

**Village of Newberry, Michigan**

**BASIC FINANCIAL STATEMENTS**

**December 31, 2016**

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>1</b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS .....</b>	<b>4</b>
<b>BASIC FINANCIAL STATEMENTS:</b>	
Government-Wide Financial Statements:	
Statement of Net Position .....	8
Statement of Activities .....	9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	11
Reconciliation of Governmental Funds:	
Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities .....	12
Proprietary Funds:	
Statement of Net Position .....	13
Statement of Revenues, Expenses, and Changes in Net Position.....	14
Statement of Cash Flows .....	15
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>16</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Employees Retirement and Benefit Systems:	
Schedule of Funding Progress .....	38
Major Funds:	
Budgetary Comparison Schedule – General Fund.....	41
Budgetary Comparison Schedule – Fire Operating Fund.....	43

**TABLE OF CONTENTS**

**Page**

**OTHER INFORMATION:**

Combining Balance Sheet – Nonmajor Governmental Funds.....	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.....	45

**REPORTS ON COMPLIANCE:**

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	46
Independent Auditor’s Report on Compliance with Michigan Public Act 51 of 1951, as Amended.....	48
Independent Auditor’s Report on Compliance for each Major Program and on Internal Control Over Compliance Required by the Uniform Governance.....	50
Schedule of Expenditures of Federal Awards .....	52
Notes to Schedule of Expenditures of Federal Awards .....	53
Schedule of Findings and Questioned Costs .....	54
Summary Schedule of Prior Audit Findings.....	56



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Honorable President and Members  
of the Village Council  
Village of Newberry, Michigan

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Village's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Michigan Public Act 51 of 1951, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Honorable President and Members  
of the Village Council

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and budgetary comparison schedules on pages 4 through 7, pages 38 through 40 and pages 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Newberry's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Honorable President and Members  
of the Village Council

***Other Reporting Required by Government Auditing Standards and Michigan Public Act 51 of 1951, as amended***

In accordance with *Government Auditing Standard and Michigan Public Act 51 of 1951, as amended*, we have also issued our report dated May 31, 2017, on our consideration of the Village of Newberry'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* and Michigan Public Act 51 of 1951, as amended in considering the Village of Newberry's internal control over financial reporting and compliance.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 31, 2017

## **Management's Discussion and Analysis**

---

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how 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 position increased .05% from a year ago decreasing from \$5,086,615 to \$5,089,207. The governmental activities experienced a \$50,463 increase in net position. The business-type activities experienced a \$47,871 decrease in net position.

In a condensed format, the table below shows comparison of the net position of the Village of Newberry.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current Assets	\$ 867,795	\$ 990,906	\$ 1,895,696	\$ 1,420,599	\$ 2,763,491	\$ 2,411,505
Capital and Other Assets	391,214	427,088	16,905,036	17,129,724	17,296,250	17,556,812
<b>Total Assets</b>	<b>1,259,009</b>	<b>1,417,994</b>	<b>18,800,732</b>	<b>18,550,323</b>	<b>20,059,741</b>	<b>19,968,317</b>
Deferred Outflows of Resources	183,291	169,267	45,823	42,317	229,114	211,584
Current Liabilities	91,095	120,470	1,045,186	1,447,736	1,136,281	1,568,206
Noncurrent Liabilities	1,468,081	1,663,783	12,558,220	11,861,297	14,026,301	13,525,080
<b>Total Liabilities</b>	<b>1,559,176</b>	<b>1,784,253</b>	<b>13,603,406</b>	<b>13,309,033</b>	<b>15,162,582</b>	<b>15,093,286</b>
Deferred Inflows of Resources	29,653	-	7,413	-	37,066	-
Net Position						
Net Investment in Capital Assets	328,674	287,522	5,234,926	5,512,552	5,563,600	5,800,074
Restricted	248,430	-	-	-	248,430	-
Unrestricted	(723,633)	(484,514)	810	(228,945)	(722,823)	(713,459)
<b>Total Net Position</b>	<b>\$ (146,529)</b>	<b>\$ (196,992)</b>	<b>\$ 5,235,736</b>	<b>\$ 5,283,607</b>	<b>\$ 5,089,207</b>	<b>\$ 5,086,615</b>

The current level of unrestricted net position for our governmental activities stands at (\$723,633) or about (48%) of expenditures.

The following table shows the activities of the Village.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Program Revenues						
Charges for Services	\$ 592,970	\$ 604,601	\$ 3,978,103	\$ 4,327,563	\$ 4,571,073	\$ 4,932,164
Operating Grants and Contributions	358,651	727,556	-	28,458	358,651	756,014
Capital Grants and Contributions	-	-	-	664,582	-	664,582
General Revenues						
Property Taxes	351,571	326,394	-	-	351,571	326,394
P.I.L.O.T.	31,500	31,500	-	-	31,500	31,500
State Revenue Sharing	178,314	177,108	-	-	178,314	177,108
Interest on Deposits	1,830	1,383	3,080	4,066	4,910	5,449
<b>Total Revenues</b>	<b>1,514,836</b>	<b>1,868,542</b>	<b>3,981,183</b>	<b>5,024,669</b>	<b>5,496,019</b>	<b>6,893,211</b>
Program Expenses						
Legislative	15,582	16,890	-	-	15,582	16,890
General Government	287,267	494,137	-	-	287,267	494,137
Public Safety	208,947	437,660	-	-	208,947	437,660
Public Works	589,985	576,774	-	-	589,985	576,774
Interest Expense - Unallocated	33,320	36,382	-	-	33,320	36,382
Other Expenses	361,243	231,443	-	-	361,243	231,443
Electric	-	-	2,308,218	2,944,436	2,308,218	2,944,436
Water	-	-	578,525	479,766	578,525	479,766
Sewer	-	-	1,110,340	1,124,803	1,110,340	1,124,803
<b>Total Expenses</b>	<b>1,496,344</b>	<b>1,793,286</b>	<b>3,997,083</b>	<b>4,549,005</b>	<b>5,493,427</b>	<b>6,342,291</b>
Transfers	31,971	-	(31,971)	-	-	-
Change in Net Position	50,463	75,256	(47,871)	475,664	2,592	550,920
Net Position - Beginning,	(196,992)	(272,248)	5,283,607	4,807,943	5,086,615	4,535,695
Net Position - Ending	<u>\$ (146,529)</u>	<u>\$ (196,992)</u>	<u>\$ 5,235,736</u>	<u>\$ 5,283,607</u>	<u>\$ 5,089,207</u>	<u>\$ 5,086,615</u>

**Governmental Activities**

Revenue from property taxes was more than the previous year increasing by \$25,177. This is due to stabilization in taxable value. Charges for services decreased by \$11,631, while operating grants decreased by \$368,905.

Expenses decreased by \$296,942.

**Business-Type Activities**

The Village's total business-type revenues decreased by \$1,043,486.

Total business-type expenses decreased by \$551,922 during the year.

**The Village's Funds**

Our analysis of the Village's major funds begins on page 10, 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 2016 include the General Fund, Fire Operating, Electric, Water, Newberry Sewage, and Luce Village Sewage.

The General Fund is used to record all activities of the Village not required to be recorded in a separate fund. This would include legislative, administrative, elections, public safety, motor pool, public works, building and grounds, refuse collection, sidewalks, and sewer maintenance. The major source of revenue for the general fund is from the Village tax base and the revenue sharing from the State of Michigan. The major expense for this fiscal year was general government expenses.

The Fire Operating Fund is used to record revenues from the two townships and the village for fire protection and the expenditures incurred to operate the fire department.

The Newberry Sewage and Luce Village Sewage Funds are used to record revenues and expenses for the Village Sewer activities. The revenue comes from user charges and expenses are incurred for operation, maintenance, and improvements.

The Water, Sewer, and Electric Funds are used to record revenues and expenses for the Village water, sewer and electric systems. The revenues come from user charges and the expenses are incurred for operation and maintenance. Some major capital improvement projects have added to the reliability of the Village water system including the replacement of wells and water line replacement and other projects are still in process. Other major capital improvement projects include the completed conversion of the electric system. These improvements will improve the quality and availability of service to our existing customers and provide opportunity for future economic growth.

**General Fund Budgetary Highlights**

The Village's actual revenues were \$5,806 higher than the amended budget.

Expenditures were \$57,066 below the amended budget for 2016.

**Capital Asset and Debt Administration**

Capital Assets – The Village's investment in capital assets as of December 31, 2016, amounted to \$17,296,250, (net of accumulated depreciation). This investment in capital assets includes land, building infrastructure (for the electric, water, and sewer systems), vehicles and equipment. The major capital additions for 2016 were construction in progress for improvements to the water system. Additional information on capital assets can be found in Note 4 of this report.

Long-Term Debt – Debt is classified as long-term if it matures in a period greater than one year at the end of the current fiscal year. The Village has a total of \$14,619,091 outstanding in capital leases, bonds payable, installments payable, pension liability, vested employee benefits and OPEB obligations. Additional information on the Village's long-term debt can be found in Notes 5, 6, 7 10, & 11.

