment	29,042		12,739	16,303
Subtotal	3,641,027		12,739	3,628,288
Accumulated depreciation:				
Buildings and improvements	1,596,797	88,969		1,685,766
Machinery and equipment	16,068	1,992	12,739	5,321
Subtotal	1,612,865	90,961	12,739	1,691,087
Net capital assets being depreciated	2,028,162	(90,961)		1,937,201
Net capital assets	\$ 2,062,462	\$ (90,961)	\$	\$ 1,971,501

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

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

Governmental activities:

General government	\$	6,587
Public safety		62,743
Public works		73,433
Downtown Development Authority		1,938
Total governmental activities	\$	144,701

Business-Type activities:

Sewer	\$	73,741
Water		17,220
Total Business-Type activities	\$	90,961

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Transfers

Transfers In	Transfers Out					Total
	General Fund	Major Streets Fund	Locally Raised Streets	Ensley Washburn	Equipment Fund	
General Fund	\$ -	\$ -	\$ -	\$ 11,000	\$ 20,000	\$ 31,000
Major Street Fund	-	-	25,383	-	-	25,383
Local Streets Fund	-	15,000	20,000	-	-	35,000
Water Fund	4,156	-	-	-	-	4,156
Total	\$ 4,156	\$ 15,000	\$ 45,383	\$ 11,000	\$ 20,000	\$ 95,539

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 6 - LONG-TERM DEBT

Bond and contractual obligation activity can be summarized as follows:

	Balance March 1, 2008	Additions	Reductions	Balance February 28, 2009	Due within one year
Governmental activities					
General obligation bonds					
2005 Michigan Transportation Bonds	\$ 470,000	\$ -	\$ 20,000	\$ 450,000	\$ 20,000
Installment purchase agreements					
2006 Fire truck and dump truck	201,000	-	11,000	190,000	11,000
Fire truck purchase contract	29,085	-	14,175	14,910	14,910
Loans					
Renaissance Zone Loan through Michigan Strategic Fund	369,990	-	38,540	331,450	30,832
Compensated absences	4,591	-	3,253	1,338	-
Subtotal	1,074,666	-	86,968	987,698	76,742
Internal service fund					
Backhoe installment purchase contract	3,879	-	3,879	-	-
Total Governmental activities	1,078,545		90,847	987,698	76,742
Business type activities					
Revenue bonds					
1984 Sewer bonds	498,000	-	9,000	489,000	10,000
1997 Water and Sewer bonds	60,000	-	30,000	30,000	30,000
Total Business type activities	\$ 558,000	\$ -	\$ 39,000	\$ 519,000	\$ 40,000
Total Long-Term Debt	\$ 1,636,545	\$ -	\$ 129,847	\$ 1,506,698	\$ 116,742

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

Annual debt service requirements to maturity for the above obligation follows:

Year Ended February	Principal	Interest	Total
2010	\$ 116,742	\$ 49,571	\$ 166,313
2011	72,832	46,249	119,081
2012	73,832	44,452	118,284
2013	74,832	42,609	117,441
2014	75,832	40,723	116,555
2015	81,832	38,793	120,625
2016	82,832	36,617	119,449
2017	84,832	34,375	119,207
2018	85,832	32,055	117,887
2019	86,832	29,691	116,523
2020	86,130	27,257	113,387
2021	64,000	24,558	88,558
2022	67,000	21,768	88,768
2023	48,000	19,328	67,328
2024	54,000	17,280	71,280
2025	55,000	14,986	69,986
2026	56,000	12,645	68,645
2027	22,000	10,260	32,260
2028	23,000	9,248	32,248
2029	25,000	8,167	33,167
2030	25,000	7,042	32,042
2031	27,000	5,873	32,873
2032	28,000	4,635	32,635
2033	30,000	3,330	33,330
2034	31,000	1,958	32,958
2035	28,000	630	28,630
Totals	\$ 1,505,360	\$ 584,100	\$ 2,089,460

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 7 - SEGMENT INFORMATION

The Village operates two funds which provide sewage and water services. Summary financial information for the sewer department is presented below:

