

Holland Historical
Trust (A Component
Unit of the City of
Holland, Michigan)



Holland Museum

Year Ended
June 30, 2017

Financial
Statements

HOLLAND HISTORICAL TRUST

(A Component Unit of the City of Holland, Michigan)

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INDEPENDENT AUDITORS' REPORT

October 16, 2017

Board of Trustees
Holland Historical Trust
Holland, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the *Holland Historical Trust* ("HHT") (a component unit of the City of Holland, Michigan), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holland Historical Trust as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of HHT'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 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 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 HHT's internal control over financial reporting and compliance.

Rehmann Lobson LLC

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Financial Position

June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Cash and cash equivalents	\$ 43,354	\$ 133,137	\$ -	\$ 176,491
Investments	162,059	113,619	110,000	385,678
Pledges receivable, net	-	89,350	-	89,350
Gift shop inventory	4,683	-	-	4,683
Prepaid expenses	2,604	-	-	2,604
Property and equipment, net	1,185,229	-	-	1,185,229
Total assets	\$ 1,397,929	\$ 336,106	\$ 110,000	\$ 1,844,035
Liabilities				
Accounts payable	\$ 14,874	\$ -	\$ -	\$ 14,874
Other accrued liabilities	11,555	-	-	11,555
Deferred revenue	12,307	-	-	12,307
Line of credit	100,000	-	-	100,000
Total liabilities	138,736	-	-	138,736
Net assets				
Unrestricted:				
Board designated:				
Capital campaign	162,061	-	-	162,061
Collection/archive	4,727	-	-	4,727
Undesignated	1,092,405	-	-	1,092,405
Total unrestricted	1,259,193	-	-	1,259,193
Temporarily restricted	-	336,106	-	336,106
Permanently restricted	-	-	110,000	110,000
Total net assets	1,259,193	336,106	110,000	1,705,299
Total liabilities and net assets	\$ 1,397,929	\$ 336,106	\$ 110,000	\$ 1,844,035

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

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Activities

For Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues				
Operating:				
City of Holland contribution	\$ 100,000	\$ -	\$ -	\$ 100,000
Park Township contributions	50,000	-	-	50,000
Other contributions:				
Cash and promises to give cash	4,684	145,000	-	149,684
Grants	-	11,400	-	11,400
Facilities	58,600	-	-	58,600
Special events (net of expenses of \$2,047)	10,778	-	-	10,778
Memberships	67,510	-	-	67,510
Admissions	31,578	-	-	31,578
Merchandise - gift shop sales	4,618	-	-	4,618
Rental income - events	8,135	-	-	8,135
Total operating support and revenues	335,903	156,400	-	492,303
Other:				
Net investment income and gains	29,829	29,300	-	59,129
Total support and revenues	365,732	185,700	-	551,432
Net assets released from restrictions	103,159	(103,159)	-	-
Total support, revenues and net assets released from restrictions	468,891	82,541	-	551,432

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HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Activities

For Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Personnel services	\$ 257,149	\$ -	\$ -	\$ 257,149
Repairs and maintenance	58,344	-	-	58,344
Museum shop merchandise	3,499	-	-	3,499
Exhibits and curatorial	29,529	-	-	29,529
Education programs	7,642	-	-	7,642
Utilities and telephone	59,979	-	-	59,979
Office supplies	13,184	-	-	13,184
Professional and contractual	107,159	-	-	107,159
Property and liability insurance	26,633	-	-	26,633
Membership	6,673	-	-	6,673
Depreciation	113,329	-	-	113,329
Donated facilities rental	58,600	-	-	58,600
Other	13,768	-	-	13,768
Total expenses	755,488	-	-	755,488
Change in net assets	(286,597)	82,541	-	(204,056)
Net assets, beginning of year	1,545,790	253,565	110,000	1,909,355
Net assets, end of year	\$ 1,259,193	\$ 336,106	\$ 110,000	\$ 1,705,299