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

The Village is in a budget battle from year to year. Normally, the cap on the growth rate under the Headlee Amendment, the voter's reluctance to adjust or augment taxes for general operation, and the corresponding double digit growth rates in health and liability insurance have put significant limitations on budget flexibility. There are looming indications from the State that further cuts will occur in State Revenue Sharing, in addition possible elimination of personal property tax which itself would eliminate \$28,500 of revenue, and other State funded areas. This could put increased pressure on already tight budget projections. We are pleased to end the current year with healthy fund balances in all but one major fund, but are realistic in projecting revenue from fines and fees for current and future budgets in order that revenue expectations and corresponding expenses are not inflated.

**Contacting the Village's Management**

This financial report is intended to provide our taxpayers, creditors, investors and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report, please contact Jennifer James-Mesloh, Village Manager, or John Dewitt, Village President by calling 906-293-3433 ext. 1 during the hours of 8 am to 4:30 pm, Monday through Friday or write the Village of Newberry at 302 E. McMillan Ave., Newberry, Michigan 49868.

## **Basic Financial Statements**

---

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS:</b>			
Cash and Equivalents	\$ 661,428	\$ 787,945	\$ 1,449,373
Receivables			
Accounts	64,623	399,787	464,410
Current Tax	25,912	-	25,912
Other Governments	80,105	39,580	119,685
Internal Balances	35,727	(35,727)	-
Inventory	-	42,507	42,507
Capital Credits in Coop	-	661,604	661,604
Capital Assets (Not Depreciated)	-	10,163,624	10,163,624
Capital Assets (Net of Depreciation)	391,214	6,741,412	7,132,626
<b>TOTAL ASSETS</b>	<b>1,259,009</b>	<b>18,800,732</b>	<b>20,059,741</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Pension Investment Experience and Contributions	183,291	45,823	229,114
<b>LIABILITIES:</b>			
Accounts Payable	20,443	364,704	385,147
Accrued Liabilities	7,770	65,506	73,276
Accrued Interest Payable	342	84,726	85,068
Capital Leases - Due within one year	13,981	-	13,981
Installment Payable - Due within one year	5,809	-	5,809
Bonds Payable - Due within one year	42,750	530,250	573,000
Bonds Payable - Due in more than one year	-	11,801,464	11,801,464
Net Pension Liability - Due in more than one year	1,410,076	353,600	1,763,676
Vested Employee Benefits - Due in more than one year	4,971	-	4,971
(OPEB) Obligation - Due in more than one year	53,034	403,156	456,190
<b>TOTAL LIABILITIES</b>	<b>1,559,176</b>	<b>13,603,406</b>	<b>15,162,582</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension Investment Experience and Contributions	29,653	7,413	37,066
<b>NET POSITION:</b>			
Net Investment in Capital Assets	328,674	5,234,926	5,563,600
Restricted	248,430	-	248,430
Unrestricted	(723,633)	810	(722,823)
<b>TOTAL NET POSITION</b>	<b>\$ (146,529)</b>	<b>\$ 5,235,736</b>	<b>\$ 5,089,207</b>

# Village of Newberry, Michigan

## Statement of Activities For the Year Ended December 31, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>							
<b>Governmental Activities:</b>							
Legislative	\$ 15,582	\$ -	\$ -	\$ -	\$ (15,582)	\$ -	\$ (15,582)
General Government	287,267	334,105	86,777	-	133,615	-	133,615
Public Safety	208,947	1,573	103,809	-	(103,565)	-	(103,565)
Public Works	589,985	257,292	168,065	-	(164,628)	-	(164,628)
Other Expenses	361,243	-	-	-	(361,243)	-	(361,243)
Interest Expense - Unallocated	33,320	-	-	-	(33,320)	-	(33,320)
Total Governmental Activities	1,496,344	592,970	358,651	-	(544,723)	-	(544,723)
<b>Business-type Activities:</b>							
Electric	2,308,218	2,338,391	-	-	-	30,173	30,173
Water	578,525	472,587	-	-	-	(105,938)	(105,938)
Sewer	1,110,340	1,167,125	-	-	-	56,785	56,785
Total Business-type Activities	3,997,083	3,978,103	-	-	-	(18,980)	(18,980)
Total Primary Government	<u>\$ 5,493,427</u>	<u>\$ 4,571,073</u>	<u>\$ 358,651</u>	<u>\$ -</u>	<u>(544,723)</u>	<u>(18,980)</u>	<u>(563,703)</u>
<b>General Revenues and Transfers:</b>							
Property Taxes					351,571	-	351,571
P.I.L.O.T					31,500	-	31,500
State Revenue Sharing					178,314	-	178,314
Transfers					31,971	(31,971)	-
Interest on Deposits					1,830	3,080	4,910
Total General Revenues and Transfers					595,186	(28,891)	566,295
Change in Net Position					50,463	(47,871)	2,592
Net Position - Beginning,					(196,992)	5,283,607	5,086,615
<b>Net Position - Ending</b>					<u>\$ (146,529)</u>	<u>\$ 5,235,736</u>	<u>\$ 5,089,207</u>

See accompanying notes to financial statements.

# Village of Newberry, Michigan

## Balance Sheet Governmental Funds December 31, 2016

	General Fund	Fire Operating	Nonmajor Governmental Funds	Total
<b>ASSETS:</b>				
Cash and Equivalents	\$ 452,817	\$ 69,401	\$ 139,210	\$ 661,428
Taxes Receivable	25,912	-	13,317	39,229
Accounts Receivable	2,727	48,579	-	51,306
Due From Other Funds	230,087	12,867	145,974	388,928
Advance to Other Funds	348,490	-	-	348,490
Due From Other Governmental Units	30,687	25,733	23,685	80,105
<b>TOTAL ASSETS</b>	<b>\$ 1,090,720</b>	<b>\$ 156,580</b>	<b>\$ 322,186</b>	<b>\$ 1,569,486</b>
<b>LIABILITIES:</b>				
Accounts Payable	\$ 20,443	\$ -	\$ -	\$ 20,443
Accrued Liabilities	7,770	-	-	7,770
Due to Other Funds	471,355	2,356	227,980	701,691
<b>TOTAL LIABILITIES</b>	<b>499,568</b>	<b>2,356</b>	<b>227,980</b>	<b>729,904</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned Revenue	3,043	-	-	3,043
<b>FUND BALANCES:</b>				
Nonspendable	348,490	-	-	348,490
Restricted	-	154,224	94,206	248,430
Unassigned	239,619	-	-	239,619
<b>TOTAL FUND BALANCES</b>	<b>588,109</b>	<b>154,224</b>	<b>94,206</b>	<b>836,539</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,090,720</b>	<b>\$ 156,580</b>	<b>\$ 322,186</b>	

**Reconciliation to amounts reported for governmental activities in the statement of net position:**

Capital assets used by governmental activities	391,214
Other post employment benefits (OPEB)	(53,034)
Long-term leases, installments and bonds payable for governmental activities	(62,540)
Vested employee benefits	(4,971)
Unearned revenue	3,043
Net pension liability and related deferred outflows/inflows	(1,256,438)
Accrued interest expense	(342)
<b>Net position of governmental activities</b>	<b>\$ (146,529)</b>

# Village of Newberry, Michigan

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2016

	General Fund	Fire Operating	Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Taxes	\$ 261,718	\$ -	\$ 121,353	\$ 383,071
State Sources	180,564	3,300	178,468	362,332
Local Sources	-	48,551	117,191	165,742
Charges for Services	112,439	23,979	-	136,418
Interest and Rents	1,227	288	315	1,830
Refunds and Reimbursements	477,345	1,573	-	478,918
<b>TOTAL REVENUES</b>	<b>1,033,293</b>	<b>77,691</b>	<b>417,327</b>	<b>1,528,311</b>
<b>EXPENDITURES:</b>				
Legislative	15,582	-	-	15,582
General Government	283,138	-	-	283,138
Public Safety	40,796	103,329	-	144,125
Public Works	169,539	-	394,092	563,631
Other Expenditures	341,409	-	-	341,409
Capital Outlay	53,577	-	143,220	196,797
Debt Service	62,238	-	48,425	110,663
<b>TOTAL EXPENDITURES</b>	<b>966,279</b>	<b>103,329</b>	<b>585,737</b>	<b>1,655,345</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>67,014</b>	<b>(25,638)</b>	<b>(168,410)</b>	<b>(127,034)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	24,275	155,436	179,711
Transfers (Out)	(127,295)	-	(20,445)	(147,740)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(127,295)</b>	<b>24,275</b>	<b>134,991</b>	<b>31,971</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>(60,281)</b>	<b>(1,363)</b>	<b>(33,419)</b>	<b>(95,063)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>648,390</b>	<b>155,587</b>	<b>127,625</b>	<b>931,602</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 588,109</b>	<b>\$ 154,224</b>	<b>\$ 94,206</b>	<b>\$ 836,539</b>

**Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2016**

Net changes in fund balances – total governmental funds \$ (95,063)

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$89,451) exceeded capital outlay of \$53,577. (35,874)

Repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.