Condensed Statement of Net Assets

	Sewer Fund	Water Fund
Assets		
Current assets	\$ 42,410	\$ 95,219
Restricted assets	60,301	17,810
Capital assets	1,486,290	485,211
Total Assets	1,589,001	598,240
Liabilities		
Current liabilities	11,520	7,903
Noncurrent liabilities	500,000	19,000
Total Liabilities	511,520	26,903
Net Assets		
Invested in capital assets	986,290	466,211
Unrestricted	91,191	105,126
Total Net Assets	\$ 1,077,481	\$ 571,337

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

Condensed Statement of Revenue, Expenses, and Changes in Net Assets

	Sewer Fund	Water Fund
Charges	\$ 237,327	\$ 180,225
Depreciation	(73,741)	(17,220)
Other operating expenses	(187,234)	(180,096)
Operating income	(23,648)	(17,091)
Nonoperating revenue (expense)		
Investment earnings	1,345	2,009
Interest expense	(40,575)	(8,499)
Debt service	-	(3,854)
Other	4,064	4,156
Total nonoperating revenue and expenses	(35,166)	(6,188)
Changes in net assets	(58,814)	(23,279)
Beginning net assets	1,136,295	594,616
Ending net assets	\$ 1,077,481	\$ 571,337

Condensed Statement of Cash Flows

	Sewer Fund	Water Fund
Net cash provided by (used in)		
Operating activities	\$ 40,453	\$ 469
Noncapital financing activities	-	4,156
Capital and related financing activities	(61,072)	(27,418)
Investing activities	1,345	2,009
Net increase (decrease) in cash	(19,274)	(20,784)
Beginning cash and cash equivalents	96,048	116,565
Ending cash and cash equivalents	\$ 76,774	\$ 95,781

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 8 - RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue bond restrictions	\$	78,111
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NOTE 9 - RISK MANAGEMENT

Village of Howard City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village of Howard City obtains commercial insurance coverage through the Michigan Municipal League for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - SUBSEQUENT EVENTS

Due to the rapid growth of the population in the Village since 2000, the wastewater treatment plant had reached its capacity. This resulted in discharges that were over parameters set the the Michigan Department of Environmental Quality. Because of this, the Village was fined and entered into an Administrative Consent Order that commits the Village to make approximately \$2,700,000 in improvements. To finance this project, the Village has received a grant of \$1,315,000 from the U.S. Department of Commerce Economic Development Administration and will receive approximately \$554,000 in ARRA funding. The balance of approximately \$830,000 will be financed by revenues in the Sewer Fund.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS

The Village has no post-retirement benefit plans at this time other than its pension plan.

Village of Howard City

Montcalm County, Michigan

Notes to Financial Statements

For the year ended February 28, 2009

NOTE 12 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan

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

Funding Policy--The obligation to contribute to and maintain the system for these employees requires a contribution of 2.5 percent from all employees.

Annual Pension Costs --For year ended 2008, the Village of Howard City's annual pension cost of \$21,697 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2008, using the entry age normal method. Significant actuarial assumptions used include: (i) an 8.00 percent investment rate of return; (ii) projected salary increases of 4.50 percent per year; and (iii) is percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information follows:

	2008	2007	2006
Annual pension cost	\$ 22,110	\$ 30,426	\$ 29,608
Percentage of APC Contributed	100 %	100 %	100 %
Actuarial value of assets	\$ 596,526	\$ 602,813	\$ 579,848
Actuarial accrued liability	\$ 781,945	\$ 743,023	\$ 719,724
Unfunded AAL	\$ 185,419	\$ 140,210	\$ 139,876
Funded ratio	76.29 %	81.13 %	80.57 %
Covered payroll	\$ 184,065	\$ 173,491	\$ 154,526
UAAL as a percentage of covered payroll	100.74 %	80.82 %	90.52 %

Defined Contribution Pension Plan

Village of Howard City provides pension benefits to some of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by the pension agreement, the Village of Howard City contributes 10% percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after 10 years of service.

Village of Howard City's total payroll during the current year was \$403,366. The current year contribution was calculated based on covered payroll of \$199,890, resulting in an employer contribution of \$19,989.