concluded

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

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Statement of Cash Flows

For Year Ended June 30, 2017

Cash flows from operating activities	
Change in net assets	\$ (204,056)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	113,329
Realized gains on investments	(33,661)
Unrealized gains on investments	(20,142)
Changes in operating assets and liabilities which provided (used) cash:	
Pledges receivable, net	(83,978)
Gift shop inventory	965
Prepaid expenses	(2,604)
Accounts payable	(10,831)
Other accrued liabilities	(2,576)
Deferred revenue	(716)
Net cash used in operating activities	<u>(244,270)</u>
Cash flows from investing activities	
Proceeds from sales of investments	223,127
Purchases of investments	(118,397)
Purchases of property and equipment	<u>(4,547)</u>
Net cash provided by investing activities	<u>100,183</u>
Cash flows from financing activities	
Borrowings on line of credit	220,000
Payments on line of credit	<u>(165,000)</u>
Net cash provided by financing activities	<u>55,000</u>
Net decrease in cash and cash equivalents	(89,087)
Cash and cash equivalents, beginning of year	<u>265,578</u>
Cash and cash equivalents, end of year	<u>\$ 176,491</u>
Supplemental disclosure of cash flow information	
Cash paid for interest	<u>\$ 2,613</u>

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

NOTES TO FINANCIAL STATEMENTS

HOLLAND HISTORICAL TRUST

(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

1. NATURE OF TRUST AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Holland Historical Trust (“HHT”) is a component unit of the City of Holland, Michigan, (the “City”) and is a not-for-profit corporation exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. It was organized to provide historical, preservation and educational services for the City and for the Holland community in general. In particular, it administers and maintains City-owned properties that have historical significance and operates them as museums (Holland Museum, Cappon House, and Settlers House). HHT is also charged with caring for certain City-owned historical papers and personal property.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include, but are not limited to the valuation of donated facilities, allowance for uncollectible pledges receivable, calculation of useful lives of depreciable property and equipment and the fair value of investments.

Basis of Presentation

HHT has classified information regarding its financial position and activities according to three classes of net assets depending on the existence or absence of donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets result from donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain purpose requirements. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (level 1) and the lowest priority to unobservable data (level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2 to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, cash on hand, and money market accounts. HHT considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. HHT maintains demand deposits in banks that are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year ended June 30, 2017 the bank balance on these accounts exceeded the insured limit. Management believes HHT is not exposed to any significant interest rate or other risk on these deposits.

Investments

Investments are carried at fair value as determined by quoted market prices. Realized and unrealized gains and losses, if any, are included as changes in net assets in the accompanying statement of activities.

Pledges Receivable

HHT has received pledges from various donors to contribute monies in the future for various purposes. Pledges receivable are expected to be collected within three years. Management believes that all pledges outstanding at year-end are fully collectible.

Inventory

Inventory consisting of gift shop merchandise is carried at the lower of cost, on a first-in, first-out basis, or market, and is charged to expense when sold.

Property and Equipment and Depreciation

Property and equipment consists of land, buildings, leasehold improvements, furniture, and equipment which are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management reviews these assets to determine whether carrying values have been impaired. Depreciation is provided over the estimated useful lives of the respective assets, or the lease term if shorter, on the straight-line basis, which range generally from 3 to 40 years.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Collections

HHT has elected not to capitalize its collection of historic treasures. Purchases of collection items are recorded as decreases in unrestricted net assets if purchased with unrestricted assets, or if purchased in the same reporting period as the donor restricted contribution is recognized. Contributions of collection items are not recognized in the statement of activities. Proceeds from the sale of collection items are recognized in the statement of activities based on the existence or absence of donor-imposed restrictions.

Compensated Absences

A compensated absences liability is recorded for unused vacation as of June 30, 2017. Vacation time vests when earned. Amounts for unvested sick pay were not accrued because the amount of the potential liability is not reasonably estimable.

Deferred Revenue

HHT is responsible for the collection of museum membership fees. In exchange for these fees, members receive free admission into the museum. Membership fees are received in advance and recognized as revenue over the applicable membership period. Additionally, any contribution revenue received from local municipalities for future periods is deferred as of year-end.

Promises to Give, Public Support and Revenue

Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence and/or nature of any donor imposed restrictions. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are received. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction has been satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Program Service Fees

Revenue from program service fees and other revenues qualify as “exchange transactions” type revenue. Accordingly, revenues are recognized on a per diem basis or as services are provided, as applicable.