Principal repayments:			
Bonds payable	\$	40,500	
Installment payable		17,342	
Capital lease payable		<u>19,183</u>	77,025

Unavailable revenue in fund statement recorded as revenue in statement of activities. (3,072)

Deferred outflows/inflows resulting from investment experience and contributions. (15,629)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Vested employee benefits	\$	1,966	
Other post employment benefits (OPEB)		23,227	
Accrued interest on bonds		317	
Net pension liability		<u>107,968</u>	133,478

Deferred Inflows recorded as a liability on the balance sheet is recorded as revenue on the government-wide financial statement (PA 252) (10,402)

Changes in net position of governmental activities \$ 50,463

# Village of Newberry, Michigan

## Statement of Net Position Proprietary Funds December 31, 2016

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
<b>ASSETS:</b>					
Cash and Equivalents	\$ 180,131	\$ 449,614	\$ 153,708	\$ 4,492	\$ 787,945
Accounts Receivable	253,532	146,255	-	-	399,787
Due from Other Funds	405,455	335,970	55,492	-	796,917
Advance to Other Funds	52,363	-	-	124,602	176,965
Inventories	28,532	329	-	13,646	42,507
Due from Governmental Units	-	-	23,548	16,032	39,580
Capital Credits in Coop	661,604	-	-	-	661,604
Capital Assets	6,084,728	11,687,216	6,712,143	95,919	24,580,006
Accumulated Depreciation	<u>(3,843,708)</u>	<u>(1,924,234)</u>	<u>(1,829,660)</u>	<u>(77,368)</u>	<u>(7,674,970)</u>
<b>TOTAL ASSETS</b>	<u>3,822,637</u>	<u>10,695,150</u>	<u>5,115,231</u>	<u>177,323</u>	<u>19,810,341</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>					
Pension Investment Experience and Contributions	<u>45,823</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,823</u>
<b>LIABILITIES:</b>					
Due to Other Funds	388,118	96,036	-	-	484,154
Advance from Other Funds	-	-	457,036	68,419	525,455
Accounts Payable	222,077	135,178	7,449	-	364,704
Accrued Liabilities	20,637	16,667	-	28,202	65,506
Accrued Interest Payable	8,760	56,469	19,497	-	84,726
Bonds Payable - Due within one year	218,000	143,000	169,250	-	530,250
Bonds Payable - Due in more than one year	940,000	7,906,000	2,955,464	-	11,801,464
Net Pension Liability - Due in more than one year	353,600	-	-	-	353,600
(OPEB) Obligation - Due in more than one year	<u>196,367</u>	<u>-</u>	<u>-</u>	<u>206,789</u>	<u>403,156</u>
<b>TOTAL LIABILITIES</b>	<u>2,347,559</u>	<u>8,353,350</u>	<u>3,608,696</u>	<u>303,410</u>	<u>14,613,015</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
Pension Investment Experience and Contributions	<u>7,413</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,413</u>
<b>NET POSITION:</b>					
Net Investment in Capital Assets	1,744,624	1,713,982	1,757,769	18,551	5,234,926
Unrestricted	<u>(231,136)</u>	<u>627,818</u>	<u>(251,234)</u>	<u>(144,638)</u>	<u>810</u>
<b>TOTAL NET POSITION</b>	<u>\$ 1,513,488</u>	<u>\$ 2,341,800</u>	<u>\$ 1,506,535</u>	<u>\$ (126,087)</u>	<u>\$ 5,235,736</u>

# Village of Newberry, Michigan

## Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds For the Year Ended December 31, 2016

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
<b>OPERATING REVENUES:</b>					
Charges for Services	\$ 2,229,548	\$ 465,805	\$ 674,469	\$ 491,387	\$ 3,861,209
Other Income	108,843	6,782	717	552	116,894
<b>TOTAL OPERATING REVENUES</b>	<b>2,338,391</b>	<b>472,587</b>	<b>675,186</b>	<b>491,939</b>	<b>3,978,103</b>
<b>OPERATING EXPENSES:</b>					
Employee Wages and Benefits	529,616	156,093	20,018	266,812	972,539
Supplies	63,404	15,569	-	30,928	109,901
Repairs and Maintenance	26,204	80	449,669	4,188	480,141
Contracted Services	179,192	21,236	6,470	66,494	273,392
Insurance	17,783	15,910	-	15,606	49,299
Depreciation	93,868	149,646	54,626	7,340	305,480
Utilities	1,303,891	-	-	108,600	1,412,491
Other Expenses	30,129	2,278	-	-	32,407
<b>TOTAL OPERATING EXPENSES</b>	<b>2,244,087</b>	<b>360,812</b>	<b>530,783</b>	<b>499,968</b>	<b>3,635,650</b>
<b>OPERATING INCOME (LOSS)</b>	<b>94,304</b>	<b>111,775</b>	<b>144,403</b>	<b>(8,029)</b>	<b>342,453</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>					
Interest Expense	(64,131)	(217,713)	(79,589)	-	(361,433)
Interest and Rentals	1,105	1,270	513	192	3,080
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(63,026)</b>	<b>(216,443)</b>	<b>(79,076)</b>	<b>192</b>	<b>(358,353)</b>
Transfers Out	-	(31,971)	-	-	(31,971)
<b>CHANGES IN NET POSITION</b>	<b>31,278</b>	<b>(136,639)</b>	<b>65,327</b>	<b>(7,837)</b>	<b>(47,871)</b>
<b>NET POSITION, JANUARY 1,</b>	<b>1,482,210</b>	<b>2,478,439</b>	<b>1,441,208</b>	<b>(118,250)</b>	<b>5,283,607</b>
<b>NET POSITION, DECEMBER 31</b>	<b>\$ 1,513,488</b>	<b>\$ 2,341,800</b>	<b>\$ 1,506,535</b>	<b>\$ (126,087)</b>	<b>\$ 5,235,736</b>

# Village of Newberry, Michigan

## Statement of Cash Flows Proprietary Funds For the Year Ended December 31, 2016

	Enterprise Funds				Total
	Electric	Water	Newberry Sewage	Luce County Sewage	
<b>Cash Flows from Operating Activities:</b>					
Cash Received from Customers or Users	\$ 2,318,622	\$ 469,405	\$ 676,610	\$ 497,423	\$ 3,962,060
Cash Payments to Employees	(571,874)	(155,425)	(20,018)	(258,516)	(1,005,833)
Cash Payments to Vendors	(1,604,066)	(370,078)	(537,247)	(228,103)	(2,739,494)
Cash Received (Paid) for Other Funds	311,871	(246,928)	25,592	(116,785)	(26,250)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>454,553</b>	<b>(303,026)</b>	<b>144,937</b>	<b>(105,981)</b>	<b>190,483</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>					
Debt Principal Payments	(211,000)	(139,000)	(163,918)	-	(513,918)
Debt Interest Payments	(66,301)	(211,051)	(79,624)	-	(356,976)
Bond Proceeds	-	1,041,000	187,460	-	1,228,460
Federal Grants / State Grants	-	-	-	-	-
Coop Capital Credits	-	-	-	-	-
Purchase of Capital Assets	(6,550)	(696,627)	(39,219)	-	(742,396)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(283,851)</b>	<b>(5,678)</b>	<b>(95,301)</b>	<b>-</b>	<b>(384,830)</b>
<b>Cash Flows from Non Capital and Related Financing Activities:</b>					
Transfers In/(out)	-	(31,971)	-	-	(31,971)
<b>Net Cash Provided (Used) by Non Capital and Related Financing Activities</b>	<b>-</b>	<b>(31,971)</b>	<b>-</b>	<b>-</b>	<b>(31,971)</b>
<b>Cash Flows from Investing Activities:</b>					
Interest Received	1,104	1,270	513	193	3,080
<b>Net Cash Provided by Investing Activities</b>	<b>1,104</b>	<b>1,270</b>	<b>513</b>	<b>193</b>	<b>3,080</b>
Net Increase (Decrease) in Cash	171,806	(339,405)	50,149	(105,788)	(223,238)
Cash and Equivalents, Beginning of Year	8,325	789,019	103,559	110,280	1,011,183
<b>Cash and Equivalents, End of Year</b>	<b>\$ 180,131</b>	<b>\$ 449,614</b>	<b>\$ 153,708</b>	<b>\$ 4,492</b>	<b>\$ 787,945</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>					
Operating Income (Loss)	\$ 94,304	\$ 111,775	\$ 144,403	\$ (8,029)	\$ 342,453
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	93,868	149,646	54,626	7,340	305,480
(Increase) Decrease in Assets					
Receivables	(19,769)	(3,182)	-	-	(22,951)
Due from Other Governments	-	-	1,424	5,484	6,908
Inventories	7,849	-	-	(2,287)	5,562
Due from (to) Other Funds	311,871	(246,928)	25,592	(116,785)	(26,250)
Increase (Decrease) in Liabilities:					
Accounts Payable	8,688	(315,005)	(81,108)	-	(387,425)
Accrued Liabilities	(29,971)	668	-	1,385	(27,918)
Post Employment Health Care (OPEB)	(12,287)	-	-	6,911	(5,376)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 454,553</b>	<b>\$ (303,026)</b>	<b>\$ 144,937</b>	<b>\$ (105,981)</b>	<b>\$ 190,483</b>

## **Notes to Financial Statements**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Village of Newberry, Michigan, conform to U.S. generally accepted accounting principles as applicable to governmental units.