Village Of Howard City

Montcalm County, Michigan

General Fund

Balance Sheet

February 28, 2009

	2009	2008
ASSETS		
Cash	\$ 80,775	\$ 52,194
TOTAL ASSETS	\$ 80,775	\$ 52,194
LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts payable	\$ 6,336	\$ 3,968
Payroll deductions payable	338	530
Accrued wages payable	3,921	27,985
TOTAL LIABILITIES	10,595	32,483
FUND BALANCES		
Undesignated fund balance	70,180	19,711
TOTAL LIABILITIES AND FUND BALANCES	\$ 80,775	\$ 52,194

Village Of Howard City

Montcalm County, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended February 28, 2009

	Original budget	Final budget	Actual	Variance with final budget	2008
REVENUES					
Property Taxes					
Current real property taxes	\$ 225,215	\$ 222,438	\$ 222,830	\$ 392	\$ 219,346
Penalties and interest on taxes	100	-	26	26	125
Property tax administration fee	3,552	3,451	3,546	95	3,438
Total Property Taxes	228,867	225,889	226,402	513	222,909
Federal grants	-	-	28	28	7,500
State Grants					
State revenue sharing	133,000	127,000	133,717	6,717	135,673
Other state grants	2,400	2,736	2,737	1	2,420
Total State Grants	135,400	129,736	136,454	6,718	138,093
Licenses and Permits					
Non-business licenses and permits	1,000	580	550	(30)	980
Fines and forfeitures	8,000	3,564	4,256	692	7,990
Charges for Services					
Services rendered	122,838	122,838	124,041	1,203	118,314
Sales	5,500	13,617	4,846	(8,771)	5,951
Total Charges for Services	128,338	136,455	128,887	(7,568)	124,265
Interest and Rentals					
Interest and dividends	1,200	1,500	1,740	240	2,508
Rent	2,400	2,400	2,400	-	2,600
Total Interest and Rentals	3,600	3,900	4,140	240	5,108
Other Revenue					
Sale of fixed assets	1,300	1,300	1,352	52	1,319
Contributions and donations	23,000	21,500	21,597	97	21,350
Reimbursements	1,400	2,001	2,002	1	1,402
Intergovernmental	10,000	10,000	10,000	-	10,000
Other	8,500	8,672	9,394	722	8,554
Total Other Revenue	44,200	43,473	44,345	872	42,625
TOTAL REVENUES	549,405	543,597	545,062	1,465	549,470

Village Of Howard City

Montcalm County, Michigan

General Fund

Budgetary Comparison Schedule

For the year ended February 28, 2009

	Original budget	Final budget	Actual	Variance with final budget	2008
EXPENDITURES					
General government					
Village Council	\$ 13,123	\$ 12,964	\$ 9,330	\$ 3,634	\$ 10,490
Manager	52,000	42,445	46,116	(3,671)	69,466
Audit	3,000	2,000	2,000	-	2,700
Elections	-	-	-	-	480
Buildings and grounds	16,500	18,334	20,103	(1,769)	16,826
Attorney	10,000	10,000	9,068	932	4,331
Total General government	94,623	85,743	86,617	(874)	104,293
Public safety					
Police	243,738	240,670	201,528	39,142	276,757
Fire department	117,837	86,084	86,266	(182)	82,026
Total Public safety	361,575	326,754	287,794	38,960	358,783
Department of public works					
Public works	78,226	83,200	79,462	3,738	73,363
Sanitation	1,100	1,100	1,160	(60)	987
Total Department of public works	79,326	84,300	80,622	3,678	74,350
Recreation and culture					
Parks and recreation	26,649	27,700	25,968	1,732	19,899
Other governmental functions					
Insurance	30,000	29,081	29,081	-	29,400
TOTAL EXPENDITURES	592,173	553,578	510,082	43,496	586,725
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(42,768)	(9,981)	34,980	44,961	(37,255)
OTHER FINANCING SOURCES (USES)					
Transfers in	20,000	20,000	31,000	11,000	15,000
Insurance recoveries	-	-	-	-	14,169
Transfers out	-	-	(4,156)	(4,156)	-
Debt service	-	(10,000)	(11,355)	(1,355)	(8,261)
TOTAL OTHER FINANCING SOURCES (USES)	20,000	10,000	15,489	5,489	20,908
NET CHANGE IN FUND BALANCES	(22,768)	19	50,469	50,450	(16,347)
Fund balance at beginning of year	19,711	19,711	19,711	-	36,058
Fund balance at end of year	\$ (3,057)	\$ 19,730	\$ 70,180	\$ 50,450	\$ 19,711