Income Taxes

HHT is a not-for-profit organization, exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is exempt from similar state and local taxes. Accordingly, no provision has been made for income taxes in the accompanying financial statements. Although HHT was granted income tax exemption by the Internal Revenue Service, such exemption does not apply to “unrelated business taxable income.” Such income, pursuant to the Internal Revenue Code and related regulations, includes investment income such as interest received from sources other than directly from program fees.

HOLLAND HISTORICAL TRUST

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Notes to Financial Statements

HHT analyzes its filing positions in the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years (2013 through 2016) in these jurisdictions to identify potential uncertain tax positions. HHT treats interest and penalties attributable to income taxes, and reflects any charges for such, to the extent they arise, as a component of its expenses. HHT does not have any amounts accrued for unrecognized tax benefits at June 30, 2017.

Subsequent Events

In preparing these financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to June 30, 2017, the most recent statement of financial position presented herein, through October 16, 2017, the date these financial statements were available to be issued. No significant such events or transactions were identified.

2. INVESTMENTS AND FAIR VALUE MEASUREMENTS

HHT utilizes fair value measurements to record fair value adjustments to its investment securities and to determine fair value disclosures. These assets are recorded at fair value on a recurring basis.

Following is a description of the valuation methodology and key inputs used to measure assets recorded at fair value.

Investments. Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices. Level 1 securities include mutual funds, corporate equities and mutual real estate funds traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. All HHT's investments are Level 1 investments.

The preceding methods described may produce a fair value calculation that may not be reflective of future fair values. Furthermore, although HHT believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

HOLLAND HISTORICAL TRUST

(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Investments Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, HHT's investments measured at fair value on a recurring basis as of June 30, 2017:

	Total	Level 1	Level 2	Level 3
Investment securities				
Mutual bond funds:				
Income	\$ 89,275	\$ 89,275	\$ -	\$ -
Emerging market	5,386	5,386	-	-
Mutual equity funds:				
Income	103,456	103,456	-	-
Growth	116,891	116,891	-	-
Value	3,903	3,903	-	-
Blended	20,023	20,023	-	-
International	27,720	27,720	-	-
Mutual real estate funds	19,024	19,024	-	-
Total	\$ 385,678	\$ 385,678	\$ -	\$ -

The components of net investment income and gains for the year ended June 30, 2017 were as follows:

Interest and dividends	\$ 7,258
Net realized gains on investments	33,661
Net unrealized gains on investments	20,142
Investment expenses	(1,932)
	<u>\$ 59,129</u>

3. PLEDGES RECEIVABLE

Pledges receivable represent unconditional promises to give. At June 30, 2017, the balance of outstanding pledges receivable was:

Receivables in less than one year	\$ 53,450
Receivables in one to three years	43,000
Total pledges receivable	<u>96,450</u>
Less: discount to present value at 5.0%	<u>(7,100)</u>
Pledges receivable, net	<u>\$ 89,350</u>

**HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)**

Notes to Financial Statements

4. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows at June 30, 2017:

Land	\$ 20,000
Settlers House leasehold improvements	51,069
Cappon House leasehold improvements	967,307
Holland Armory	1,412,907
Dutch Galleries leasehold improvements	367,114
Office furniture and equipment	41,710
Total	<u>2,860,107</u>
Less: accumulated depreciation and amortization	<u>(1,674,878)</u>
Property and equipment, net	<u>\$ 1,185,229</u>

Depreciation expense amounted to \$113,329 during the year ended June 30, 2017.

5. LINE OF CREDIT

HHT has available a \$100,000 line of credit with variable interest based on 1.25% plus lender's prime commercial rate (effective rate of 5.5% at June 30, 2017). The line expires on March 3, 2018 and is secured by HHT's assets. Outstanding borrowings on the line as of June 30, 2017 were \$100,000. For the year ended June 30, 2017, interest expense on borrowings was \$2,613.

6. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributed assets for which the use by HHT has been limited by donors for a specific time period or purpose. The components of temporarily restricted net assets are as follows at June 30, 2017:

Purpose restrictions	
Armory	\$ 7,914
Education	32,318
Wichers	65,248
Furniture	11,000
Medal of Honor exhibit	4,582
Public outreach	2,877
Development and planning	70,000
Exhibit	20,000
Other small projects	700
Donor-restricted endowment funds	32,117
Time restrictions - pledges receivable	
Museum operations	<u>89,350</u>
Total temporarily restricted net assets	<u>\$ 336,106</u>

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

Permanently restricted net assets consist of three separate contributions with donor-imposed restrictions that do not expire and that allow only the income earned thereon to be expended. Income earned is recorded as a temporarily restricted net asset until appropriated by the Board and spent for any restricted purpose. At that time, those net assets are reclassified to the unrestricted net asset class.

7. ENDOWMENT FUNDS

HHT's endowment was established to support the operation of the Holland Historical Museum. These funds include donor-restricted endowment funds. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of HHT has interpreted the State of Michigan Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the historic dollar value of the contribution as of the gift date for donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HHT classifies as permanently restricted net assets (a) the historical dollar value of gifts donated to the permanent endowment, (b) the historical dollar value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any donor-restricted endowment fund that would not be classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts would be appropriated for expenditure by HHT in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, HHT considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of HHT and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of HHT; and
- The investment policies of HHT.

	Endowment Net Asset Composition by Type by Fund		
	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:			
Padnos	\$ 24,369	\$ 50,000	\$ 74,369
Kimberly	7,748	10,000	17,748
Buhler	-	50,000	50,000
Endowment net assets, June 30, 2017	<u>\$ 32,117</u>	<u>\$ 110,000</u>	<u>\$ 142,117</u>

HOLLAND HISTORICAL TRUST
(A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

	Changes in Endowment Net Assets		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2016	\$ 22,550	\$ 110,000	\$ 132,550
Investment income and gains			
Investment income, net of expense	1,861	-	1,861
Net appreciation:			
Realized	2,425	-	2,425
Unrealized	12,227	-	12,227
Total investment income and gains	16,513	-	16,513
Appropriated for expenditure	(6,946)	-	(6,946)
Endowment net assets, June 30, 2017	\$ 32,117	\$ 110,000	\$ 142,117

Return Objectives and Risk Parameters

HHT has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to provide for total net return to exceed, at a minimum, the Consumer Price Index plus 5% on an annual basis. Also per the policy the total net return shall exceed a target balanced index composed of 70% of the S&P 500 for the equity component and 30% of the Barclay's Interest in Government/Credit for the fixed income component. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, HHT relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). HHT targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

HHT has a policy of appropriating for distribution each year no more than 5 percent of its endowment fund's average fair value over the prior 4 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, HHT considered the long-term expected return on its endowment. Accordingly, over the long term, HHT expects the current spending policy to allow its endowment to grow at an average rate equal to or greater than the consumer price index. This is consistent with HHT's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts and investment return.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Notes to Financial Statements

8. LEASE

HHT leases the Holland Museum building from the City for \$10 per year for a period of 50 years, to expire June 2040 and also leases the Cappon House from the City for \$10 per year for a period of 50 years, to expire August 2046. The City has title to these buildings and all improvements, fixtures or other types of fixed property appurtenant to the buildings and property located thereon. HHT is responsible for insurance on the property and buildings, but is not required to pay real estate taxes. The difference between the estimated fair rental value of the leased property and the actual lease payments is recorded as a facilities contribution revenue and donated facilities rental expense of \$58,600 in the statement of activities.

9. RISK MANAGEMENT

HHT is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. HHT has purchased commercial insurance for all claims related to the previously stated risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

10. RETIREMENT PLAN

HHT offers its employees a tax sheltered annuity plan created in accordance with Section 403(b) of the Internal Revenue Code. The plan is available to all full-time employees and permits them to defer a portion of their salary to future years. HHT policy allows contributions to the plan of an amount up to 20% of the employee's contribution at the discretion of the Board of Trustees. HHT made no contributions to the plan during the year ended June 30, 2017.