**Reporting Entity**

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Newberry. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

**Basis of Presentation**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government (the Village). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Village. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Village and for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Village's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services and sales, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Village reports the following major governmental funds:

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

*Fire Operating.* The Fire Operating Fund is used to account for the fire contributions from two townships and the Village as well as expenditures to operate the fire department.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

The Village reports the following major enterprise funds:

*Electric.* This fund accounts for the operation, maintenance and development of the electric utility.

*Water.* This fund accounts for the operation, maintenance, and development of water utilities.

*Newberry Sewage.* This fund accounts for the operation, maintenance, and development of Village sewer utilities.

*Luce County Sewage.* This fund accounts for the operation, maintenance, and development of County sewer utilities.

The Village reports the following fund types:

Governmental Funds

*General Fund.* Described above.

*Special Revenue Funds.* Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

*Capital Project Funds.* These funds account for the acquisition of capital assets or construction of major capital projects not financed by proprietary funds.

*Enterprise Funds.* Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriated for capital maintenance, public policy, management control, accountability, or other purposes.

**Measurement Focus, Basis of Accounting**

*Government-wide and Proprietary Financial Statements.* The government-wide and proprietary financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Village gives (or receives) value without directly receiving (or giving) equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Village considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the Village funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Village's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**Cash and Equivalents**

The Village considers cash and equivalents to be cash on hand and demand deposits and investments with a maturity of 90 days or less. Pooled investment income from all funds is allocated to each fund based on average cash balance. Deposits are recorded at cost.

**Inventories**

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

**Interfund 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."

Allowances for uncollectible accounts receivables has been determined to be \$20,007.

**Capital Assets**

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to January 1, 2003 consist of the road network assets, bridges, sidewalks, and storm sewers that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. All assets with a cost of \$500 or more and useful life of one (1) year or more are capitalized.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	40-50 years
Buildings and Improvements	20-50 years
Vehicles and Equipment	5-15 years

**Deferred Outflows of Resources**

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

**Deferred Inflows of Resources**

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

**Long-Term Obligations**

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

**Budgetary Data**

The Village Clerk/Treasurer prepares and submits a proposed operating budget for the General Fund and Special Revenue Funds to the Village Council for its review and consideration. The Council conducts a public hearing and subsequently adopts the operating budget. The Council approves all budget amendments. The budget is adopted at the activity level and is prepared on the modified accrual basis of accounting which is the same basis as the financial statements of the applicable funds. The budgets lapse at year end.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, liabilities and inflows and affect the disclosure of contingent assets and liabilities at the date of financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Village is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Village has \$348,490 for long-term advances classified as being Nonspendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Village has \$248,430 of restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Village. These amounts cannot be used for any other purpose unless the Village removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Village's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Village through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Village would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

**Vested Employee Benefits**

The liability for vested employee benefits reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

**NOTE 2 - CASH AND EQUIVALENTS:**

	<u>Primary Government</u>		<u>Primary Government</u>
Cash and Equivalents:			
- Unrestricted	\$ 1,006,717	Imprest	\$ 500
- Restricted	<u>442,656</u>	CD's Savings & Checking	<u>1,448,873</u>
<b>Total</b>	<u>\$ 1,449,373</u>	<b>Total</b>	<u>\$ 1,449,373</u>

**Cash and Equivalents – Restricted:**

The following fund has restricted cash and equivalents for various purposes:

**Primary Government:**

<u>Fund Type/Fund</u>	<u>Purpose</u>	<u>Amount</u>
<b>Water:</b>		
	Repair, Replacement and Improvements	\$ 220,091
	Bond Redemption	32,765
	Bond Reserves	<u>189,600</u>
		<u>\$ 442,656</u>

**Water Fund – Restricted Cash**

	<u>December 31, 2016</u>	
	<u>Required Balance</u>	<u>Actual Balance</u>
<b>Bond Principal and Interest Redemption</b>		
Water Supply System Revenue Bond Series 2005	\$ 28,960	\$ 28,960
Water Supply System Revenue Bond Series 2009	3,805	3,805
Water Supply System Revenue Bond Series 2014	-	-
	<u>\$ 32,765</u>	<u>\$ 32,765</u>
<b>Bond Reserves</b>		
Water Supply System Revenue Bond Series 2005	\$ 130,000	\$ 130,000
Water Supply System Revenue Bond Series 2009	12,800	12,800
Water Supply System Revenue Bond Series 2014	<u>46,800</u>	<u>46,800</u>
	<u>\$ 189,600</u>	<u>\$ 189,600</u>
<b>Repair, Replacement and Improvements</b>		
Water Supply System Revenue Bond Series 2005	\$ 175,195	\$ 175,195
Water Supply System Revenue Bond Series 2009	-	-
Water Supply System Revenue Bond Series 2014	<u>45,096</u>	<u>45,096</u>
	<u>\$ 220,091</u>	<u>\$ 220,091</u>
<b>Total Reserves</b>	<u>\$ 442,656</u>	<u>\$ 442,656</u>

**NOTE 2 - CASH AND EQUIVALENTS: (Continued)**

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Village's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Village's investment policy does not have specific limits in excess of state law on investment credit risk. The Village has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, \$941,678 of the Village's bank balance of \$1,483,329 was exposed to credit risk because it was uninsured and uncollateralized.

*Fair value measurement.* The Village categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the measurements required judgement and considers factors specific to each asset or liability.

An act (PA 152) to amend 1943 PA 20, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.

**NOTE 2 - CASH AND EQUIVALENTS: (Continued)**

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
  - (i) The purchase of securities on a when-issued or delayed delivery basis.
  - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
  - (iii) The limited ability to borrow and pledge a like portion of the portfolio’s assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:**

The Village of Newberry reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, proprietary funds, and fiduciary funds.

Interfund balances at December 31, 2016 consisted of the following:

		<b>DUE FROM OTHER FUNDS</b>						
		<u>General</u>	<u>Fire Operating</u>	<u>Nonmajor Governmental</u>	<u>Electric</u>	<u>Water</u>	<u>Newberry Sewage</u>	<u>Total</u>
<b>DUE TO OTHER FUNDS</b>	General	\$ -	\$ -	\$ 85,102	\$ 317,720	\$ 13,041	\$ 55,492	\$ 471,355
	Fire Operating	2,298	-	-	58	-	-	2,356
	Nonmajor							
	Governmental	131,354	12,867	58,840	24,919	-	-	227,980
	Electric	64,114	-	1,075	-	322,929	-	388,118
	Water	<u>32,321</u>	<u>-</u>	<u>957</u>	<u>62,758</u>	<u>-</u>	<u>-</u>	<u>96,036</u>
	Total	<u>\$ 230,087</u>	<u>\$ 12,867</u>	<u>\$ 145,974</u>	<u>\$ 405,455</u>	<u>\$ 335,970</u>	<u>\$ 55,492</u>	<u>\$ 1,185,845</u>

**NOTE 3 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS: (Continued)**

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

		ADVANCES TO			
		General	Electric	Luce County Sewage	Total
ADVANCES FROM	Newberry Sewage	\$ 282,265	\$ 50,169	\$ 124,602	\$ 457,036
	Luce County Sewage	66,225	2,194	-	68,419
	Total	<u>\$ 348,490</u>	<u>\$ 52,363</u>	<u>\$ 124,602</u>	<u>\$ 525,455</u>

**Interfund Transfers**

		TRANSFERS OUT			
		General	Nonmajor Governmental	Water	Total
TRANSFERS IN	Fire Operating	\$ 3,830	\$ 20,445	\$ -	\$ 24,275
	Nonmajor Governmental	123,465	-	31,971	155,436
	Total	<u>\$ 127,295</u>	<u>\$ 20,445</u>	<u>\$ 31,971</u>	<u>\$ 179,711</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity for the year ended December 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	\$ 820,526	\$ 43,034	\$ -	\$ 863,560
Infrastructure	173,360	-	-	173,360
Vehicles and Equipment	2,127,500	10,543	-	2,138,043
Subtotal	<u>3,121,386</u>	<u>53,577</u>	<u>-</u>	<u>3,174,963</u>