Village of Howard City

Montcalm County, Michigan

Major Street Special Revenue Fund

Balance Sheet

February 28, 2009

	2009	2008
<u>ASSETS</u>		
Cash	\$ 20,148	\$ 14,873
TOTAL ASSETS	\$ 20,148	\$ 14,873
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts payable	\$ 7,710	\$ -
FUND BALANCES		
Reserved for streets	12,438	14,873
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,148	\$ 14,873

Village of Howard City

Montcalm County, Michigan

Major Street Special Revenue Fund

Budgetary Comparison Schedule

For the year ended February 28, 2009

	Original budget	Final budget	Actual	Variance with final budget	Prior year
REVENUE					
Michigan transportation fund	\$ 113,000	\$ 104,000	\$ 104,177	\$ (177)	\$ 108,157
Interest and dividends	600	222	767	(545)	923
Other	-	980	980	-	646
TOTAL REVENUE	113,600	105,202	105,924	(722)	109,726
EXPENDITURES					
Street construction	5,000	-	5,383	(5,383)	-
Street preservation	40,531	42,357	42,116	241	46,044
Traffic services	600	300	256	44	324
Winter maintenance	29,765	29,000	29,692	(692)	29,951
Administration and engineering	5,674	5,760	5,862	(102)	4,724
TOTAL EXPENDITURES	81,570	77,417	83,309	(5,892)	81,043
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	32,030	27,785	22,615	5,170	28,683
OTHER FINANCING SOURCES (USES)					
Transfers in	20,000	20,000	25,383	(5,383)	15,000
Transfers out	(15,000)	(15,000)	(15,000)	-	(35,904)
Debt service	(30,988)	(30,988)	(35,433)	(4,445)	(12,639)
TOTAL OTHER FINANCING SOURCES (USES)	(25,988)	(25,988)	(25,050)	(9,828)	(33,543)
NET CHANGE IN FUND BALANCES	6,042	1,797	(2,435)	(4,658)	(4,860)
Fund balance at beginning of year	14,873	14,873	14,873	-	19,733
Fund balance at end of year	\$ 20,915	\$ 16,670	\$ 12,438	\$ (4,658)	\$ 14,873

Village of Howard City

Montcalm County, Michigan

Local Street Special Revenue Fund

Balance Sheet

February 28, 2009

	2009	2008
<u>ASSETS</u>		
Cash	\$ 942	\$ 6,832
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts payable	\$ 2	\$ -
FUND BALANCES		
Reserved for streets	\$ 940	\$ 6,832
TOTAL LIABILITIES AND FUND BALANCES	\$ 942	\$ 6,832

Village of Howard City

Montcalm County, Michigan

Local Street Special Revenue Fund

Budgetary Comparison Schedule

For the year ended February 28, 2009

	Original budget	Final budget	Actual	Variance with final budget	Prior year
REVENUE					
Michigan transportation fund	\$ 43,000	\$ 43,000	\$ 43,095	\$ (95)	\$ 44,565
Metro Act	7,000	7,100	7,101	(1)	7,018
Interest and dividends	60	30	57	(27)	97
TOTAL REVENUE	50,060	50,130	50,253	(123)	51,680
EXPENDITURES					
Street preservation	29,937	42,467	41,662	805	41,091
Traffic services	500	-	-	-	1,297
Winter maintenance	27,688	20,500	30,693	(10,193)	30,605
Administration and engineering	5,673	5,224	5,412	(188)	4,354
Miscellaneous	-	112	113	(1)	-
TOTAL EXPENDITURES	63,798	68,303	77,880	(9,577)	77,347
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(13,738)	(18,173)	(27,627)	9,454	(25,667)
OTHER FINANCING SOURCES (USES)					
Transfers in	35,000	35,000	35,000	-	45,000
Transfers out	-	-	-	-	(4,021)
Debt service	(15,520)	(15,520)	(13,265)	2,255	(12,639)
TOTAL OTHER FINANCING SOURCES (USES)	19,480	19,480	21,735	2,255	28,340
NET CHANGE IN FUND BALANCES	5,742	1,307	(5,892)	11,709	2,673
Fund balance at beginning of year	6,832	6,832	6,832	-	4,159
Fund balance at end of year	\$ 12,574	\$ 8,139	\$ 940	\$ 11,709	\$ 6,832