11. FUNCTIONAL ALLOCATION OF EXPENSES

The functional allocation of expenses into program, administrative and fundraising components was as follows for the year ended June 30, 2017:

Program	\$ 563,990
Administrative	147,030
Fundraising	<u>44,468</u>
	<u>\$ 755,488</u>

12. CONCENTRATIONS

HHT reports contribution revenues from certain nearby municipalities to support its daily operations. Contributions from the City of Holland, Michigan and Park Township, Michigan represent 18.1% and 9.1%, respectively, of HHT's total revenues during the 2017 fiscal year.

HHT also received a significant pledge during the year, which represents 8.1% of HHT's total current year revenues.



INTERNAL CONTROL AND COMPLIANCE

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

October 16, 2017

Board of Trustees
Holland Historical Trust
Holland, 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 Holland Historical Trust ("HHT") (a component unit of the City of Holland, Michigan), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise HHT's basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness, and another deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-002 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HHT's financial statements are free from 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*.

Holland Historical Trust's Responses to Findings

HHT's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. HHT's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 HHT'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Schedule of Findings and Responses

2017-001 - Internal Controls over Information Technology (Repeat Finding)

Finding Type. Material Weakness in Internal Control over Financial Reporting

Criteria. Computerized accounting systems should have some type of feature that either prevents the modification of transactions once posted, or provides some type of audit trail for a reviewer to be able to track any changes made to computerized transactions after posting. Additionally, electronic accounting data should be backed up periodically and stored off-site, and the integrity of these back ups should be periodically tested.

Condition. HHT's accounting software does not prevent the deletion or modification of posted transactions. To the best of management's knowledge, there is not an audit trail feature available in the software package. HHT does have a process in place by which financial data is backed up daily. However, there is currently no process in place for storing these back ups off-site, nor for testing the integrity of these backups.

Cause. This condition is the result of a limitation in the software package used by HHT to maintain its accounting records, and the absence of a policy in place to test the integrity of backups.

Effect. As a result of this condition, HHT lacks internal controls over the alteration of posted general ledger and other transactions. Additionally, HHT is exposed to risk of the potential loss of data in the event that backed up data was not functioning properly.

Recommendation. HHT should contact the creators of the accounting software and inquire of any features included in the present version that could mitigate the risks associated with this issue. If no such feature is available, we recommend that management consider taking other action to address this risk up to and including possible replacement of the software package. In order to limit the potential risk of loss, we continue to recommend that backup files be made and stored off-site and be tested periodically, preferably at a predetermined frequency.

View of Responsible Officials. HHT has inquired of the vendors of the accounting software and it was determined that the software does not provide this feature. Management is aware of the risks associated with this issue and will consider revision of current policies and procedures to provide additional assurance that posted transactions are accurate and unaltered.

HOLLAND HISTORICAL TRUST (A Component Unit of the City of Holland, Michigan)

Schedule of Findings and Responses

2017-002 - Segregation of Incompatible Duties (Repeat Finding)

Finding Type. Significant Deficiency in Internal Control over Financial Reporting

Criteria. Management is responsible for establishing effective internal controls to safeguard HHT’s assets, and to prevent or detect misstatements to the financial statements. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given HHT’s unique circumstances.

Condition. As is the case with many organizations of similar size, HHT lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Cash receipts that are made at the administrative office of HHT are initially collected, posted to the general ledger, and deposited in the bank by the same individual. Additionally, only one individual has access to the accounting system.

Cause. This condition is a result of HHT’s limited resources, and the small size of its accounting staff.

Effect. As a result of this condition, HHT is exposed to an increased risk that misstatements (whether caused by error or fraud) might not be prevented or detected by management in a timely manner. Additionally, in the event of employee turnover, the HHT may be unable to access or properly function within the accounting software considering the sole employee access.

Recommendation. We encourage management to continue to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation and approval of accounting functions by qualified members of management as possible. In order to allow for continued access to the accounting software in case of employee turnover, and promote secondary review of accounting transactions, we also recommend that an additional employee or Board member be trained and allowed access rights.

View of Responsible Officials. The Board of Trustees is aware of the risks associated with this condition, and has made the determination that given HHT’s limited resources, full segregation of duties is not feasible at this time. Accordingly, the Finance Committee will continue to review monthly information to mitigate this risk.