**NOTE 4 - CAPITAL ASSETS: (Continued)**

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities: (Continued)</b>				
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(718,614)	(7,528)	-	(726,142)
Infrastructure	(60,676)	(8,668)	-	(69,344)
Vehicles and Equipment	<u>(1,915,008)</u>	<u>(73,255)</u>	<u>-</u>	<u>(1,988,263)</u>
Subtotal	<u>(2,694,298)</u>	<u>(89,451)</u>	<u>-</u>	<u>(2,783,749)</u>
Capital Assets – Net	<u>\$ 427,088</u>	<u>\$ (35,874)</u>	<u>\$ -</u>	<u>\$ 391,214</u>

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

Governmental Activities:	
General Government	\$ 6,095
Public Safety	57,002
Public Works	<u>26,354</u>
Total Governmental Activities	<u>\$ 89,451</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type activities:</b>				
<i>Capital assets not depreciated:</i>				
Land	\$ 15,204	\$ -	\$ -	\$ 15,204
Construction in Progress	<u>9,414,554</u>	<u>733,866</u>	<u>-</u>	<u>10,148,420</u>
Subtotal	<u>9,429,758</u>	<u>733,866</u>	<u>-</u>	<u>10,163,624</u>
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	195,654	-	-	195,654
Water System	5,566,361	-	-	5,566,361
Sewer System	2,633,965	-	-	2,633,965
Electric System	5,094,575	-	-	5,094,575
Vehicles and Equipment	<u>917,297</u>	<u>8,530</u>	<u>-</u>	<u>925,827</u>
Subtotal	<u>14,407,852</u>	<u>8,530</u>	<u>-</u>	<u>14,416,382</u>
<i>Less accumulated depreciation for:</i>				
Buildings and Improvements	(173,514)	(1,541)	-	(175,055)
Water System	(1,746,912)	(141,178)	-	(1,888,090)
Sewer System	(1,796,371)	(53,664)	-	(1,850,035)
Electric System	(3,065,736)	(54,164)	-	(3,119,900)
Vehicles and Equipment	<u>(586,957)</u>	<u>(54,933)</u>	<u>-</u>	<u>(641,890)</u>
Subtotal	<u>(7,369,490)</u>	<u>(305,480)</u>	<u>-</u>	<u>(7,674,970)</u>
Net Capital Assets Being Depreciated	<u>7,038,362</u>	<u>(296,950)</u>	<u>-</u>	<u>6,741,412</u>
Capital Assets – Net	<u>\$ 16,468,120</u>	<u>\$ 436,916</u>	<u>\$ -</u>	<u>\$ 16,905,036</u>

**NOTE 4 - CAPITAL ASSETS: (Continued)**

Depreciation expense was charged to business-type activities as follows:

Business-type Activities:	
Electric	\$ 93,868
Water	149,646
Newberry Sewage	54,626
Luce County Sewage	<u>7,340</u>
 Total Business-type Activities	 <u>\$ 305,480</u>

**NOTE 5 - LEASES:**

Capital Leases – The Village leases one vehicle and equipment under capital leases with yearly lease payments ranging from \$7,533 to \$8,608, including interest rates ranging from 4.75% to 5.0%. The leases qualify as capital leases for accounting purposes and therefore have been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

2017	<u>\$ 14,319</u>
Total minimum lease payments	14,319
Less amount representing interest	<u>(338)</u>
 Present value of minimum lease payments	 <u>\$ 13,981</u>

**NOTE 6 - LONG-TERM DEBT:**

General Long-Term Debt - The bonds payable reflected in the basic financial statements consist of general obligation notes incurred by the Village of Newberry. The Village has pledged the general full faith and credit of the Village for the payment of principal and interest on the bonds.

Changes in long-term debt during the twelve months ending December 31, 2016 are summarized as follows:

	<u>Balance</u> <u>01/01/16</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Installment loan with First National Bank, due in 60 monthly installment payments of \$1,471 including interest rate of 2.00%, secured by equipment, maturing 2017.	\$ 23,151	\$ -	\$ 17,342	\$ 5,809	\$ 5,809
2002 General Obligation Bonds, Bonds maturing Serially to 2017 in annual payments ranging from \$41,250 to \$71,250, bearing interest of 4.4% to 4.8%.	<u>83,250</u>	<u>-</u>	<u>40,500</u>	<u>42,750</u>	<u>42,750</u>
 Total Governmental Activities	 <u>106,401</u>	 <u>-</u>	 <u>57,842</u>	 <u>48,559</u>	 <u>48,559</u>

**NOTE 6 - LONG-TERM DEBT: (Continued)**

	<u>Balance</u> 01/01/16	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> 12/31/16	<u>Due</u> <u>Within</u> <u>One Year</u>
<b>Business-type Activities:</b>					
2002 General Obligation Bonds, Bonds maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	74,000	-	36,000	38,000	38,000
2002 General Obligation Bonds, Bonds maturing serially to 2017 in annual payments ranging from \$55,000 to \$95,000, bearing interest of 4.4% to 4.8%.	27,750	-	13,500	14,250	14,250
2002 Limited Tax General Obligation Bonds, maturing serially to 2022 in annual amounts ranging from \$25,000 to \$65,000, bearing interest at 4.35% to 5.10%.	405,000	-	50,000	355,000	50,000
2003 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$30,000 to \$70,000, bearing interest ranging from 2.0% to 5.125%.	485,000	-	50,000	435,000	55,000
2005 Water Supply System Revenue Bonds, maturing serially to 2045 in annual amounts ranging from \$20,000 to \$123,000, bearing interest of 4.125%.	2,050,000	-	32,000	2,018,000	34,000
2005 Electric System Revenue Bonds, maturing serially to 2023 in annual amounts ranging from \$50,000 to \$90,000, bearing interest ranging from 3.0% to 4.5%.	405,000	-	75,000	330,000	75,000
2009 Water Supply System Revenue Bonds, maturing serially to 2040 in annual amounts ranging from \$3,000 to \$16,000, bearing interest of 4.125%.	276,000	-	4,000	272,000	4,000
\$6,263,000 Water Supply System Revenue Bond, Series 2014 drawn through December 31, 2014.	4,821,000	1,041,000	103,000	5,759,000	105,000
\$4,500,000 Sanitary Sewer System Revenue Bond, Series 2014	<u>3,073,422</u>	<u>187,460</u>	<u>150,418</u>	<u>3,110,464</u>	<u>155,000</u>
Total Business-type Activities	<u>11,617,172</u>	<u>1,228,460</u>	<u>513,918</u>	<u>12,331,714</u>	<u>530,250</u>
Vested Employee Benefits	<u>6,937</u>	<u>-</u>	<u>1,966</u>	<u>4,971</u>	<u>-</u>
<b>TOTAL LONG-TERM OBLIGATIONS</b>	<u>\$ 11,730,510</u>	<u>\$ 1,228,460</u>	<u>\$ 573,726</u>	<u>\$ 12,385,244</u>	<u>\$ 530,250</u>

**NOTE 6 - LONG-TERM DEBT: (Continued)**

The annual principal and interest requirements for the years ending December 31, 2016 and after, excluding vested employee benefits are as follows:

	Governmental Activities Bonds Payable		Governmental Activities Installment Payable		Business –type Activities Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
Fiscal:						
2017	\$ 42,750	\$ 2,052	\$ 5,809	\$ 306	\$ 530,250	\$ 346,623
2018	-	-	-	-	491,000	328,102
2019	-	-	-	-	517,000	311,369
2020	-	-	-	-	531,000	293,414
2021	-	-	-	-	460,000	274,942
2022 – 2026	-	-	-	-	1,990,000	1,169,150
2027 – 2031	-	-	-	-	2,032,000	907,110
2032 – 2036	-	-	-	-	1,531,464	651,563
2037 – 2041	-	-	-	-	1,356,000	465,671
2042 – 2046	-	-	-	-	1,456,000	252,861
2047 – 2051	-	-	-	-	1,062,000	86,516
2052 - 2055	-	-	-	-	375,000	3,294
<b>TOTALS</b>	<u>\$ 42,750</u>	<u>\$ 2,052</u>	<u>\$ 5,809</u>	<u>\$ 331</u>	<u>\$ 12,331,714</u>	<u>\$ 5,090,615</u>

Interest expense of the business-type activities is included as a direct expense of water, sewer and electric operations. Interest expense of the governmental activities is unallocated.

**NOTE 7 - VESTED EMPLOYEE BENEFITS:**

Accumulated unpaid vacation, sick leave and longevity for police and other Village employees are recorded in the basic financial statements. Based upon union contracts and personnel policies, as of December 31, 2016, the liability totaled \$4,971.

Vacation is earned in varying amounts based on an employee’s years of service. Accrued vacation for salaried and nonunion employees’ leave is limited to the amount earned in the prior year, except by mutual agreement between the Village and the employees. Employees of the Village Police Department are allowed to carry over a maximum of 40 hours of vacation from one year to the next.

Sick leave is earned at a rate of 1 day per month of service and is limited to 120 days accumulation per employee.