Village of Howard City

Montcalm County, Michigan

Locally Raised Street Fund

Balance Sheet

February 28, 2009

	2009	2008
<u>ASSETS</u>		
Cash	\$ 14,278	\$ 6,926
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts payable	\$ 2,019	\$ -
FUND BALANCES		
Reserved for streets	\$ 12,259	\$ 6,926
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,278	\$ 6,926

Village of Howard City

Montcalm County, Michigan

Locally Raised Street Fund

Budgetary Comparison Schedule

For the year ended February 28, 2009

	Original budget	Final budget	Actual	Variance with final budget	2008
REVENUE					
Taxes	\$ 79,786	\$ 78,313	\$ 78,452	\$ 139	\$ 77,238
Interest and dividends	550	62	323	261	499
TOTAL REVENUE	80,336	78,375	78,775	400	77,737
EXPENDITURES					
Street construction	-	400	-	400	913
Street preservation	10,000	9,295	9,695	(400)	6,215
Street lighting	16,000	18,500	18,277	223	17,901
Capital outlay	14,000	5,470	87	5,383	800
TOTAL EXPENDITURES	40,000	33,665	28,059	5,606	25,829
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	40,336	44,710	50,716	6,006	51,908
OTHER FINANCING SOURCES (USES)					
Transfers out	(40,000)	(40,000)	(45,383)	(5,383)	(45,000)
TOTAL OTHER FINANCING SOURCES (USES)	(40,000)	(40,000)	(45,383)	(5,383)	(45,000)
NET CHANGE IN FUND BALANCES	336	4,710	5,333	623	6,908
Fund balance beginning of year	6,926	6,926	6,926	-	18
Fund balance end of year	\$ 7,262	\$ 11,636	\$ 12,259	\$ 623	\$ 6,926

Village of Howard City

Montcalm County, Michigan

Street Bond Debt Service Fund

Balance Sheet

February 28, 2009

	2009		2008
<u>ASSETS</u>			
Cash	\$ 521	\$	508
<u>LIABILITIES AND FUND BALANCES</u>			
FUND BALANCES			
Fund balance	\$ 521	\$	508

Village of Howard City

Montcalm County, Michigan

Street Bond Debt Service Fund

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended February 28, 2009

	2009	2008
REVENUE		
Interest and dividends	\$ 13	\$ 38
EXPENDITURES		
Principal	-	15,000
Interest	-	9,926
TOTAL EXPENDITURES	-	24,926
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	13	(24,888)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	24,925
NET CHANGE IN FUND BALANCES	13	37
Fund balance beginning of year	508	471
Fund balance end of year	\$ 521	\$ 508

Village of Howard City

Montcalm County, Michigan

Ensley/Washburn Project Fund

Balance Sheet

February 28, 2009

	2009	2008
<u>ASSETS</u>		
Cash	\$ 166,513	\$ 173,684
<u>LIABILITIES AND FUND BALANCES</u>		
FUND BALANCE		
Reserved for construction	\$ 166,513	\$ 173,684

Village of Howard City

Montcalm County, Michigan

Ensley/Washburn Project Fund

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended February 28, 2009

	2009	2008
REVENUE		
Interest and dividends	\$ 3,829	\$ 5,781
OTHER FINANCING SOURCES (USES)		
Transfers out	(11,000)	-
NET CHANGE IN FUND BALANCES	(7,171)	5,781
Fund balance beginning of year	173,684	167,903
Fund balance end of year	\$ 166,513	\$ 173,684

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$211,000 2006 Act 99 Installment Purchase Agreement