**NOTE 8 - PROPERTY TAXES:**

Village property taxes are attached as an enforceable lien on property as of December 31 of the prior year. Real property taxes not collected as of March 1 are transferred to Luce County for collection, which advances the Village 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Village Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

**NOTE 8 - PROPERTY TAXES: (Continued)**

The taxable value of real and personal property located in the Village at December 31, 2016 totaled \$17,289,468. The tax levy for that year was based on the following rates:

	<u>Millage Rate Used</u>
General Operating	11.2262
Streets and Alleys	4.4903
Garbage	1.3928
Fire Service	1.9952

**NOTE 9 - DEFERRED COMPENSATION PLAN:**

The Village offers all of its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodians, thereof for the exclusive benefit of the participants, hold the custodial accounts for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Village for the purposes of providing direction to the custodians of the custodial accounts from time to time for the investment of the funds held in the accounts, transfers of assets to or from the accounts and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Village’s financial statements.

**NOTE 10 - DEFINED BENEFIT PENSION PLAN:**

The Village participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees.

**Defined Benefit Pension Plan**

**Description of Plan and Plan Assets**

The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees’ Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.25% and 2.5% for deputies times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2015.

**General Information about the Pension Plan**

*Plan Description.* The employer’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

<b>01 – General: Closed to new hires, linked to Division HA</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No
<b>02 – Police/Fire: Closed to new hires, linked to Division HA</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	2.25% Multiplier (80% max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No
<b>10 – Sprvsrs: Closed to new hires, linked to Division HA</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	2.50% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No
<b>11 – Sprvs Lt&amp;Pwr: Closed to new hires, linked to Division HB</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	2.50% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No

NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)

<b>12 – Gnrl Lt&amp;Pwr: Closed to new hires, linked to Division HB</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	2.00% Multiplier (no max)
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	10 Years
<b>Early Retirement (Unreduced):</b>	55/25
<b>Early Retirement (Reduced):</b>	50/25
	55/15
<b>Final Average Compensation:</b>	5 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No
<b>HA – All EE’s elig for pen aft 1/1/15: Open Division, linked to Division 01, 02, 10</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	Hybrid Plan – 1.25% Multiplier
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No
<b>HB – All eligible L&amp;P aft 1/1/15: Open Division, linked to Division 11, 12</b>	
	<u>2015 Valuation</u>
<b>Benefit Multiplier:</b>	Hybrid Plan – 1.25% Multiplier
<b>Normal Retirement Age:</b>	60
<b>Vesting:</b>	6 Years
<b>Early Retirement (Unreduced):</b>	-
<b>Early Retirement (Reduced):</b>	-
<b>Final Average Compensation:</b>	3 years
<b>Employee Contributions</b>	0%
<b>Act 88:</b>	No

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The Village is required to contribute at an actuarially determined rate.

General – Other	7.15%
Supervisors	-%
General Light and Power	6.49%

**NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)**

Employees Covered by Benefit Terms

At December 31, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	26
Inactive employees entitled to but not yet receiving benefits	4
Active employees	<u>19</u>
	49

Net Pension Liability

The Village’s net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Inflation	2.5%	
			Salary
increases	3.75 percent in the long-term		
	Investment rate of return	7.75 percent, net of investment expense, including inflation	

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3% - 4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions and methods are adopted by the MERS Retirements Board, and are reviewed every five years in an Experience Study. The Experience Study is a comprehensive, detailed analysis that reviews MERS’ funding policy and compares actual experience with the current actuarial assumptions; the study recommends adjustments as necessary. The most recent study was completed in 2015, and this December 31, 2015 valuation report reflects several changes in actuarial assumptions.

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

**NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)**

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

*Discount Rate.* The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the Net Pension Liability:**

	<b>Increases (Decreases)</b>		
	<b>Total Pension Liability</b>	<b>Plan Fiduciary Net Position</b>	<b>Net Pension Liability</b>
<b>Balances at December 31, 2015</b>	\$ 4,493,921	\$ 2,596,366	\$ 1,897,555
Service cost	56,321	-	56,321
Interest on total pension liability	347,836	-	347,836
Difference between expected and actual experience	(55,600)	-	(55,600)
Changes in assumptions	203,073	-	203,073
Employer contributions	-	243,380	(243,380)
Net investment income	-	292,473	(292,473)
Benefit payments, including employee refunds	(308,458)	(308,458)	-
Administrative expense	-	(5,778)	5,778
Other changes	(155,433)	1	(155,434)
<b>Net changes</b>	<b>87,739</b>	<b>221,618</b>	<b>(133,879)</b>
<b>Balances as of December 31, 2016</b>	<b>\$ 4,581,660</b>	<b>\$ 2,817,984</b>	<b>\$ 1,763,676</b>

**NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Village, calculated using the discount rate of 8.00%, as well as what the Village’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Village’s net pension liability as of 12/31/2016	\$2,184,538	\$1,763,676	\$1,399,828

*Pension plan fiduciary net position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued MERS financial report.

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

For the year ended December 31, 2016, the Village recognized pension expense of \$129,038. At December 31, 2016, the Village reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 37,066
Changes in assumptions	135,382	-
Net difference between projected and actual earnings on pension plan investments	93,732	-
Contributions subsequent to the measurement date	-	-
Total	<u>\$ 229,114</u>	<u>\$ 37,066</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recorded in pension expense as follows:

Year Ended December 31:	
2017	\$ 85,814
2018	85,814
2019	36,659
2020	(16,239)

**NOTE 10 - DEFINED BENEFIT PENSION PLAN: (Continued)**

Annual Pension Cost

During the fiscal year ended December 31, 2016, the Village's contributions totaling \$202,180 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2015. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 28 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

**NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB):**

The Village is required to implement Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions, for certain health care reimbursements provided by the Village to retired employees. The requirements of this statement are implemented prospectively, using the alternative calculation provision of the statement for employers with less than 100 employees, with the accrued liability for benefits amortized over future years. No liability is reported at the transition date. The Village currently is not advance funding the liability. It is funding only the required current amount based on a pay-as-you go policy.

The following table shows the Village's annual OPEB cost and calculation of the Annual Required Contribution.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Normal Cost Component			
Normal Cost	\$ 18,372	\$ 9,422	\$ 27,794
Interest	643	330	973
Total Normal Cost	<u>19,015</u>	<u>9,752</u>	<u>28,767</u>
Amortization Component			
Actuarial Accrued Liability	778,140	399,062	1,177,202
Less: Assets	<u>-</u>	<u>-</u>	<u>-</u>
Unfunded Actuarial Accrued Liability	778,140	399,062	1,177,202
Divided by PV Factor	<u>27.2355</u>	<u>27.2355</u>	<u>27.2355</u>
Amortization Payment	28,571	14,652	43,223
Interest	<u>1,000</u>	<u>513</u>	<u>1,513</u>
Total Amortization Payment	<u>29,571</u>	<u>15,165</u>	<u>44,736</u>
Annual Required Contribution	<u>\$ 48,586</u>	<u>\$ 24,917</u>	<u>\$ 73,503</u>

**NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB): (Continued)**

Annual Cost for OPEB			
Annual Required Contribution	\$ 48,586	\$ 24,917	\$ 73,503
Interest on Net OPEB Obligation	-	-	-
Adjustments to ARC	-	-	-
Annual OPEB Cost	<u>48,586</u>	<u>24,917</u>	<u>73,503</u>
Contributions Made – Current Year	<u>(71,813)</u>	<u>(30,293)</u>	<u>(102,106)</u>
Decrease in Net OPEB Obligation	(23,227)	(5,376)	(28,603)
Net OPEB Obligation Beginning of Year	<u>76,261</u>	<u>408,532</u>	<u>484,793</u>
Net OPEB Obligation End of Year	<u>\$ 53,034</u>	<u>\$ 403,156</u>	<u>\$ 456,190</u>

The Village provides post retirement health care benefits to all employees who retire from the Village. There were 12 retirees receiving benefits with an approximate annual cost of \$97,388. There were 10 active employees at December 31, 2016.

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the year ended December 31, 2016 were as follows:

Annual OPEB Costs	\$ 73,503
Percentage Contributed	139%
Net OPEB Obligation	\$ 456,190

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES:**

Grant Assistance - The Village received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Village. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Village at December 31, 2016.

**NOTE 13 - RISK MANAGEMENT:**

The Village is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village has purchased commercial insurance for property loss, torts, and workers’ compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**NOTE 14 - CAPITAL CREDITS IN COOPERATIVE:**

The Village of Newberry Electric Fund purchases electricity for resale from Cloverland Electric Co-op. Due to operating surpluses by the cooperative, the Village of Newberry's Electric Fund receives patronage capital credits. During the current year the Village received no capital distributions. As of December 31, 2016, the Village has capital credits outstanding of \$661,604. This amount is credited to the capital account of the Cooperative for the Village of Newberry Electric Fund and has the same status as if it was paid in cash to the Village and then the Village furnished the Cooperative with a corresponding amount of capital. Distribution of these credits to the Village of Newberry Electric Fund is made at the complete discretion of the Cooperative.

## **Required Supplementary Information**

---

**Employee Retirement and Benefit Systems  
Schedule of Funding Progress  
For the Year Ended December 31, 2016**

	<u>2015</u>	<u>2016</u>
<b>Total pension liability</b>		
Service cost	\$ 57,323	\$ 56,321
Interest	341,332	347,836
Difference between expected and actual experience	(58,770)	(55,600)
Changes in assumptions	196,558	203,073
Benefit payments, including refund of member contributions	(294,636)	(308,458)
Other changes	<u>(3,924)</u>	<u>(155,433)</u>
<b>Net change in total pension liability</b>	237,883	87,739
<b>Total pension liability - beginning</b>	<u>4,256,038</u>	<u>4,493,921</u>
<b>Total pension liability - ending</b>	<u>\$ 4,493,921</u>	<u>\$ 4,581,660</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 139,838	\$ 243,380
Contributions - employee	-	-
Net investment income	(40,303)	292,473
Benefit payments, including refunds of member contributions	(294,636)	(308,458)
Administrative expense	(5,987)	(5,778)
Other changes	<u>(1)</u>	<u>1</u>
<b>Net change in plan fiduciary net position</b>	(201,089)	221,618
<b>Plan fiduciary net position - beginning</b>	<u>2,797,455</u>	<u>2,596,366</u>
<b>Plan fiduciary net position - ending</b>	<u>\$ 2,596,366</u>	<u>\$ 2,817,984</u>
<b>Village's net pension liability - ending</b>	<u>\$ 1,897,555</u>	<u>\$ 1,763,676</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	58%	62%
<b>Covered - employee payroll</b>	\$ 675,376	\$ 675,376
<b>Village's net pension liability as a percentage of covered-employee payroll</b>	281%	261%
<b>Annual money-weighted rate of return, net of investment expense</b>	6%	8%

**Employee Retirement and Benefit Systems  
Schedule of Funding Progress  
For the Year Ended December 31, 2016**

	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 139,838	\$ 243,380
Contributions in relation to the actuarially determined contribution	<u>139,838</u>	<u>243,380</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 537,871	\$ 675,376
Contributions as a percentage of covered-employee payroll	26%	36%

**Notes to Schedule:**

Actuarially determined contribution rates are calculated as of December 31st, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	24 years
Asset valuation method	5-years smoothed market
Inflation	4.50%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%
Retirement age	In the 2015 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	Assumptions were based on the 1994 Group Annuity Mortality Table - Blended 50% Male / 50% Female

**Health Plan:**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a) / c)
--------------------------------	--	--	--------------------------------------	----------------------------	---------------------------	--

***Primary Government***

2009	\$	- \$ 1,677,903	\$ 1,677,903	0.0%	Not Available	-
2012	\$	- \$ 1,975,558	\$ 1,975,558	0.0%	Not Available	-
2015	\$	\$ 1,177,202	\$ 1,177,202	0.0%	672,376	174%

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 240,000	\$ 249,432	\$ 261,718	\$ 12,286
State Sources	175,000	178,000	180,564	2,564
Charges for Services	103,595	114,125	112,439	(1,686)
Interest and Rentals	350	450	1,227	777
Refunds and Reimbursements	473,727	485,480	477,345	(8,135)
<b>TOTAL REVENUES</b>	<b>992,672</b>	<b>1,027,487</b>	<b>1,033,293</b>	<b>5,806</b>
<b>EXPENDITURES</b>				
Legislative:				
Village Council	18,695	17,295	15,582	1,713
General Government:				
Village President	5,235	5,435	4,525	910
Administration	80,200	58,700	51,792	6,908
Accounting	65,460	78,650	86,508	(7,858)
Attorney	7,100	6,100	2,772	3,328
Village Clerk	12,900	13,500	14,368	(868)
Audit	7,630	7,630	8,722	(1,092)
Treasurer	16,750	10,950	11,522	(572)
Building and Grounds	62,475	33,445	49,121	(15,676)
Motor Pool	94,000	106,219	53,808	52,411
<b>Total General Government</b>	<b>351,750</b>	<b>320,629</b>	<b>283,138</b>	<b>37,491</b>
Public Safety:				
Police Department	42,760	42,910	40,796	2,114
<b>Total Public Safety</b>	<b>42,760</b>	<b>42,910</b>	<b>40,796</b>	<b>2,114</b>
Public Works:				
Department of Public Works	1,740	2,740	414	2,326
Sidewalks	14,100	31,400	6,956	24,444
Street Lighting	21,600	20,400	19,284	1,116
Sewers	53,200	44,100	73,836	(29,736)
Storm Sewer Construction	2,400	2,900	82	2,818
Rubbish and Garbage	73,540	69,840	68,967	873
<b>Total Public Works</b>	<b>166,580</b>	<b>171,380</b>	<b>169,539</b>	<b>1,841</b>
Other Expenditures				
Fringe Benefits	311,660	327,960	321,611	6,349
Insurance and Bonds	26,850	26,850	19,798	7,052
Budget Stabilization	1,760	-	-	-
<b>Total Other Expenditures</b>	<b>340,270</b>	<b>354,810</b>	<b>341,409</b>	<b>13,401</b>

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended December 31, 2016**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
Capital Outlay	12,500	54,083	53,577	506
Debt Service	47,250	62,238	62,238	-
TOTAL EXPENDITURES	979,805	1,023,345	966,279	57,066
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,867	4,142	67,014	62,872
OTHER FINANCING SOURCES (USES)				
Transfers In	52,800	52,800	-	(52,800)
Transfers (Out)	(65,667)	(174,556)	(127,295)	47,261
TOTAL OTHER FINANCING SOURCES (USES)	(12,867)	(121,756)	(127,295)	(5,539)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ (117,614)	(60,281)	\$ 57,333
FUND BALANCES, JANUARY 1			648,390	
FUND BALANCES, DECEMBER 31			\$ 588,109	

# Village of Newberry, Michigan

## Required Supplementary Information Budgetary Comparison Schedule Fire Operating Fund Year Ended December 31, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State	\$ 4,000	\$ -	\$ 3,300	\$ 3,300
Local Sources	97,565	71,808	48,551	(23,257)
Charges for Services	4,000	20,000	23,979	3,979
Interest and Rentals	302	288	288	-
Refunds and Reimbursements	5,100	-	1,573	1,573
TOTAL REVENUES	<u>110,967</u>	<u>92,096</u>	<u>77,691</u>	<u>(14,405)</u>
EXPENDITURES				
Public Safety	<u>151,500</u>	<u>128,000</u>	<u>103,329</u>	<u>24,671</u>
TOTAL EXPENDITURES	<u>151,500</u>	<u>128,000</u>	<u>103,329</u>	<u>24,671</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(40,533)</u>	<u>(35,904)</u>	<u>(25,638)</u>	<u>10,266</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>46,033</u>	<u>35,904</u>	<u>24,275</u>	<u>(11,629)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>46,033</u>	<u>35,904</u>	<u>24,275</u>	<u>(11,629)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,500</u>	<u>\$ -</u>	<u>(1,363)</u>	<u>\$ (1,363)</u>
FUND BALANCES, BEGINNING OF YEAR			<u>155,587</u>	
FUND BALANCES, END OF YEAR			<u>\$ 154,224</u>	

## **Other Information**

---

	Special Revenue Funds				Capital Project Fund	Atlas Park	Total
	Major Streets	Local Streets	Fire Capital	Fire Millage	TORC		
<b>ASSETS:</b>							
Cash and Equivalents	\$ 58,573	\$ -	\$ 4,013	\$ 26,468	\$ 50,156	\$ -	\$ 139,210
Taxes Receivable	-	9,220	-	4,097	-	-	13,317
Due From Other Funds	-	108,372	18,602	19,000	-	-	145,974
Due From Other Governmental Units	16,912	6,773	-	-	-	-	23,685
<b>TOTAL ASSETS</b>	<b>\$ 75,485</b>	<b>\$ 124,365</b>	<b>\$ 22,615</b>	<b>\$ 49,565</b>	<b>\$ 50,156</b>	<b>\$ -</b>	<b>\$ 322,186</b>
<b>LIABILITIES:</b>							
Due to Other Funds	\$ 74,995	\$ 124,027	\$ -	\$ 20,210	\$ 8,748	\$ -	\$ 227,980
<b>FUND BALANCE:</b>							
Restricted	490	338	22,615	29,355	41,408	-	94,206
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 75,485</b>	<b>\$ 124,365</b>	<b>\$ 22,615</b>	<b>\$ 49,565</b>	<b>\$ 50,156</b>	<b>\$ -</b>	<b>\$ 322,186</b>

**Village of Newberry, Michigan**

**Combining Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Nonmajor Governmental Funds  
Year Ended December 31, 2016**