February 28, 2009

Year ended	Interest Rate	May 1 Principal	May 1 Interest	November 1 Interest	Total
2010	4.375%	\$ 11,000	\$ 4,156	\$ 3,916	19,072
2011	4.375%	12,000	3,916	3,653	19,569
2012	4.375%	12,000	3,653	3,391	19,044
2013	4.375%	13,000	3,391	3,106	19,497
2014	4.375%	13,000	3,106	2,822	18,928
2015	4.375%	14,000	2,822	2,516	19,338
2016	4.375%	14,000	2,516	2,209	18,725
2017	4.375%	15,000	2,209	1,881	19,090
2018	4.375%	16,000	1,881	1,531	19,412
2019	4.375%	16,000	1,531	1,181	18,712
2020	4.375%	17,000	1,181	809	18,990
2021	4.375%	18,000	809	416	19,225
2022	4.375%	19,000	416	-	19,416
Totals		\$ 190,000	\$ 31,587	\$ 27,431	249,018

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$585,000 Sewer System Revenue Bonds, Series 1994

February 28, 2009

Year ended February 28,	Interest Rate	April 1 Principal	April 1 Interest	October 1 Interest	Total
2010	4.500%	\$ 10,000	\$ 11,003	\$ 10,777	\$ 31,780
2011	4.500%	10,000	10,777	10,553	31,330
2012	4.500%	11,000	10,553	10,305	31,858
2013	4.500%	11,000	10,305	10,057	31,362
2014	4.500%	12,000	10,057	9,788	31,845
2015	4.500%	12,000	9,788	9,517	31,305
2016	4.500%	13,000	9,517	9,225	31,742
2017	4.500%	14,000	9,225	8,910	32,135
2018	4.500%	14,000	8,910	8,595	31,505
2019	4.500%	15,000	8,595	8,258	31,853
2020	4.500%	16,000	8,258	7,897	32,155
2021	4.500%	16,000	7,897	7,538	31,435
2022	4.500%	18,000	7,538	7,132	32,670
2023	4.500%	18,000	7,132	6,728	31,860
2024	4.500%	19,000	6,728	6,300	32,028
2025	4.500%	20,000	6,300	5,850	32,150
2026	4.500%	21,000	5,850	5,377	32,227
2027	4.500%	22,000	5,377	4,883	32,260
2028	4.500%	23,000	4,883	4,365	32,248
2029	4.500%	25,000	4,365	3,802	33,167
2030	4.500%	25,000	3,802	3,240	32,042
2031	4.500%	27,000	3,240	2,633	32,873
2032	4.500%	28,000	2,633	2,002	32,635
2033	4.500%	30,000	2,002	1,328	33,330
2034	4.500%	31,000	1,328	630	32,958
2035	4.500%	28,000	630	-	28,630
Totals		\$ 489,000	\$ 176,693	\$ 165,690	\$ 831,383

Village of Howard City

Village of Howard City

Schedule of Debt

\$439,362 Renaissance Zone Loan

February 28, 2009

Year ended February 28,	Interest Rate	Principal	Interest	Total
2010	0.000%	\$ 30,832	\$ -	30,832
2011	0.000%	30,832	-	30,832
2012	0.000%	30,832	-	30,832
2013	0.000%	30,832	-	30,832
2014	0.000%	30,832	-	30,832
2015	0.000%	30,832	-	30,832
2016	0.000%	30,832	-	30,832
2017	0.000%	30,832	-	30,832
2018	0.000%	30,832	-	30,832
2019	0.000%	30,832	-	30,832
2020	0.000%	23,130	-	23,130
Totals		\$ 331,450	\$ -	331,450

Village of Howard City

Village of Howard City

Schedule of Bonded Debt

\$190,000 Water and Sewer System Revenue Bonds, Series 1997

February 28, 2009

Year ended February 28,	Interest Rate	August 1 Principal	August 1 Interest	February 1 Interest	Total
2010	5.300%	\$ 30,000	\$ 795	\$ -	\$ 30,795
Totals		\$ 30,000	\$ 795	\$ -	\$ 30,795

Village of Howard City

Village of Howard City

Schedule of Debt

\$120,000 Fire Truck Installment Purchase Agreement

February 28, 2009

Year ended February 28,	Interest Rate	Principal	Interest	Total
2010	5.190%	\$ 14,910	\$ 774	\$ 15,684
Totals		\$ 14,910	\$ 774	\$ 15,684