	Special Revenue Funds				Capital Project Fund	Total	
	Major Streets	Local Streets	Fire Capital	Fire Millage	TORC		Atlas Park
REVENUES							
Taxes	\$ -	\$ 84,022	\$ -	\$ 37,331	\$ -	\$ -	\$ 121,353
State Sources	104,667	73,801	-	-	-	-	178,468
Local Sources	-	4,685	27,979	-	84,527	-	117,191
Interest and Rentals	-	-	53	68	194	-	315
<b>TOTAL REVENUES</b>	<b>104,667</b>	<b>162,508</b>	<b>28,032</b>	<b>37,399</b>	<b>84,721</b>	<b>-</b>	<b>417,327</b>
EXPENDITURES							
Public Works	174,068	220,024	-	-	-	-	394,092
Capital Projects	-	-	-	-	135,752	7,468	143,220
Debt Service	-	-	48,425	-	-	-	48,425
<b>TOTAL EXPENDITURES</b>	<b>174,068</b>	<b>220,024</b>	<b>48,425</b>	<b>-</b>	<b>135,752</b>	<b>7,468</b>	<b>585,737</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(69,401)	(57,516)	(20,393)	37,399	(51,031)	(7,468)	(168,410)
OTHER FINANCING SOURCES (USES)							
Transfers In	68,974	47,500	20,445	11,049	-	7,468	155,436
Transfers (Out)	-	-	-	(20,445)	-	-	(20,445)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>68,974</b>	<b>47,500</b>	<b>20,445</b>	<b>(9,396)</b>	<b>-</b>	<b>7,468</b>	<b>134,991</b>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(427)	(10,016)	52	28,003	(51,031)	-	(33,419)
FUND BALANCES, BEGINNING OF YEAR	917	10,354	22,563	1,352	92,439	-	127,625
FUND BALANCES, END OF YEAR	\$ 490	\$ 338	\$ 22,615	\$ 29,355	\$ 41,408	\$ -	\$ 94,206

## **Reports on Compliance**

---



**ANDERSON, TACKMAN & COMPANY, PLC**  
CERTIFIED PUBLIC ACCOUNTANTS

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA  
DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN  
MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S 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***

Honorable President and Members  
of the Village Council  
Village of Newberry, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Village of Newberry, Michigan's basic financial statements and have issued our report thereon dated May 31, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village of Newberry, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Newberry, Michigan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village of Newberry, Michigan's internal control.

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

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

Honorable President and Members  
of the Village Council

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 31, 2017



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

---

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH**  
**MICHIGAN PUBLIC ACT 51 OF 1951, AS AMENDED**

Honorable President and Members  
of the Village Council  
Village of Newberry, Michigan

**Report on Compliance**

We have audited the Village of Newberry, Michigan's compliance with the types of compliance requirements described in Michigan Public Act 51 of 1951, as amended, for the period ended December 31, 2016.

**Management's Responsibility**

Management is responsible for compliance with provisions of Michigan Public Act 51 of 1951, as amended.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance with provisions of Michigan Public Act 51 of 1951, as amended, based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements indicated above. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Village of Newberry, Michigan's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Honorable President and Members  
of the Village Council

### **Opinion**

In our opinion, the Village of Newberry, Michigan complied, in all material respects, with the types of compliance requirements referred to above for the year ended December 31, 2016.

### **Purpose of this Report**

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



**Anderson, Tackman and Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 31, 2017



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

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

Honorable President and Members  
of the Village Council  
Village of Newberry, Michigan

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

We have audited the Village of Newberry, Michigan's, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Village of Newberry, Michigan's major federal programs for the year ended December 31, 2016. The Village of Newberry, Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

Honorable President and Members  
of the Village Council

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

In our opinion, the Village of Newberry, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

**Report on Internal Control Over Compliance**

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

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

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

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



**Anderson, Tackman and Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 31, 2017

**Village of Newberry, Michigan**

**Schedule of Expenditures of Federal Awards  
For the Year Ended December 31, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Subrecipients</u>	<u>Federal Expenditures</u>
<b>U.S. DEPARTMENT OF AGRICULTURE:</b>				
Direct Award from the Department of Agriculture Water & Wastewater Disposal System for Rural Communities	10.760	N/A	\$ -	\$ 1,041,000
<b>U.S. ENVIRONMENTAL PROTECTION AGENCY:</b>				
Pass-through from the Michigan Department of Environmental Quality Capitalization Grants for Clean Water State Revolving Fund	66.458	5536-01	\$ -	\$ 23,961
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,064,961

See accompanying notes to schedule of expenditures of federal awards.

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village of Newberry, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B - COGNIZANT AGENCY**

The Village has not been assigned a cognizant agency. Therefore, the Village is under the general oversight of the U.S. Department of Agriculture which provided the greatest amount of direct federal funding to the Village during fiscal year 2016.

**NOTE C - FEDERAL REVENUES**

Federal Revenues per Financial Statement	\$	-
Add: USDA Loan Proceeds		1,041,000
Add: State Revolving Fund Loan Proceeds		<u>23,961</u>
Total Federal Expenditures	\$	<u>1,064,961</u>

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 (CFR) part 200, Uniform Guidance?	No

**Identification of Major Programs**

**CFDA NUMBERS**

**Name of Federal Program or Cluster**

10.760	Water & Wastewater Disposal System for Rural Communities
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

---

NONE.

**Section III – Federal Award Findings and Questioned Costs**

---

NONE.

**Section III – Federal Award Findings and Questioned Costs**

---

**NONE.**



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  
AMBER N. MACK, CPA, PRINCIPAL

PHILLIP J. WOLF, CPA  
JON D. SWANSON, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Honorable President and Members  
of the Village Council  
Village of Newberry, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Newberry, Michigan, for the year ended December 31, 2016, and have issued our report thereon May 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted accounting standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and the Uniform Guidance**

As stated in our engagement letter dated May 10, 2017, 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.

In planning and performing our audit, we will consider the Village of Newberry, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the Village of Newberry, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Village of Newberry, Michigan's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Village of Newberry, Michigan's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it does not provide a legal determination on the Village of Newberry, Michigan's compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

We have been engaged to report on combining fund financial statements, which accompany the financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated May 10, 2017.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Newberry are described in Note 1 to the financial statements. One new accounting policy was adopted regarding the implementation of GASB 72 and the application of existing policies were 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. All significant transactions that have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the vested employee benefits is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of the allowance for uncollectible accounts receivable in the electric fund is based on past experience and future expectations for collection of various account balances and has been determined to be \$20,007.
- Management's estimate of the Annual Required Contribution for OPEB Obligations and pension benefits liability were based on various assumptions regarding life expectancies, inflation, premium increases, and investment rates.

The financial statement disclosures are neutral, consistent and clear.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Copies of any adjustments are available from management.

### **Disagreement with Management**

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

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated May 31, 2017.

### **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 auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Other 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 of our retention.

### **Comments and Recommendations**

#### **Personal Property Taxes (Prior Year)**

Currently, the Village is not recording the amount of outstanding delinquent personal property taxes that are due to the Village in the general ledger. It is recommended the Village record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The Village should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Status: Uncorrected.

### **Accrued payroll & Compensated Absences (Prior Year)**

The Village does not currently include the employer portion of FICA taxes as part of the accrued payroll or compensated absences calculation. In order to include the full amount of the liability/cost, the Village should include this as part of the calculation.

Status: Uncorrected.

### **Customer Receivable (Prior Year)**

While testing the customer receivable balances in the Light & Power fund and the Water Fund it was noticed that supporting documentation could not be found to reconcile the balance per the general ledger with the balance recorded on the records of water and light. We recommend that a reconciliation be performed to make sure the amounts recorded on the general ledger for the customer deposits payable in the Light & Power fund and the Water fund are accurate.

Status: Uncorrected.

### **Other Postemployment Benefits**

In June 2015, the Governmental Accounting Standards Board issued Statement Number 74 – “Financial Reporting for Postemployment Benefits other than Pensions.” The standard addresses how to measure long-term liabilities and annual costs of Other Postemployment Benefits (OPEB) for the purposes of reporting them in the financial statements. The standard does not apply to how a governmental unit should fund future OPEB payments, however. The standard makes significant changes which will increase the liability and may adjust annual OPEB expense as well. A net OPEB liability will be reported in the employer’s statement of net position which could amount to a significant increase than past amounts reported. The OPEB expense will also be significantly more volatile, since there will likely be two sets of calculations for expense and funding. Additionally, changes in methods and assumptions used in the actuarial calculations, more extensive footnote disclosures and required supplementary information will be needed.

The standard is effective for fiscal years beginning after June 15, 2016. We encourage the Board and management to review the provisions of this new standard and anticipate its effect on the financial reporting process.

### **Other Matters**

We applied certain limited procedures to the management’s discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining fund financial statements, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquires of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of the Village of Newberry, the cognizant audit agencies and other federal and state agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**  
**Kincheloe, Michigan**

May 31, 2017