Village of Howard City

Village of Howard City

Schedule of Debt

\$500,000 2005 Michigan Transportation Fund Bonds

February 28, 2009

Year ended February 28,	Interest Rate	Principal	April 1 Interest	October 1 Interest	Total
2010	4.000%	\$ 20,000	\$ 9,075	\$ 9,075	\$ 38,150
2011	4.000%	20,000	8,675	8,675	37,350
2012	4.000%	20,000	8,275	8,275	36,550
2013	4.000%	20,000	7,875	7,875	35,750
2014	4.000%	20,000	7,475	7,475	34,950
2015	4.000%	25,000	7,075	7,075	39,150
2016	4.000%	25,000	6,575	6,575	38,150
2017	4.050%	25,000	6,075	6,075	37,150
2018	4.050%	25,000	5,569	5,569	36,138
2019	4.050%	25,000	5,063	5,063	35,126
2020	4.050%	30,000	4,556	4,556	39,112
2021	4.050%	30,000	3,949	3,949	37,898
2022	4.050%	30,000	3,341	3,341	36,682
2023	4.050%	30,000	2,734	2,734	35,468
2024	4.050%	35,000	2,126	2,126	39,252
2025	4.050%	35,000	1,418	1,418	37,836
2026	4.050%	35,000	709	709	36,418
Totals		\$ 450,000	\$ 90,565	\$ 90,565	\$ 631,130

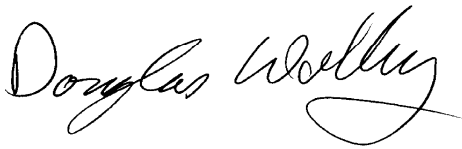
To the Village Council
Village of Howard City
Montcalm County, Michigan

We have completed our audit of the financial statements of the Village of Howard City as of and for the year ended February 28, 2009 and have issued our report dated August 24, 2009. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Communication of Internal Control Matters Identified During the Audit
- II. Auditors' Communication of Significant Matters with Those Charged with Governance
- III. Management Comments

We discussed these matters with various personnel in the Village during the audit and will present these matters to management and the Village Council on a date to be determined. These communications are intended solely for the information and use of management, the Village Council, others within the Village, and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,



Grand Rapids, Michigan
August 24, 2009

APPENDIX I

COMMUNICATION OF INTERNAL CONTROL MATTERS IDENTIFIED DURING AN AUDIT

In planning and performing our audit of the financial statements of Village of Howard City as of and for the year ended February 28, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Howard City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purposes of expressing our opinion 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the following deficiencies in internal control to be control deficiencies:

Documentation of Internal Controls

As part of our audit planning procedures, we are required to obtain an understanding of internal controls of the Village. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete. We recommend that the Village completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedure manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Financial Statement Preparation Controls

In conjunction with our audit, we have prepared the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, if at any point in the audit we as auditors are part of the Village's control system for producing reliable financial statements, auditing standards indicate that the Village has a control deficiency. The Village is also responsible for providing us with the information needed to reconcile the fund financial statements to the government-wide financial statements, which includes capital asset additions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Village Council, others within the organization, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

APPENDIX II

AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 2, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 2, 2009.

Significant Audit Findings

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Howard City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements is:

Management's estimate of the lives of capital assets is based on management's experience and estimates. We evaluated the key factors and assumptions used to develop the lives of capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Audit Adjustments (Corrected and Uncorrected Misstatements)

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 24, 2009.

Management Consultations With Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

APPENDIX III MANAGEMENT COMMENTS

In planning and performing our audit of the financial statements of the Village of Howard City as of and for the year ended February 28, 2009, we considered the Village of Howard City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated August 24, 2009 on the financial statements of the Village of Howard City. Our comments and recommendations regarding those matters are:

Current Year Recommendations

Capital Asset Adjustments

The capital asset listing is maintained by the auditors and is updated with information provided by the Clerk/Treasurer. Capital asset purchases are being reclassified from expenditures to the appropriate capital asset accounts by the auditors. Depreciation expense for these capital assets is also being recorded by the auditors.

Recommendation

We recommend that the capital asset purchases be recorded as such at the time of purchase. We also recommend that the depreciation expense journal entry be recorded by the Clerk/Treasurer using the fixed asset listing provided by the auditors. This will eliminate the need for adjusting journal entries to be recorded by the auditors.

Current year status

We will provide the Clerk/Treasurer with capital asset schedules for her to update.